

**AGENDA**  
**SAN ELIJO JOINT POWERS AUTHORITY**  
**MONDAY JUNE 10, 2013 AT 9:00 AM**  
**SAN ELIJO WATER RECLAMATION FACILITY – CONFERENCE ROOM**  
**2695 MANCHESTER AVENUE**  
**CARDIFF BY THE SEA, CALIFORNIA**

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1. CALL TO ORDER
2. ROLL CALL
3. PLEDGE OF ALLEGIANCE
4. ORAL COMMUNICATIONS (NON-ACTION ITEM)
5. PRESENTATION OF AWARDS  
None
6. \* **CONSENT CALENDAR**
7. \* APPROVAL OF MINUTES FOR THE MAY 13, 2013 MEETING
8. \* APPROVAL FOR PAYMENT OF WARRANTS AND MONTHLY INVESTMENT REPORTS
9. \* SAN ELIJO WATER RECLAMATION FACILITY TREATED EFFLUENT FLOWS – MONTHLY REPORT
10. \* SAN ELIJO JOINT POWERS AUTHORITY RECYCLED WATER PROGRAM – MONTHLY REPORT
11. \* AWARD OF ANNUAL SUPPLIES AND SERVICES CONTRACTS FOR THE SAN ELIJO JOINT POWERS AUTHORITY
12. \* ITEMS REMOVED FROM CONSENT CALENDAR

*Items on the Consent Calendar are routine matters and there will be no discussion unless an item is removed from the Consent Calendar. Items removed by a "Request to Speak" form from the public will be handled immediately following adoption of the Consent Calendar. Items removed by a Board Member will be handled as directed by the Board.*

## **REGULAR AGENDA**

13. **ADOPTION OF SAN ELIJO JOINT POWERS AUTHORITY FISCAL YEAR 2013-14 BUDGET, INVESTMENT POLICY, AND APPOINTMENT OF SEJPA TREASURER**

It is recommended that the Board of Directors:

1. Adopt Resolution No. 2013-02, Resolution Approving the San Elijo Joint Powers Authority Operating and Capital Improvement Budgets for Fiscal Year 2013-14;
2. Adopt Resolution No. 2013-03, Resolution Approving the San Elijo Joint Powers Authority Investment Policy and Guidelines and Appointment of SEJPA Treasurer; and
3. Discuss and take action as appropriate.

Staff Reference: Director of Finance/Administration

14. **ACCEPT AND FILE 2013 RECYCLED WATER COST OF SERVICE STUDY**

It is recommended that the Board of Directors:

1. Accept and file the 2013 Recycled Water Cost of Service Study; and
2. Discuss and take action as appropriate.

Staff Reference: General Manager

15. **SAN ELIJO JOINT POWERS AUTHORITY AND ENCINA WASTEWATER AUTHORITY RESOURCE SHARING EFFORTS**

It is recommended that the Board of Directors:

1. Direct staff to continue to identify opportunities to achieve enhanced effectiveness or cost savings through resource sharing; and
2. Discuss and take action as appropriate.

Staff Reference: General Manager

16. **GENERAL MANAGER'S REPORT**

Informational report by the General Manager on items not requiring Board action.

17. **GENERAL COUNSEL'S REPORT**

Informational report by the General Counsel on items not requiring Board action.

18. BOARD MEMBER COMMENTS

This item is placed on the agenda to allow individual Board Members to briefly convey information to the Board or public, or to request staff to place a matter on a future agenda and/or report back on any matter. There is no discussion or action taken on comments by Board Members.

19. CLOSED SESSION

A closed session will be held per Government Code Section 54957.6: Labor Negotiations and per Government Code Section 54957: Employee Performance Evaluation. Title: General Manager

A closed session may be held at any time during this meeting of the San Elijo Joint Powers Authority for the purposes of discussing potential or pending litigation or other appropriate matters pursuant to the "Ralph M. Brown Act".

20. ADJOURNMENT

The next regularly scheduled San Elijo Joint Powers Authority Board Meeting will be Monday, July 8, 2013 at 9:00 a.m.

NOTICE:

The San Elijo Joint Powers Authority's open and public meetings meet the protections and prohibitions contained in Section 202 of the Americans With Disabilities Act of 1990 (42 U.S.C Section 12132), and the federal rules and regulations adopted in implementation thereof. Any person with a disability who requires a modification or accommodation, including auxiliary aids or services, in order to participate in a public meeting of the SEJPA Board of Directors may request such modification or accommodation from Michael T. Thornton, General Manager, (760) 753-6203 ext. 72.

The agenda package and materials related to an agenda item submitted after the packet's distribution to the Board is available for public review in the lobby of the SEJPA Administrative Office during normal business hours. Agendas and minutes are available at [www.sejpa.org](http://www.sejpa.org). The SEJPA Board meetings are held on the second Monday of the month, except August.

AFFIDAVIT OF POSTING

I, Michael T. Thornton, Secretary of the San Elijo Joint Powers Authority, hereby certify that I posted, or have caused to be posted, a copy of the foregoing agenda in the following locations:

San Elijo Water Reclamation Facility, 2695 Manchester Avenue, Cardiff, California  
City of Encinitas, 505 South Vulcan Avenue, Encinitas, California  
City of Solana Beach, 635 South Highway 101, Solana Beach, California

The notice was posted at least 72 hours prior to the meeting, in accordance with Government Code Section 54954.2(a).

Date: June 5, 2013



Michael T. Thornton, P.E.  
Secretary / General Manager

SAN ELIJO JOINT POWERS AUTHORITY  
MINUTES OF THE BOARD MEETING  
HELD ON MAY 13, 2013  
AT THE  
SAN ELIJO WATER RECLAMATION FACILITY

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Thomas M. Campbell, Chair

Mark Muir, Vice Chair

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A Meeting of the Board of Directors of the San Elijo Joint Powers Authority (SEJPA) was held Monday, May 13, 2013, at 9:00 a.m., at the San Elijo Water Reclamation Facility at 2695 Manchester Avenue, Cardiff by the Sea, California.

1. CALL TO ORDER

Chair Campbell called the meeting to order at 9:00 a.m.

2. ROLL CALL

*Directors Present:*

Teresa Barth  
Thomas M. Campbell  
Mark Muir  
David Zito

*Others Present:*

General Manager	Michael Thornton
Director of Finance/Administration	Greg Lewis
Director of Operations	Christopher Trees
Administrative Assistant	Jennifer Basco
Accounting Technician	Carrie Cook
Safety/HR Administrator	Marisa Buckles

*SEJPA Counsel:*

Procopio, Cory, Hargreaves & Savitch                      Greg Moser

City of Encinitas,

Director of Engineering and Public Works	Glenn Pruim
Public Works Management Analyst	Bill Wilson

City of Solana Beach,

City Manager	David Ott
Director of Engineering/Public Works	Mohammad "Mo" Sammak

3. PLEDGE OF ALLEGIANCE

General Manager Michael Thornton led the Pledge of Allegiance.

4. ORAL COMMUNICATIONS

None

5. PRESENTATION OF AWARDS

The General Manager announced that the SEJPA had received two awards that recognized the agency for its safe work practices. The first award was from the California Water Environment Association (CWEA), which recognized the SEJPA with its Plant of the Year Safety Award. The second award was the Water Environment Federation, George W. Burke Award. These industry awards are given to organizations that are responsible for operating municipal or industrial wastewater treatment facilities that have robust safety programs and exceptional safety records.

6. CONSENT CALENDAR

Moved by Vice Chair Muir and seconded by Board Member Zito to approve the Consent Calendar.

Motion carried with unanimous vote of approval.

Consent Calendar:

- |                    |  |
|--------------------|--|
| Agenda Item No. 7  | Approval of Minutes for the April 8, 2013 meeting                            |
| Agenda Item No. 8  | Approval for Payment of Warrants and Monthly Investment Report               |
| Agenda Item No. 9  | San Elijo Water Reclamation Facility Treated Effluent Flows – Monthly Report |
| Agenda Item No. 10 | San Elijo Joint Powers Authority Recycled Water Program – Monthly Report     |

11. ITEMS REMOVED FROM CONSENT CALENDAR

None

12. PROFESSIONAL SERVICES CONTRACT FOR CONSTRUCTION MANAGEMENT AND AS-NEEDED STAFF EXTENSION RESOURCES

General Manager Thornton presented the proposed Hoch Consulting Agreement to the Board for approval. Hoch Consulting was selected based on competitive labor rates and professional knowledge of the SEJPA facilities. The SEJPA began using Hoch Consulting in May 2012, and their work has been of high quality and value to the agency.

Moved by Board Member Muir and seconded by Board Member Zito to:

1. Authorize General Manager to execute the agreement with Hoch Consulting to provide construction management and as-needed professional services for an amount not to exceed \$79,060.

Motion carried with unanimous vote of approval.

13. SAN ELIJO JOINT POWERS AUTHORITY FISCAL YEAR 2013-14 RECOMMENDED BUDGET UPDATE

Greg Lewis, Director of Finance/Administration, reported that the Recommended Budget for FY 2013-14 was presented to both Member Agencies and that there were two reportable changes to the budget. First, there is a correction to the text of Page 28; savings to the Cardiff Sanitary Division budget should have read 6 percent. Second, payment of \$50,000 to the Santa Fe Irrigation District for purchase of the recycled water distribution pipeline was made this month; therefore, the payment has been removed from next year's budget. Mr. Lewis stated that the budget will be presented to the Board of Directors for adoption at the June meeting.

No action required. This memorandum was submitted for information only.

14. PROPOSED 2013-14 MASTER PLAN FOR THE SAN ELIJO WATER RECLAMATION FACILITY

The General Manager gave a brief background on the facility master plan that was completed in 2007. Since then, many of the near term projects identified in the master plan have been completed and some funding has been collected in preparation for long term projects. The General Manager is recommending that the SEJPA update its master plan to incorporate newly constructed facilities, review facility needs, and confirm future capital project prioritization. By doing so, the SEJPA keeps planning efforts current and incorporates changing conditions and new regulations into its facility plans.

Chair Campbell requested that at a future Board meeting staff present a review of the 2007 Master Plan, including what progress has been achieved and the driving reasons for pursuing a plan update.

Moved by Board Member Barth and seconded by Vice Chair Muir to:

1. Authorize the General Manager to issue a Request for Proposals to update the 2007 San Elijo Water Reclamation Facility Master Plan.

Motion carried with unanimous vote of approval.

15. MEMORANDUM OF UNDERSTANDING BETWEEN THE SAN ELIJO JOINT POWERS AUTHORITY AND THE CITY OF ENCINITAS FOR USE OF SEJPA LABORATORY SPACE

The General Manager presented, for the Board's consideration, a Memorandum of Understanding (MOU) that will provide the City of Encinitas staff limited access to the SEJPA's laboratory for storm water monitoring work. The intent of the MOU is to allow the City, on a trial basis, access to laboratory for conducting water quality tests. It is believed that the laboratory has ample space for one or two City employees and a small amount of test equipment. The implementation of the MOU is envisioned to be cost neutral to the SEJPA. Costs associated with chemical use or waste disposal will be the City's responsibility. In developing this MOU, SEJPA reached out to both Member Agencies to gain mutual support for this concept and to receive their comments and suggestions. The MOU represents an opportunity for the SEJPA to work collaboratively with its Member Agencies to safely and efficiently provide required public services

through shared resources.

Board Member Barth commented that the San Elijo Water Reclamation Facility is a joint facility; therefore, it makes sense that both Member Agencies should have access to it.

Moved by Board Member Zito and seconded by Vice Chair Muir to:

1. Authorize the General Manager to execute a Memorandum of Understanding with the City of Encinitas, for the provision of shared laboratory space at the San Elijo Water Reclamation Facility.

Motion carried with unanimous vote of approval.

16. GENERAL MANAGER'S REPORT

General Manager Thornton reported that the Olivenhain Municipal Water District (OMWD) has completed the master metered connection to the SEJPA recycled water distribution system. The SEJPA is now selling recycled water to OMWD. Half of the revenue generated from these sales will be dedicated for future system repairs and replacement needs, which benefits all of the SEJPA's retail partners.

17. GENERAL COUNSEL'S REPORT

Greg Moser, General Counsel, announced that Aiko Yamakawa will be moving to the firm's San Francisco office, and as such, her efforts and attendance to SEJPA matters will likely diminish.

Mr. Moser also reported on pending bill SB 1290, which will give the Fair Political Practices Commission the same authority to interpret and enforce Government Code section 1090 as the Commission currently has over Political Reform Act conflict of interest laws. SB 1290 will give the Commission authority to issue advisory opinions as to whether future conduct will comply with Government Code section 1090—something no agency currently can do.

18. BOARD MEMBER COMMENTS

None

19. CLOSED SESSION

The Board of Directors adjourned to closed session at 9:35 a.m., with Michael Thornton per Government Code Section 54957 – Employee Performance Evaluation, title: General Manager.

20. ADJOURNMENT

The Board of Directors came out of closed session at 9:44 a.m. with no reportable action for the annual performance evaluation of the General Manager. The meeting

adjourned at 9:45 a.m. The next Board of Directors meeting will be held on June 10, 2013.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'M. Thornton', written over a horizontal line.

Michael T. Thornton, P.E.  
General Manager



PAYMENT OF WARRANTS

13-06

31-May-13

VENDOR	DESCRIPTION OF EXPENSE	AMOUNT
<b><u>13-06 Warrants</u></b>		
760Print	Business cards	\$273.49
AG Tech, LLC	Biosolids hauling - April	\$9,972.22
All American First Aid & Safety	First aid supplies	\$62.97
American Backflow Prevention	Membership - M. Piper	\$75.00
Arredondo, Susana	Expense report - mileage and seminar	\$142.49
Arrowhead Direct	Kitchen and lab supplies	\$281.12
AT&T	Alarm service	\$383.63
AT&T	Phone service - 03/13/13 - 04/12/13	\$376.96
AT&T - Eden Gardens	DSL - 03/20/13 - 04/19/13	\$73.41
AT&T - Olivenhain	DSL - 03/10/13 - 04/09/13	\$72.96
Atlas Pumping Service	Grit and screening wastewater treatment - April	\$742.35
Atlas Pumping Service	Grease and scum pumping - April	\$473.96
Atlas Pumping Service	Grease and scum pumping - April	\$277.44
Atlas Pumping Service	Grease and scum pumping - April	\$277.44
Atlas Pumping Service	Grit and screening small bin - April	\$742.35
BankCard Center	Training, seminar, travel, internet and office supplies	\$932.04
Barracuda Networks, Inc.	Network back-up	\$100.00
Basco, Jennifer	Expense report - mileage	\$75.09
Bay City Electric Works	Generator rental period #5 - 04/08/13 - 04/24/13	\$2,712.42
Boot World, Inc.	Safety boots - N. Talbot and J. Boyle	\$262.36
Brenntag Pacific, Inc.	Sodium hydroxide, citric acid	\$2,317.41
Brenntag Pacific, Inc.	Aluminum chlorohydrate - citric acid	\$1,233.51
Broding's Battery Warehouse	Batteries for pump station generators	\$1,245.08
Buckles, Marisa	Expense report - mileage and meeting	\$164.52
Calscience Environmental Lab	Lab testing	\$779.00
City National Bank	Loan agreement #11-020 - AWT financing	\$74,076.57
Coast Waste Management, Inc.	Roll-off recycle, per diem, fuel	\$1,103.76
Complete Office	Office supplies	\$221.02
Corodata	Record storage - April	\$67.70
CS-amsco	4" Dezurik eccentric plug valve, EPDM plug facing, 2" nut	\$927.52
D&H Water Systems, Inc.	RPM motor	\$518.82
DC Frost Associates, Inc.	Magazine bags for heliclean and headworks	\$469.10
Dickson	Repair data recorder log	\$328.00
DMV	Safety records	\$2.00
EDCO Waste & Recycling	Trash service - April	\$198.77
Emedco Inc.	Warning signs	\$189.14
Gierlich-Mitchell, Inc.	Secondary tank replacement parts - Brunel clutch drive	\$3,360.00
Gierlich-Mitchell, Inc.	Primary tank replacement parts - sleeve and sprockets	\$13,255.90
Golden State Overnight	Mailing lab samples	\$55.82
Grainger, Inc.	Sunscreen	\$51.19
Graphic Products	Yellow, orange, and black label tape	\$759.93
Guardian	Dental - 05/01/13 - 05/30/13	\$1,236.33
Hardy Diagnostics	Nutrient agar, lauryl tryptose, and axide dextrose broth	\$329.33
Harrington Industrial Plastics	Transmitter and bracket	\$885.49
Health & Human Resource	Employee assistance program - May	\$317.68
Henke, Michael	Expense report - CWEA -TCP Mechanical Technologist test	\$170.00

PAYMENT OF WARRANTS

13-06

31-May-13

VENDOR	DESCRIPTION OF EXPENSE	AMOUNT
Hilts Consulting Group, Inc.	Flow equalization basin covers replacement project	\$6,624.50
Hoch Consulting	AWT Project - construction management	\$4,562.50
Hoch Consulting	Professional engineering services	\$359.38
Hoch Consulting	RW construction management	\$1,931.25
Home Depot Credit Services	Parts for DAFT and belt press, 4 ft table, screwdriver set	\$177.86
Hub Construction Specialties, Inc.	Duct tape, mixer, limestone, and backer rod	\$313.36
Jani-King	Janitorial service - May	\$882.64
Kennedy/Jenks Consultants	AWT Project - professional engineering services	\$1,846.25
King Lee Chemical Co.	Pretreat Plus - 0100 anti-scalant	\$892.64
Konica Minolta	Monthly copier maintenance	\$124.17
Lee's Lock & Safe	Repair jammed panic device, adjust hinge, padlocks	\$464.52
Leighton Consulting, Inc.	AWT Project - geotechnical services	\$637.00
Lewis, Gregory E.	Expense report - torque impact wrench	\$356.24
McMaster-Carr Supply Co.	Repair parts - valves, pipe fittings, traffic cones, hoses, tubes	\$1,548.97
MegaPath Inc.	T-1 service - May	\$284.22
Michael R. Welch, Ph.D., P.E.	Ocean outfall monitoring requirements	\$4,500.00
Olin Corp.	Sodium Hypochlorite - bleach	\$2,913.41
OMWD	Deposit due for The Furman Group	\$7,322.50
OMWD	Manchester - 03/11/13 - 04/05/13	\$37.02
OMWD	Infrastructure rent for recycled water pipelines	\$3,114.00
PERS - Retirement	Retirement premium - 04/13/13 - 04/26/13	\$14,729.18
PERS - Retirement	Retirement premium - 04/27/13 - 05/10/13	\$14,636.66
Pacific Pipeline Supply	Plumbing supplies	\$918.39
Parada Painting, Inc.	Prep and coat piping	\$7,600.00
Peerless Materials Company	Shop towels	\$334.80
Piper, Michael	Expense report - 29th Annual Education Conference	\$564.34
Polydyne, Inc.	Clarifloc (R) WE-007; recycled water chemical	\$11,426.40
Preferred Benefit Insurance	Vision insurance - May	\$293.70
ProBuild	Repair, shop, and field supplies	\$240.58
Quality Laser Source, Inc.	Service on laserjet printer 5000	\$126.00
Rohan & Sons, Inc.	Kitchen area water leak; replaced thermostat	\$314.20
RSIS, Inc.	Calibrate flowmeters and equipment	\$1,735.50
San Elijo Payroll Account	Payroll - 05/03/2013	\$81,057.22
San Elijo Payroll Account	Payroll - 05/17/2013	\$70,609.70
SDG&E	Gas & electric 03/06/13 - 04/04/13	\$43,610.53
SDWD	3050 Manchester RW meter 2 - 03/27/13 - 04/30/13	\$104.91
SDWD	Manchester RW meter 3 - 03/27/13 - 04/30/13	\$234.03
SDWD	Manchester RW meter 4 - 03/27/13 - 04/30/13	\$145.26
SDWD	Manchester RW meter 5 - 03/27/13 - 04/30/13	\$363.15
SDWD	Manchester RW meter 6 - 03/27/13 - 04/30/13	\$4,804.34
SFID	Water - Lomas Santa Fe PS 02/20/13 - 04/17/13	\$186.52
SFID	Water - Eden Gardens PS 03/27/13 - 04/29/13	\$88.50
SFID	Down payment on sale of recycled water line	\$50,000.00
SFID	Pipeline transfer and cost reimbursement	\$943.13
Safe-Entry	Biosystems multipro gas detector	\$146.19
Safetyline, Inc.	Yellow ansi mesh vest with high gloss	\$72.69
Sigma-Aldrich RTC	E. coli, streptococcus, minerals, residual chlorine, turbidity	\$535.41
Smart & Final	Kitchen supplies	\$114.33

PAYMENT OF WARRANTS

13-06

31-May-13

VENDOR	DESCRIPTION OF EXPENSE	AMOUNT
SoCoGroup, Inc.	Oil	\$182.67
State Water Resources Control	Certifications - M. Piper and K. Regnier	\$570.00
Sun Life Financial	Life and disability insurance	\$1,582.61
Terminix Processing Center	Pest control	\$120.00
Terminix Processing Center	Pest control	\$117.00
The San Diego Union Tribune	Advertising for bids	\$470.80
Thornton, Michael	Expense report - WateReuse conference	\$1,346.93
Toyotalift, Inc.	Oil change - forklift	\$150.19
Underground Service Alert	Dig alert - April	\$70.50
Unifirst Corporation	Uniform service - April	\$269.06
Unifirst Corporation	Uniform service - May	\$202.47
UPS	Mailing compliance reports	\$106.95
UPS	Mailing parts	\$13.52
USABlueBook	Flapper type check valve, stenner index plate and gears	\$1,285.86
USABlueBook	PlantPro stainless probe 4'	\$89.43
Verizon Wireless	Cellular phone service - 04/08/13 - 05/07/13	\$586.76
Vertical Systems	Heat loop pump and motor for digester #3	\$1,728.00
Vertical Systems	Premium inverter ready motor and pump	\$2,808.00
VWR International, Inc.	Thermometer, fyrite fluid, gloves, glass filters, oxalic acid	\$991.64
VWR International, Inc.	Gloves, tubes, bottles	\$635.81
Western Water Works	Gasket	\$164.70
WEX Bank	Fuel - April	\$878.07
WorkPartners Occupational	New employee medical service	\$90.00
<b>Total 13-06 Warrants</b>		<b>\$481,862.35</b>


SAN ELIJO JOINT POWERS AUTHORITY

PAYMENT OF WARRANTS SUMMARY

31-May-13

PAYMENT OF WARRANTS		\$481,862.35
Reference Number	13-06	

I hereby certify that the demands listed and covered by warrants are correct and just to the best of my knowledge, and that the money is available in the proper funds to pay these demands. The cash flows of the SEJPA, including the Member Agency commitment in their operating budgets to support the operations of the SEJPA, are expected to be adequate to meet the SEJPA's obligations over the next six months. I also certify that the SEJPA's investment portfolio complies with the SEJPA's investment policy.

  
\_\_\_\_\_  
Gregory Lewis  
Director of Finance/Administration  
Treasurer

STATEMENT OF FUNDS AVAILABLE FOR PAYMENT OF WARRANTS  
AND INVESTMENT INFORMATION  
AS OF

31-May-13

<u>FUNDS ON DEPOSIT WITH</u>	<u>AMOUNT</u>
<b>LOCAL AGENCY INVESTMENT FUND</b> <i>(MAY 2013 YIELD 0.25%)</i>	
RESTRICTED SRF RESERVE	\$ 630,000.00
UNRESTRICTED DEPOSITS	\$ 6,495,976.97
<b>CALIFORNIA BANK AND TRUST</b> <i>(MAY 2012 YIELD 0.01%)</i>	
REGULAR CHECKING	\$ 101,440.82
PAYROLL CHECKING	\$ 5,000.00
<b>TOTAL RESOURCES</b>	<b>\$ 7,232,417.79</b>

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SAN ELIJO JOINT POWERS AUTHORITY  
MEMORANDUM

June 10, 2013

TO: Board of Directors  
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: SAN ELIJO WATER RECLAMATION FACILITY TREATED EFFLUENT FLOWS –  
MONTHLY REPORT

RECOMMENDATION

No action required. This memorandum is submitted for information only.

DISCUSSION

Monthly Treatment Plant Performance and Evaluation

Wastewater treatment for the San Elijo Joint Powers Authority (SEJPA) met all NPDES ocean effluent limitation requirements for the month of April 2013. The primary indicators of treatment performance include the removal of Carbonaceous Biochemical Oxygen Demand (CBOD) and Total Suspended Solids (TSS). The SEJPA is required to remove a minimum of 85 percent of the CBOD and TSS from the wastewater. Treatment levels for CBOD and TSS were 97.2 percent and 97.3 percent, respectively, for April (as shown in Figure 1 and Figure 2).

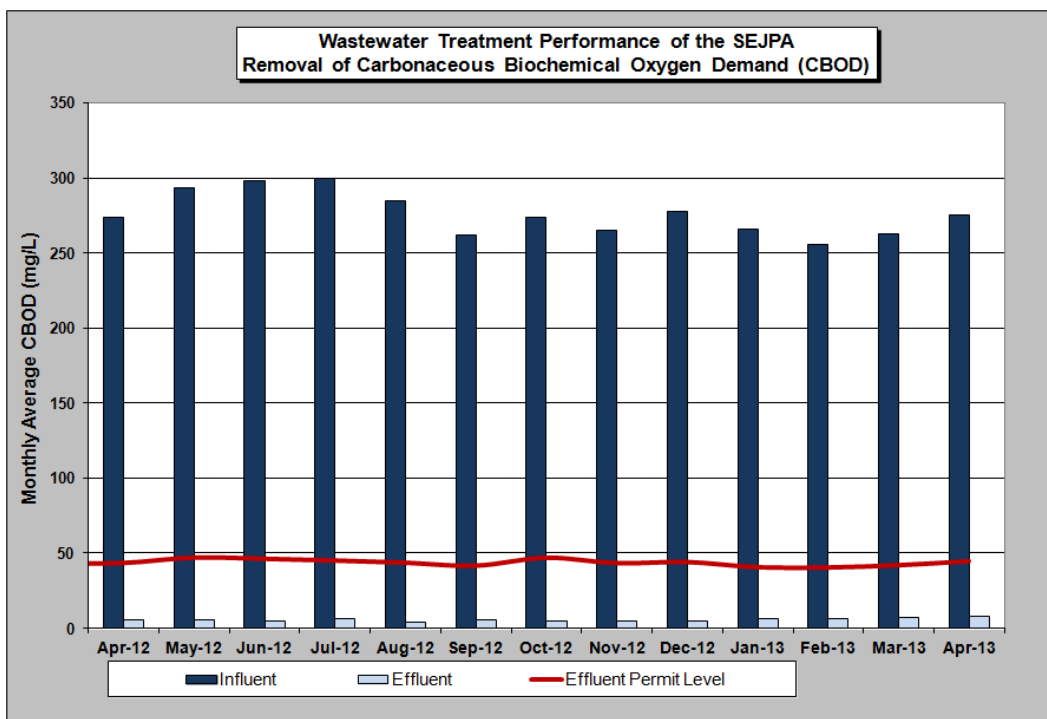


FIGURE 1

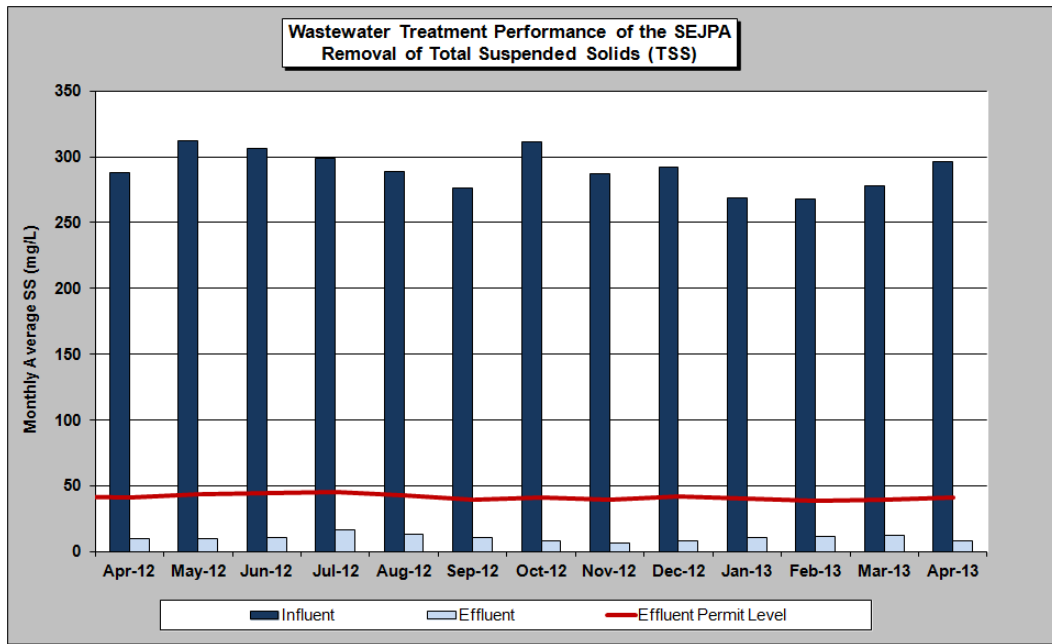


FIGURE 2

### Member Agency Flows

Presented below are the influent and effluent flows for the month of April. Average daily influent flows were recorded for each Member Agency. Total effluent flow was calculated for the San Elijo Water Reclamation Facility.

	April	
	Influent (mgd)	Effluent (mgd)*
Cardiff Sanitary Division	1.297	0.531
City of Solana Beach	1.237	0.506
Rancho Santa Fe SID	0.124	0.051
<b>Total San Elijo WRF Flow</b>	<b>2.658</b>	<b>1.088</b>

Notes: As of July 1995, Rancho Santa Fe Community Services District (CSD) combined SID #2 and SID #3 into one Sewer Improvement District (SID).

\* Effluent is calculated by subtracting the recycled water production from the influent wastewater.

Table 1 (below) presents the historical average, maximum, and unit influent and effluent flow rates per month for each of the Member Agencies since July 2008. It also presents the number of connected Equivalent Dwelling Units (EDUs) for each of the Member Agencies during this same time period.

Figure 3 (below) presents the historical average daily flows per month for each Member Agency. This is to provide a historical overview of the average treated flow by each agency. As shown in the figure, the average treated flow has been approximately 2.7 million gallons per day (mgd). Also shown in Figure 3 is the total wastewater treatment capacity of the plant, 5.25 mgd, of which each Member Agency has the right to 2.5 mgd, and Rancho Santa Fe Community Service District has the right to 0.25 mgd.

**SAN ELIJO WATER RECLAMATION FACILITY MONTHLY REPORT - FLOWS AND EDUS**

MONTH	AVERAGE DAILY INFLUENT FLOW RATE (MGD)				AVERAGE DAILY EFFLUENT FLOW RATE (MGD)				CONNECTED EDUs				AVERAGE UNIT INFLUENT FLOW RATE (GAL/EDU/DAY)			
	CSD	RSF CSD	SB	TOTAL PLANT	CSD	RSF CSD	SB	TOTAL PLANT	CSD EDUS	RSF CSD EDUS	SB EDUS	TOTAL EDUS	CSD	RSF	SB	TOTAL PLANT
Jul-08	1.713	0.131	1.324	3.168	0.722	0.055	0.558	1.335	8,163	456	7,728	16,347	210	288	171	194
Aug-08	1.562	0.125	1.483	3.170	0.608	0.048	0.577	1.233	8,165	457	7,728	16,350	191	274	192	194
Sep-08	1.547	0.121	1.378	3.046	0.813	0.064	0.724	1.601	8,167	459	7,728	16,354	189	264	178	186
Oct-08	1.478	0.111	1.319	2.908	0.671	0.051	0.599	1.321	8,170	460	7,728	16,358	181	242	171	178
Nov-08	1.511	0.118	1.329	2.958	1.080	0.084	0.950	2.114	8,171	462	7,728	16,361	185	256	172	181
Dec-08	1.580	0.156	1.362	3.098	1.446	0.143	1.246	2.835	8,172	462	7,728	16,362	193	338	176	189
Jan-09	1.522	0.141	1.354	3.017	1.256	0.116	1.117	2.489	8,177	462	7,728	16,367	186	306	175	184
Feb-09	1.599	0.145	1.330	3.074	1.408	0.128	1.171	2.707	8,179	462	7,728	16,369	196	314	172	188
Mar-09	1.510	0.124	1.307	2.941	1.030	0.085	0.892	2.007	8,180	463	7,728	16,371	185	268	169	180
Apr-09	1.463	0.116	1.262	2.841	0.731	0.058	0.630	1.419	8,183	463	7,728	16,374	179	251	163	174
May-09	1.465	0.117	1.247	2.829	0.712	0.057	0.606	1.375	8,185	464	7,728	16,377	179	252	161	173
Jun-09	1.479	0.115	1.319	2.913	0.712	0.056	0.635	1.403	8,185	465	7,728	16,378	181	248	171	178
Jul-09	1.437	0.109	1.376	2.922	0.599	0.045	0.573	1.217	8,186	467	7,728	16,381	176	234	178	178
Aug-09	1.431	0.113	1.419	2.963	0.603	0.047	0.598	1.248	8,186	467	7,728	16,381	175	242	184	181
Sep-09	1.404	0.108	1.346	2.858	0.690	0.053	0.661	1.404	8,187	468	7,728	16,383	171	231	174	174
Oct-09	1.375	0.108	1.332	2.815	0.744	0.058	0.721	1.523	8,187	468	7,728	16,383	168	231	172	172
Nov-09	1.366	0.111	1.323	2.800	0.843	0.069	0.816	1.728	8,189	469	7,728	16,386	167	237	171	171
Dec-09	1.401	0.127	1.322	2.850	1.149	0.104	1.084	2.337	8,193	469	7,728	16,390	171	271	171	174
Jan-10	1.532	0.155	1.372	3.059	1.271	0.128	1.138	2.537	8,196	472	7,728	16,396	187	329	178	187
Feb-10	1.487	0.148	1.382	3.017	1.371	0.136	1.274	2.781	8,197	474	7,728	16,399	181	313	179	184
Mar-10	1.455	0.145	1.398	2.998	1.108	0.110	1.064	2.282	8,198	474	7,728	16,400	177	306	181	183
Apr-10	1.451	0.137	1.391	2.979	1.058	0.100	1.014	2.172	8,198	474	7,728	16,400	177	289	180	182
May-10	1.379	0.128	1.385	2.892	0.672	0.063	0.675	1.410	8,201	474	7,728	16,403	168	270	179	176
Jun-10	1.437	0.122	1.453	3.012	0.650	0.055	0.657	1.362	8,202	474	7,728	16,404	175	258	188	184
Jul-10	1.375	0.119	1.466	2.960	0.694	0.061	0.740	1.495	8,204	475	7,728	16,407	168	251	190	180
Aug-10	1.366	0.125	1.451	2.942	0.585	0.053	0.621	1.259	8,205	475	7,728	16,408	166	263	188	179
Sep-10	1.346	0.114	1.342	2.802	0.627	0.053	0.626	1.306	8,207	475	7,728	16,410	164	240	174	171
Oct-10	1.413	0.123	1.311	2.847	1.177	0.102	1.092	2.371	8,207	477	7,728	16,412	172	258	170	173
Nov-10	1.399	0.117	1.297	2.813	1.090	0.091	1.011	2.192	8,209	478	7,728	16,415	170	245	168	171
Dec-10	1.605	0.215	1.375	3.195	1.417	0.189	1.214	2.820	8,212	478	7,728	16,418	195	450	178	195
Jan-11	1.452	0.158	1.338	2.948	1.272	0.139	1.172	2.583	8,227	478	7,728	16,433	176	331	173	179
Feb-11	1.413	0.156	1.339	2.908	1.176	0.130	1.114	2.420	8,228	480	7,728	16,436	172	325	173	177
Mar-11	1.387	0.208	1.343	2.938	1.186	0.178	1.148	2.512	8,229	480	7,728	16,437	169	434	174	179
Apr-11	1.320	0.181	1.323	2.824	0.867	0.118	0.869	1.854	8,248	482	7,728	16,458	160	376	171	172
May-11	1.327	0.162	1.320	2.809	0.564	0.069	0.561	1.194	8,248	483	7,728	16,459	161	336	171	171
Jun-11	1.343	0.156	1.390	2.889	0.545	0.063	0.564	1.172	8,249	483	7,728	16,460	163	323	180	176
Jul-11	1.293	0.151	1.430	2.874	0.425	0.050	0.470	0.945	8,250	484	7,728	16,462	157	312	185	175
Aug-11	1.292	0.150	1.405	2.847	0.479	0.056	0.521	1.056	8,252	485	7,728	16,465	157	310	182	173
Sep-11	1.262	0.146	1.333	2.741	0.564	0.066	0.596	1.226	8,254	486	7,728	16,468	153	301	172	166
Oct-11	1.260	0.142	1.303	2.705	0.730	0.082	0.755	1.567	8,260	486	7,728	16,474	153	292	169	164
Nov-11	1.338	0.167	1.307	2.812	1.099	0.137	1.074	2.310	8,261	486	7,728	16,475	162	344	169	171
Dec-11	1.299	0.164	1.305	2.768	1.103	0.139	1.108	2.350	8,264	487	7,728	16,479	157	337	169	168
Jan-12	1.291	0.145	1.303	2.739	1.032	0.116	1.042	2.190	8,266	488	7,728	16,482	160	232	169	166
Feb-12	1.259	0.137	1.283	2.679	1.006	0.109	1.025	2.140	8,268	488	7,728	16,484	152	281	166	163
Mar-12	1.313	0.153	1.255	2.721	0.968	0.113	0.925	2.006	8,269	488	7,728	16,485	159	314	162	165
Apr-12	1.348	0.145	1.209	2.702	0.906	0.097	0.813	1.816	8,278	488	7,728	16,494	163	297	156	164
May-12	1.333	0.150	1.211	2.694	0.577	0.065	0.525	1.167	8,280	488	7,728	16,496	161	308	157	163
Jun-12	1.365	0.143	1.237	2.745	0.547	0.057	0.496	1.100	8,284	489	7,728	16,501	165	293	160	166
Jul-12	1.372	0.126	1.296	2.794	0.457	0.042	0.431	0.930	8,289	489	7,728	16,506	166	258	168	169
Aug-12	1.383	0.128	1.291	2.802	0.473	0.044	0.441	0.958	8,290	490	7,728	16,508	167	261	167	170
Sep-12	1.349	0.142	1.220	2.711	0.544	0.058	0.492	1.094	8,291	490	7,728	16,509	163	290	158	164
Oct-12	1.327	0.123	1.203	2.653	0.678	0.063	0.615	1.356	8,294	490	7,728	16,512	160	251	156	161
Nov-12	1.343	0.128	1.181	2.652	0.862	0.082	0.758	1.702	8,299	490	7,728	16,517	162	261	153	161
Dec-12	1.383	0.141	1.197	2.721	1.261	0.129	1.091	2.481	8,300	490	7,728	16,518	167	288	155	165
Jan-13	1.357	0.145	1.215	2.717	1.155	0.124	1.034	2.313	8,300	490	7,728	16,518	163	296	157	164
Feb-13	1.349	0.138	1.201	2.688	1.048	0.108	0.933	2.089	8,301	490	7,728	16,519	163	282	155	163
Mar-13	1.402	0.154	1.235	2.791	0.905	0.100	0.797	1.802	8,302	491	7,728	16,521	169	314	160	169
Apr-13	1.297	0.124	1.237	2.658	0.531	0.051	0.506	1.088	8,304	491	7,728	16,523	156	253	160	161

CSD: Cardiff Sanitary Division																	<b>TABLE 1</b>	
RSF CSD: Ranch Santa Fe Community Service District																		
SB: Solana Beach																		
EDU: Equivalent Dwelling Unit																		



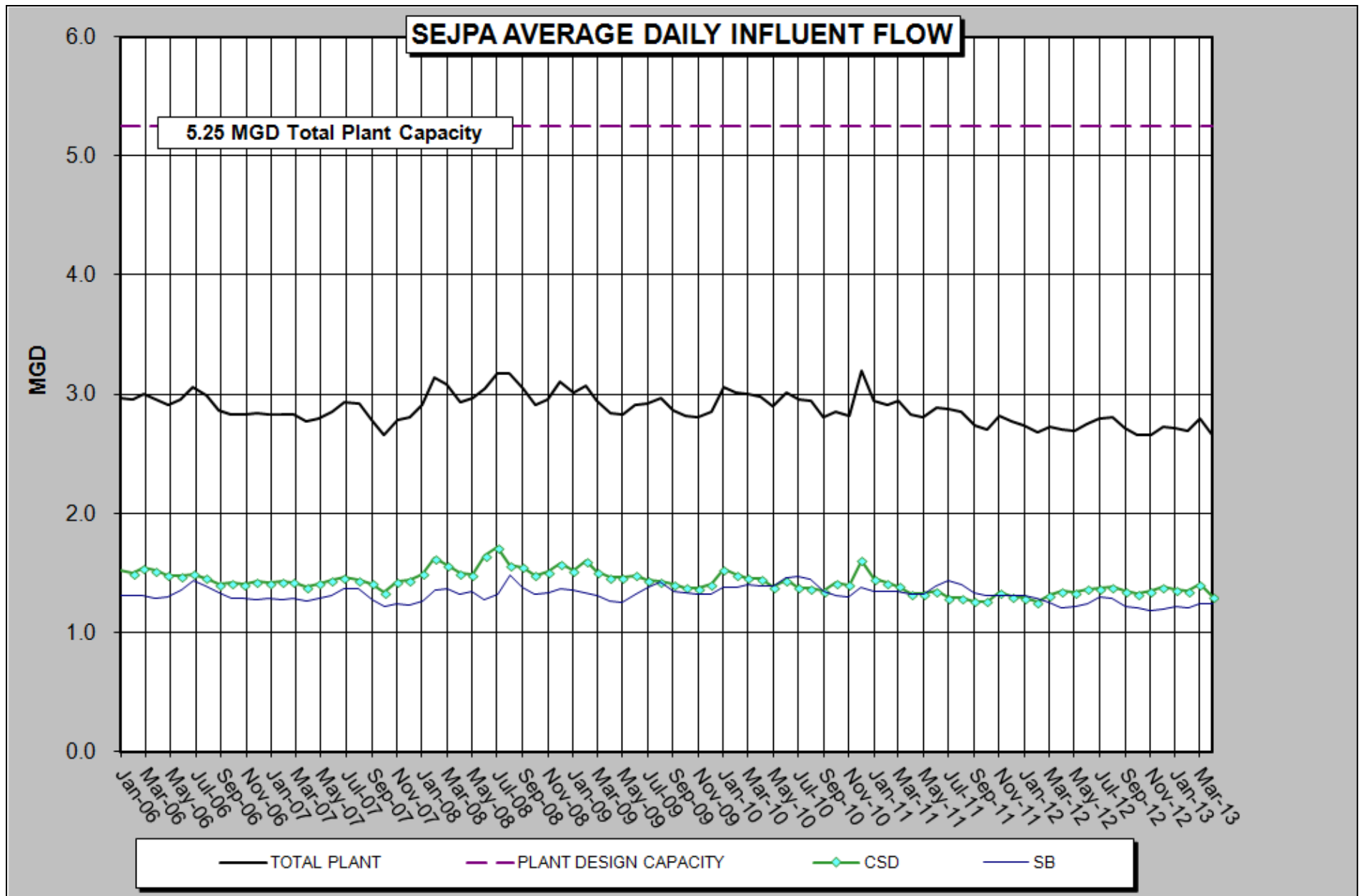


Figure 3

City of Escondido Flows

The average and peak flow rate from the City of Escondido's Hale Avenue Resource Recovery Facility, which discharges through the San Elijo Ocean Outfall, is reported below. The following average flow rate and peak flow rate is reported by the City of Escondido for the month of April.


	<b>April (mgd)</b>
Escondido (Average flow rate)	9.63
Escondido (Peak flow rate)	18.0

Connected Equivalent Dwelling Units

The number of EDUs connected for each of the Member Agencies for the month of April is as follows:

	<b>April (EDU)</b>
Cardiff Sanitary Division	8,304
Rancho Santa Fe SID	491
City of Solana Beach	7,428
San Diego (to Solana Beach)	300
<b>Total EDUs to System</b>	<b>16,523</b>

Respectfully submitted,

  
Michael T. Thornton, P.E.  
General Manager

SAN ELIJO JOINT POWERS AUTHORITY  
MEMORANDUM

June 10, 2013

TO: Board of Directors  
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: SAN ELIJO WATER RECLAMATION PROGRAM – MONTHLY REPORT

RECOMMENDATION

No action required. This memorandum is submitted for information only.

DISCUSSION

*Recycled Water Production*

For the month of April 2013, recycled water demand was 137.26 acre-feet (AF), which was met using 137.08 AF of recycled water and 0.18 AF of supplementation with potable water. This equates to a blend mix for April of 99.9 percent recycled water and 0.1 percent potable water supplementation. This recycled water demand for April was the highest April on record since the program began in 2000.

Figure 1 (attached) provides monthly supply demands for recycled water since September 2000. Figure 2 (attached) provides a graphical view of annual recycled water demand spanning the last twelve fiscal years. Recycled water demand can fluctuate from year to year, which is typically a function of weather. For example, Fiscal Years 2003-04, 2006-07, and 2008-09 were unusually dry years, resulting in increased recycled water demand; and Fiscal Year 2004-05 was an unusually wet year, resulting in lower recycled water demand.

Respectfully submitted,



Michael T. Thornton, P.E.  
General Manager

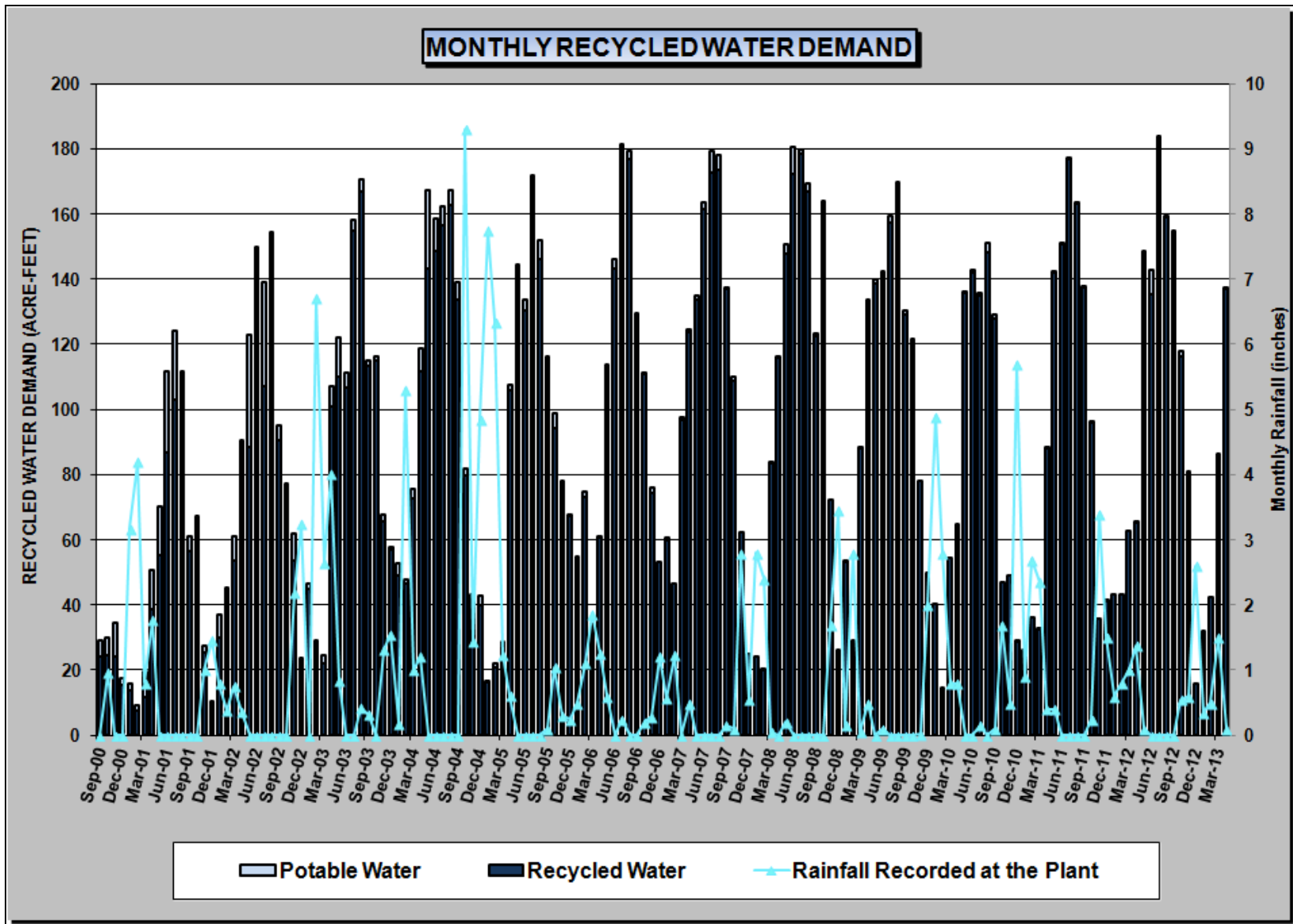


Figure 1

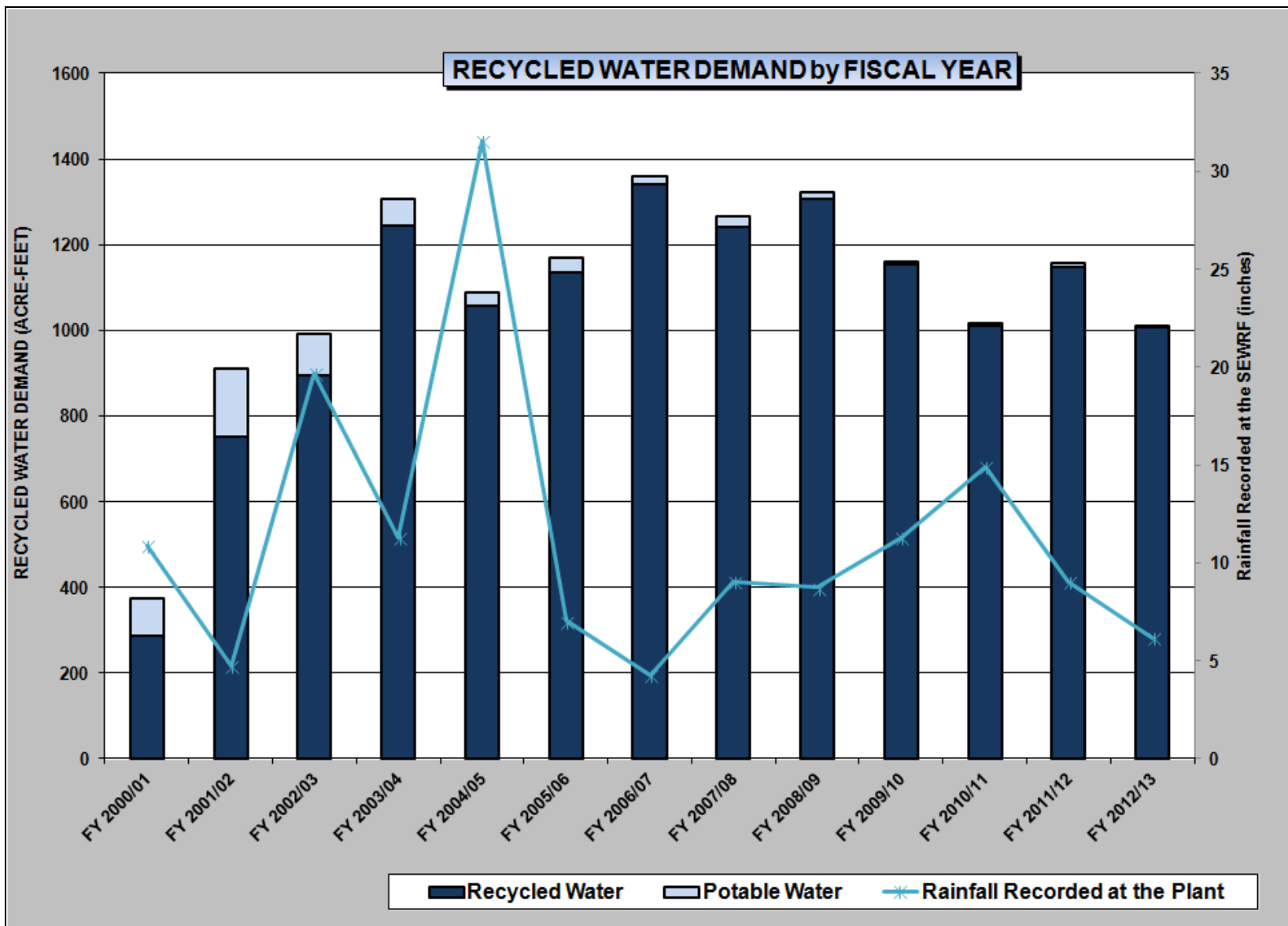


Figure 2

SAN ELIJO JOINT POWERS AUTHORITY  
MEMORANDUM

June 10, 2013

TO: Board of Directors  
San Elijo Joint Powers Authority

FROM: Director of Finance/Administration

SUBJECT: AWARD OF ANNUAL SUPPLIES AND SERVICES CONTRACTS FOR THE SAN ELIJO JOINT POWERS AUTHORITY

RECOMMENDATION

It is recommended that the Board of Directors:

1. Approve the recommendations of the Director of Finance/Administration regarding award of supplies and services contracts for ferric chloride and for sodium hypochlorite;
2. Authorize the Chair to execute the contracts with the lowest responsive bidder; and
3. Discuss and take action as appropriate.

DISCUSSION

The SEJPA uses various chemicals in the treatment process to enhance settling, disinfect the recycled water, control filament growth, and control odors. Ferric chloride is used to enhance settling in the primary settling tanks and to decrease sulfide generation in the primary treatment and anaerobic digestion processes. Uncontrolled sulfide generation can lead to significant odors, accelerated corrosion, and hazardous confined space conditions. Sodium hypochlorite is used to disinfect the tertiary treatment water prior to distribution and to control filament growth in the return activated sludge.

SEJPA purchasing policy requires that all purchase contracts in excess of \$35,000 be formally bid as outlined in the SEJPA purchasing policy. Each year formal bids are solicited for supplies and services contracts that may have an annual cost in excess of \$35,000. For the Fiscal Year 2013-14, bids were advertised on April 18, 2013, and bid openings were held on May 21, 2013 for the provision of ferric chloride and for sodium hypochlorite.

The results of the formal bids are as follows:

<u>Contractor</u>	<u>Ferric Chloride</u> <u>Unit Cost</u>	<u>Estimated</u> <u>Annual Amount</u>
* California Water Technologies	PER DRY TON: \$576.72	\$51,904.80
Kemira Water Solutions, Inc.	PER DRY TON: \$591.84	\$53,265.60
Sierra Chemical Co.	No Bid	

\* *Low Bidder*

It is SEJPA policy to solicit three or more bids for supply and service contracts. However, ferric chloride has a very limited supply chain and only three suppliers have been identified for Southern California, of which only two elected to provide a contract bid.

**Sodium Hypochlorite**

<b><u>Contractor</u></b>	<b><u>Unit Cost</u></b>	<b><u>Estimated Annual Amount</u></b>
Jones Chemical	PER GALLON: \$0.630	\$50,400.00
* Olin Corp.	PER GALLON: \$0.594	\$47,520.00
Univar USA, Inc.	PER GALLON: \$0.983	\$78,640.00

\* *Low Bidder*

It is recommended that the annual supplies and services contracts for provision of ferric chloride and sodium hypochlorite be awarded to the lowest bidders as noted above. Both chemical providers have had contracts with the SEJPA in the past and the contracts were completed successfully. Contract award is contingent upon the verification that the apparent low bidders meet all bid requirements, including bonding and insurance.


**FINANCIAL IMPACT**

Funds to support these contracts have been incorporated into the Fiscal Year 2013-14 Recommended Budget. An annual cost of \$50,000 was budgeted for the provision of ferric chloride and the apparent low bid is for \$51,904.80. An annual cost of \$53,900 was budgeted for the provision of sodium hypochlorite and the apparent low bid is for \$47,520.00.

It is therefore recommended that the Board of Directors:

1. Approve the recommendations of the Director of Finance/Administration regarding award of supplies and services contracts for the provision of ferric chloride and for sodium hypochlorite;
2. Authorize the Chair to execute the contracts with the lowest responsive bidder; and
3. Discuss and take action as appropriate.

Respectfully submitted,

  
\_\_\_\_\_  
Gregory Lewis  
Director of Finance/Administration

Attachment 1: AGREEMENT: California Water Technologies for Ferric Chloride

Attachment 2: AGREEMENT: Olin Corporation for Sodium Hypochlorite

Attachment 1 to Agenda Item No. 11



## AGREEMENT

THIS AGREEMENT is made and entered into on this 31<sup>st</sup> day of May 2013, by and between the San Elijo Joint Powers Authority, a California joint powers authority, hereinafter referred to as AUTHORITY, and California Water Technologies, LLC, hereinafter referred to as CONTRACTOR.

### WITNESSETH:

WHEREAS, on April 18, 2013, AUTHORITY invited bids for the provision of Ferric Chloride per Specifications No. SE 2014-FC.

WHEREAS, pursuant to said invitation, CONTRACTOR submitted a bid which was accepted by AUTHORITY for said services.

NOW THEREFORE, in consideration of their mutual promises, obligations and covenants hereinafter contained, the parties hereto agree as follows:

1. TERM. The term of this Agreement shall be from the date this Agreement is made and entered, as first written above, until June 30, 2014. (Service shall be provided from July 1, 2013 to June 30, 2014.)
2. INCORPORATION BY REFERENCE. The Notice Inviting Bids, the General Bid Terms and Conditions, the Special Bid Terms and Conditions, Bid Submission Form(s), and the Bid Specifications, are hereby incorporated in and made a part of this Agreement.
3. AUTHORITY'S OBLIGATIONS. For furnishing services or supplies as specified in the Agreement, AUTHORITY will pay and CONTRACTOR shall receive compensation for Ferric Chloride at the unit price of \$572.72 per dry ton. The total amount of Ferric Chloride to be purchased under this Agreement has been estimated to be 90 dry tons per year, but actual usage may be considerably less. In no case will total compensation exceed \$51,904.80. The unit cost and total cost shall include all delivery, tax and shipping charges.

Payments to the CONTRACTOR shall be made within forty-five (45) days after receipt of an original invoice from the CONTRACTOR and provision of said services to AUTHORITY. CONTRACTOR shall invoice no more frequently than monthly for services or supplies provided. Neither AUTHORITY'S acceptance of, nor payment for any of the services, shall be construed to operate as a waiver of any rights under this Agreement or of any cause of action arising out of the performance of this Agreement.

4. CONTRACTOR'S OBLIGATIONS. For and in consideration of the payments and agreements hereinbefore mentioned to be made and performed by AUTHORITY, CONTRACTOR agrees with AUTHORITY to furnish the said services and to do everything required by this Agreement and the said specifications. Without limiting the generality of the foregoing, CONTRACTOR warrants on behalf of itself and all subcontractors engaged for the performance of this Agreement that only persons authorized to work in the United States pursuant to the Immigration Reform and Control Act of 1986 and other applicable laws shall be employed in the performance of the work hereunder. In performing services under this Agreement, CONTRACTOR agrees to comply with all laws, rules and regulations and ordinances, whether federal,

state or local, and any and all AUTHORITY policies, procedures, departmental rules or other directives applicable to the services to be performed by provided by AUTHORITY'S General Manager or his designee, to CONTRACTOR. Any changes to AUTHORITY'S policies and procedures that relate to CONTRACTOR will be provided to CONTRACTOR in writing. CONTRACTOR agrees to review such policies, procedures, rules and directives and the contents of which CONTRACTOR will be deemed to have knowledge. CONTRACTOR shall ensure that any report generated under this Agreement complies with California Government Code section 7550.

5. HOLD HARMLESS AND INDEMNIFICATION. CONTRACTOR agrees to defend, indemnify, and hold harmless AUTHORITY, its member agencies (to include the City of Encinitas and the City of Solana Beach), and each of their respective directors, officials, officers, employees, representatives, and agents (collectively, "Indemnified Parties"), from and against all claims, lawsuits, liabilities or damages, including attorney's fees and costs, of whatsoever nature arising out of or in connection with, or relating in any manner to any act or omission of CONTRACTOR, its agents, employees, and subcontractors of any tier and employees thereof in connection with the performance or non-performance of this Agreement. The CONTRACTOR shall thoroughly investigate any and all claims and indemnify the Indemnified Parties and do whatever is necessary to protect the Indemnified Parties as to any such claims lawsuits, liabilities, expenses, or damages.
  
6. INSURANCE. During the course of the Agreement, CONTRACTOR shall pay for and maintain, in full force and effect, all insurance required by any governmental agency having jurisdiction to require particular insurance of CONTRACTOR in connection with or related to the work covered hereby. CONTRACTOR SHALL FURTHER TAKE OUT AND SHALL FURNISH SATISFACTORY PROOF BY CERTIFICATE OR OTHERWISE AS MAY BE REQUIRED, THAT HE HAS TAKEN OUT COMPREHENSIVE GENERAL LIABILITY INSURANCE AND AUTO LIABILITY WITH AUTHORITY, ITS MEMBER AGENCIES (TO INCLUDE THE CITY OF ENCINITAS AND THE CITY OF SOLANA BEACH), AND EACH OF THEIR RESPECTIVE DIRECTORS, OFFICIALS, OFFICERS, EMPLOYEES, REPRESENTATIVES AND AGENTS ("INSURED PARTIES") NAMED HEREIN AS ADDITIONAL INSURED, AS WELL AS ALL OTHER COVERAGE REQUIRED BY THIS AGREEMENT.

Insurance carrier shall be satisfactory to AUTHORITY, and insurance shall be purchased from insurance companies with a current A.M. Best rating of no less than A:VII, unless otherwise agreed in writing by AUTHORITY. Insurance shall be in such form approved by AUTHORITY so as to protect all Insured Parties against loss from liability assumed by contract or imposed by law from damages on account of bodily injury, including death resulting there from, suffered or alleged to have been suffered by any person or persons, other than employees, resulting directly or indirectly from the negligent performance or execution of this Agreement by CONTRACTOR or any subcontract with CONTRACTOR there under, and also to protect all Insured Parties against loss from liability imposed by law for damage to any property, caused directly or indirectly by the negligent performance or execution or the Agreement by CONTRACTOR; which insurance shall also cover accidents arising out of the use and operation of owned, non-owned and hired automobiles, trucks, and/or other mobile equipment. Automobile liability shall be at least as broad as form number CA 0001, covering code 1 (any auto), covering bodily injury and property damage, with a combined single limit of no less than \$1,000,000 per claim for bodily injury and

property damage. General liability shall be at least as broad as occurrence form CG 0001, covering bodily injury, personal injury and property damage. The amounts of coverage of said insurance shall not be less than the following:

Public Liability	\$1,000,000 single limit/\$3,000,000 aggregate
Property Damage	\$1,000,000 single limit/\$3,000,000 aggregate

CONTRACTOR shall further maintain adequate Worker's Compensation Insurance, including occupational disease provisions, under the laws of the State of California and employer's general liability insurance for the benefit of its employees with a combined single limit of no less than \$1,000,000 per claim for bodily injury or disease, and shall require similar insurance to be provided by its subcontractors. A certificate shall be furnished to AUTHORITY showing compliance with above.

Said policies shall have a non-cancellation clause providing that thirty (30) days written notice shall be given to AUTHORITY prior to any material modification or cancellation, and a certificate of such insurance shall be furnished to AUTHORITY by direct mail from CONTRACTOR'S insurance carrier and shall specifically cover any contractual liability incurred hereunder.

All insurance policies shall be on an occurrence basis and cover the period of performance under this Agreement.

The coverage shall contain no special limitations on the scope of protection afforded to the Insured Parties.

CONTRACTOR'S Insurance shall be primary insurance as respects the Insured Parties, and each of them. Any insurance, self-insurance or other coverage maintained by Insured Parties shall be excess of the CONTRACTOR'S insurance and not contribute to it.

Any failure to comply with reporting or other provisions of the policies including breaches of warranties shall not affect coverage provided to Insured Parties.

CONTRACTOR'S insurance shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of insurer's liability.

All insurance policies shall specifically cover any contractual liability incurred pursuant to this Agreement.

Any deductibles or self-insured retention limits must be disclosed to and approved by AUTHORITY prior to execution of this Agreement. At the option of AUTHORITY, either: the insurer shall reduce or eliminate such deductibles as respects the Insured Parties; or CONTRACTOR shall provide a financial guarantee satisfactory to AUTHORITY guaranteeing payment of losses and related investigations, claim administration and defense expenses.

CONTRACTOR shall furnish to AUTHORITY certificates of insurance prior to the commencement of work under this Agreement, and as may be periodically requested by AUTHORITY. CONTRACTOR shall include all endorsements necessary to comply with this Agreement, including additional insured endorsements, signed by the

insurer's representative. Such evidence shall include confirmation that coverage includes or has been modified to include all provisions required by this Agreement. CONTRACTOR shall, upon request of AUTHORITY at any time, deliver to AUTHORITY complete, certified copies of the policies of insurance, including endorsements, and receipts for payment or premiums thereon, required by this Agreement. Failure to obtain the required documents prior to the work beginning shall not waive CONTRACTOR'S obligation to provide them.

If any of the required coverages expire during the term of this Agreement, CONTRACTOR shall deliver the renewal certificate(s) including the general liability and auto liability additional insured endorsements to AUTHORITY at least ten (10) days prior to the expiration date.

In the event that CONTRACTOR employs subcontractors to perform any portion of the services to be performed pursuant to this Agreement, it shall be CONTRACTOR'S responsibility to require and confirm that each subcontractor meets the minimum insurance requirements specified in this Agreement.

7. AMENDMENTS. Any amendment, modification, or variation from the terms of this Agreement shall be in writing and shall be effective only upon approval by the Manager of the AUTHORITY.
8. TERMINATION. If, during the term of this contract, AUTHORITY determines that CONTRACTOR is not faithfully abiding by any term or condition contained herein, AUTHORITY may notify CONTRACTOR in writing of such defect or failure to perform; which notice must give CONTRACTOR five (5) working days thereafter in which to preaffirm said work or cure the deficiency. If CONTRACTOR has not performed the work or cured the deficiency within five (5) days specified in the notice, such shall constitute a breach of this contract and AUTHORITY may terminate this contract immediately by written notice to CONTRACTOR to said effect. In said event, CONTRACTOR shall be entitled to the reasonable value of its services performed from the beginning of the period in which the breach occurs up to the day it received AUTHORITY's notice of termination, minus any offset from such payment representing AUTHORITY's damages from such breach. AUTHORITY reserves the right to delay any such payment, to allow for a full and complete accounting of costs. In no event, however, shall CONTRACTOR be entitled to receive in excess of the compensation quoted in its bid.
9. STATUS OF CONTRACTOR. CONTRACTOR and its employee(s) are engaged in an independent contractor relationship with AUTHORITY in performing all work, duties and obligations hereunder. AUTHORITY shall not exercise any control or direction over the methods by which CONTRACTOR shall perform its work and functions. AUTHORITY'S sole interest and responsibility is to ensure that the services covered by this Agreement are performed and rendered in a competent, satisfactory and legal manner. CONTRACTOR represents that its employee(s) have the qualifications and skills necessary to perform the services under this Agreement in a competent, professional manner, without the advice or direction of AUTHORITY. CONTRACTOR will supply all tools, materials and equipment required to perform the services under this Agreement. The parties agree that no work, act, commission or omission of CONTRACTOR or its employee(s) pursuant to this Agreement shall be construed to

make CONTRACTOR and its employee(s) the agent, employee or servant of AUTHORITY. CONTRACTOR and its employee(s) are not entitled to receive from AUTHORITY vacation pay, sick leave, retirement benefits, Social Security, workers' compensation, disability benefits, unemployment benefits or any other employee benefit of any kind. CONTRACTOR shall be solely responsible for paying all federal and state employment and income taxes, for carrying workers' compensation insurance and for otherwise complying with all other employment law requirements with respect to CONTRACTOR or its employee(s). To the maximum extent allowable by law, CONTRACTOR agrees to indemnify, defend and hold AUTHORITY harmless from any and all liability, damages or losses (including attorney's fees, costs, penalties and fines) AUTHORITY suffers as a result of (a) CONTRACTOR'S failure to meet its employer obligations, or (b) a third party's designation of CONTRACTOR or its employee as an employee of AUTHORITY, regardless of any actual or alleged negligence by AUTHORITY.

10. ASSIGNMENT. Neither this Agreement nor any duties or obligations under this Agreement may be assigned or subcontracted by CONTRACTOR without the prior written consent of AUTHORITY. AUTHORITY has entered into this Agreement in order to receive the professional services of CONTRACTOR. The provisions of this Agreement shall apply to any subcontractor of CONTRACTOR. AUTHORITY shall have the right to approve any subcontractor agreements, in addition to the written consent required by this section.
11. PROPRIETARY RIGHTS. Any written, printed, graphic, or electronically or magnetically recorded information furnished by AUTHORITY for CONTRACTOR'S use are the sole property of AUTHORITY. CONTRACTOR and its employee(s) will keep any information identified by AUTHORITY as confidential in the strictest confidence, and will not disclose it by any means to any person except with AUTHORITY approval, and only the extent necessary to perform the services under this Agreement. This prohibition also applies to CONTRACTOR'S employees, agents, and subcontractors. On termination of this Agreement, CONTRACTOR will promptly return any confidential information in its possession to AUTHORITY.
12. PARTIAL INVALIDITY. If any non-material provision of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions will continue in full force and effect without being impaired or invalidated in any way.
13. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which together shall constitute one and the same agreement, and the signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.
14. PROVISIONS REQUIRED BY LAW. Each and every provision of law and clause required by law to be inserted in this Agreement shall be deemed to be inserted herein, and the Agreement shall be read and enforced as though they were included herein. If through mistake or otherwise any such provision is not inserted, or is not correctly inserted, then upon the request of either party, the Agreement shall forthwith be physically amended to make such insertion.

15. GOVERNING LAW. This Agreement and all questions relating to its validity, interpretation, performance, and enforcement (including, without limitation, provisions concerning limitations of actions), shall be governed by and construed in accordance with the laws of the State of California, notwithstanding any conflict-of-laws doctrines of such state or other jurisdiction to the contrary and without the aid of any canon, custom, or rule of law requiring construction against the draftsman.
16. JURISDICTION, FORUM AND VENUE. The proper jurisdiction, forum and venue for any claims, causes of action or other proceedings concerning this Agreement shall be in the state and federal courts located in the State of California, County of San Diego. AUTHORITY and CONTRACTOR agree not to bring any action or proceeding arising out of or relating to this Agreement in any other jurisdiction, forum or venue. AUTHORITY and CONTRACTOR hereby submit to personal jurisdiction in the State of California for the enforcement of this Agreement and hereby waive any and all personal rights under the law of any state to object to jurisdiction within the State of California for the purposes of any legal action or proceeding to enforce this Agreement, whether on grounds of inconvenient forum or otherwise.
17. COMPLETE AGREEMENT. This written Agreement, including all writings specifically incorporated herein by reference, shall constitute the complete agreement between the parties hereto. No oral agreement, understanding, or representation not reduced to writing and specifically incorporated herein shall be of any force or effect, nor shall any such oral agreement, understanding, or representation be binding upon the parties hereto.
18. AUDIT. AUTHORITY shall have the option of inspecting and/or auditing all records and other written materials used by CONTRACTOR in preparing its statements to AUTHORITY as a condition precedent to any payment to CONTRACTOR. This agreement is subject to examination and audit of the State Auditor, at the request of AUTHORITY or as part of any audit of AUTHORITY, for a period of three (3) years after final payment under the agreement. CONTRACTOR shall cooperate with AUTHORITY, including any authorized representatives of AUTHORITY, regarding any such audit at no charge to AUTHORITY.
19. NOTICE. All written notices to the parties hereto shall be sent by United States mail, postage prepaid by registered or certified mail addressed as follows:

AUTHORITY

General Manager  
 San Elijo Joint Powers Authority  
 2695 Manchester Avenue  
 Cardiff, CA 92007

CONTRACTOR

California Water Technologies, LLC  
 8851 Dice Road  
 Santa Fe Springs, CA 90670

Notices shall be deemed communicated as of the day of receipt or the fifth day after mailing, whichever occurs first.

20. PROTECTION OF EXISTING FACILITIES AND NON-INTERFERENCE WITH PLANT OPERATIONS. CONTRACTOR shall perform his duties in such a way that there will be no damage done to existing facilities and all facilities shall be left in the condition

they were in prior to the beginning of the contract. CONTRACTOR will also perform all work in such a way that there is no interference with plant operations.

21. AUTHORITY TO EXECUTE AGREEMENT. AUTHORITY and CONTRACTOR do covenant that the individual executing this agreement on their behalf is a person duly authorized and empowered to execute this Agreement for such party.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed the day and year first above written.

ATTEST:

SAN ELIJO JOINT POWERS AUTHORITY

By: \_\_\_\_\_  
Michael T. Thornton, P.E., General Manager

SAN ELIJO JOINT POWERS AUTHORITY

By: \_\_\_\_\_  
Thomas Campbell, Chair of the Board

CONTRACTOR

By: \_\_\_\_\_  
(Signature)

Name: \_\_\_\_\_  
(Print)

Title: \_\_\_\_\_

Attachment 2 to Agenda Item No. 11



## AGREEMENT

THIS AGREEMENT is made and entered into on this 31<sup>st</sup> day of May, 2013, by and between the San Elijo Joint Powers Authority, a California joint powers authority, hereinafter referred to as AUTHORITY, and Olin Corporation, dba Olin Chlor Alkali Products, hereinafter referred to as CONTRACTOR.

### WITNESSETH:

WHEREAS, on April 18, 2013, AUTHORITY invited bids for the provision of Sodium Hypochlorite per Specifications No. SE 2014-SH.

WHEREAS, pursuant to said invitation, CONTRACTOR submitted a bid which was accepted by AUTHORITY for said services.

NOW THEREFORE, in consideration of their mutual promises, obligations and covenants hereinafter contained, the parties hereto agree as follows:

1. TERM. The term of this Agreement shall be from the date this Agreement is made and entered, as first written above, until June 30, 2014. (Service shall be provided from July 1, 2013 to June 30, 2014.)
2. INCORPORATION BY REFERENCE. The Notice Inviting Bids, the General Bid Terms and Conditions, the Special Bid Terms and Conditions, Bid Submission Form(s), and the Bid Specifications, are hereby incorporated in and made a part of this Agreement.
3. AUTHORITY'S OBLIGATIONS. For furnishing services or supplies as specified in the Agreement, AUTHORITY will pay and CONTRACTOR shall receive compensation for Sodium Hypochlorite at the unit price of \$0.594 per gallon. The total amount of Sodium Hypochlorite to be purchased under this Agreement has been estimated to be 80,000 gallons per year, but actual usage may be considerably less. In no case will total compensation exceed \$47,520.00. The unit cost and total cost shall include all delivery, tax and shipping charges.

Payments to the CONTRACTOR shall be made within forty-five (45) days after receipt of an original invoice from the CONTRACTOR and provision of said services to AUTHORITY. CONTRACTOR shall invoice no more frequently than monthly for services or supplies provided. Neither AUTHORITY'S acceptance of, nor payment for any of the services, shall be construed to operate as a waiver of any rights under this Agreement or any cause of action arising out of the performance of this Agreement.

4. CONTRACTOR'S OBLIGATIONS. For and in consideration of the payments and agreements hereinbefore mentioned to be made and performed by AUTHORITY, CONTRACTOR agrees with AUTHORITY to furnish the said services and to do everything required by this Agreement and the said specifications. Without limiting the generality of the foregoing, CONTRACTOR warrants on behalf of itself and all subcontractors engaged for the performance of this Agreement that only persons authorized to work in the United States pursuant to the Immigration Reform and Control Act of 1986 and other applicable laws shall be employed in the performance of the work hereunder. In performing services under this Agreement, CONTRACTOR agrees to comply with all laws, rules and regulations and ordinances, whether federal,

state or local, and any and all AUTHORITY policies, procedures, departmental rules or other directives applicable to the services to be performed by provided by AUTHORITY'S General Manager or his designee, to CONTRACTOR. Any changes to AUTHORITY'S policies and procedures that relate to CONTRACTOR will be provided to CONTRACTOR in writing. CONTRACTOR agrees to review such policies, procedures, rules and directives and the contents of which CONTRACTOR will be deemed to have knowledge. CONTRACTOR shall ensure that any report generated under this Agreement complies with California Government Code section 7550.

5. HOLD HARMLESS AND INDEMNIFICATION. CONTRACTOR agrees to defend, indemnify, and hold harmless AUTHORITY, its member agencies (to include the City of Encinitas and the City of Solana Beach), and each of their respective directors, officials, officers, employees, representatives, and agents (collectively, "Indemnified Parties"), from and against all claims, lawsuits, liabilities or damages, including attorney's fees and costs, of whatsoever nature arising out of or in connection with, or relating in any manner to any act or omission of CONTRACTOR, its agents, employees, and subcontractors of any tier and employees thereof in connection with the performance or non-performance of this Agreement. The CONTRACTOR shall thoroughly investigate any and all claims and indemnify the Indemnified Parties and do whatever is necessary to protect the Indemnified Parties as to any such claims lawsuits, liabilities, expenses, or damages.
  
6. INSURANCE. During the course of the Agreement, CONTRACTOR shall pay for and maintain, in full force and effect, all insurance required by any governmental agency having jurisdiction to require particular insurance of CONTRACTOR in connection with or related to the work covered hereby. CONTRACTOR SHALL FURTHER TAKE OUT AND SHALL FURNISH SATISFACTORY PROOF BY CERTIFICATE OR OTHERWISE AS MAY BE REQUIRED, THAT HE HAS TAKEN OUT COMPREHENSIVE GENERAL LIABILITY INSURANCE AND AUTO LIABILITY WITH AUTHORITY, ITS MEMBER AGENCIES (TO INCLUDE THE CITY OF ENCINITAS AND THE CITY OF SOLANA BEACH), AND EACH OF THEIR RESPECTIVE DIRECTORS, OFFICIALS, OFFICERS, EMPLOYEES, REPRESENTATIVES AND AGENTS ("INSURED PARTIES") NAMED HEREIN AS ADDITIONAL INSURED, AS WELL AS ALL OTHER COVERAGE REQUIRED BY THIS AGREEMENT.

Insurance carrier shall be satisfactory to AUTHORITY, and insurance shall be purchased from insurance companies with a current A.M. Best rating of no less than A:VII, unless otherwise agreed in writing by AUTHORITY. Insurance shall be in such form approved by AUTHORITY so as to protect all Insured Parties against loss from liability assumed by contract or imposed by law from damages on account of bodily injury, including death resulting therefrom, suffered or alleged to have been suffered by any person or persons, other than employees, resulting directly or indirectly from the negligent performance or execution of this Agreement by CONTRACTOR or any subcontract with CONTRACTOR thereunder, and also to protect all Insured Parties against loss from liability imposed by law for damage to any property, caused directly or indirectly by the negligent performance or execution or the Agreement by CONTRACTOR; which insurance shall also cover accidents arising out of the use and operation of owned, non-owned and hired automobiles, trucks, and/or other mobile equipment. Automobile liability shall be at least as broad as form number CA 0001, covering code 1 (any auto), covering bodily injury and property damage, with a combined single limit of no less than \$1,000,000 per claim for bodily injury and

property damage. General liability shall be at least as broad as occurrence form CG 0001, covering bodily injury, personal injury and property damage. The amounts of coverage of said insurance shall not be less than the following:

Public Liability	\$1,000,000 single limit/\$3,000,000 aggregate
Property Damage	\$1,000,000 single limit/\$3,000,000 aggregate

CONTRACTOR shall further maintain adequate Worker's Compensation Insurance, including occupational disease provisions, under the laws of the State of California and employer's general liability insurance for the benefit of its employees with a combined single limit of no less than \$1,000,000 per claim for bodily injury or disease, and shall require similar insurance to be provided by its subcontractors. A certificate shall be furnished to AUTHORITY showing compliance with above.

Said policies shall have a non-cancellation clause providing that thirty (30) days written notice shall be given to AUTHORITY prior to any material modification or cancellation, and a certificate of such insurance shall be furnished to AUTHORITY by direct mail from CONTRACTOR'S insurance carrier and shall specifically cover any contractual liability incurred hereunder.

All insurance policies shall be on an occurrence basis and cover the period of performance under this Agreement.

The coverage shall contain no special limitations on the scope of protection afforded to the Insured Parties.

CONTRACTOR'S Insurance shall be primary insurance as respects the Insured Parties, and each of them. Any insurance, self-insurance or other coverage maintained by Insured Parties shall be excess of the CONTRACTOR'S insurance and not contribute to it.

Any failure to comply with reporting or other provisions of the policies including breaches of warranties shall not affect coverage provided to Insured Parties.

CONTRACTOR'S insurance shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of insurer's liability.

All insurance policies shall specifically cover any contractual liability incurred pursuant to this Agreement.

Any deductibles or self-insured retention limits must be disclosed to and approved by AUTHORITY prior to execution of this Agreement. At the option of AUTHORITY, either: the insurer shall reduce or eliminate such deductibles as respects the Insured Parties; or CONTRACTOR shall provide a financial guarantee satisfactory to AUTHORITY guaranteeing payment of losses and related investigations, claim administration and defense expenses.

CONTRACTOR shall furnish to AUTHORITY certificates of insurance prior to the commencement of work under this Agreement, and as may be periodically requested by AUTHORITY. CONTRACTOR shall include all endorsements necessary to comply with this Agreement, including additional insured endorsements, signed by the

insurer's representative. Such evidence shall include confirmation that coverage includes or has been modified to include all provisions required by this Agreement. CONTRACTOR shall, upon request of AUTHORITY at any time, deliver to AUTHORITY complete, certified copies of the policies of insurance, including endorsements, and receipts for payment or premiums thereon, required by this Agreement. Failure to obtain the required documents prior to the work beginning shall not waive CONTRACTOR'S obligation to provide them.

If any of the required coverages expire during the term of this Agreement, CONTRACTOR shall deliver the renewal certificate(s) including the general liability and auto liability additional insured endorsements to AUTHORITY at least ten (10) days prior to the expiration date.

In the event that CONTRACTOR employs subcontractors to perform any portion of the services to be performed pursuant to this Agreement, it shall be CONTRACTOR'S responsibility to require and confirm that each subcontractor meets the minimum insurance requirements specified in this Agreement.

7. AMENDMENTS. Any amendment, modification, or variation from the terms of this Agreement shall be in writing and shall be effective only upon approval by the Manager of the AUTHORITY.
8. TERMINATION. If, during the term of this contract, AUTHORITY determines that CONTRACTOR is not faithfully abiding by any term or condition contained herein, AUTHORITY may notify CONTRACTOR in writing of such defect or failure to perform; which notice must give CONTRACTOR five (5) working days thereafter in which to preaffirm said work or cure the deficiency. If CONTRACTOR has not performed the work or cured the deficiency within five (5) days specified in the notice, such shall constitute a breach of this contract and AUTHORITY may terminate this contract immediately by written notice to CONTRACTOR to said effect. In said event, CONTRACTOR shall be entitled to the reasonable value of its services performed from the beginning of the period in which the breach occurs up to the day it received AUTHORITY's notice of termination, minus any offset from such payment representing AUTHORITY's damages from such breach. AUTHORITY reserves the right to delay any such payment, to allow for a full and complete accounting of costs. In no event, however, shall CONTRACTOR be entitled to receive in excess of the compensation quoted in its bid.
9. STATUS OF CONTRACTOR. CONTRACTOR and its employee(s) are engaged in an independent contractor relationship with AUTHORITY in performing all work, duties and obligations hereunder. AUTHORITY shall not exercise any control or direction over the methods by which CONTRACTOR shall perform its work and functions. AUTHORITY'S sole interest and responsibility is to ensure that the services covered by this Agreement are performed and rendered in a competent, satisfactory and legal manner. CONTRACTOR represents that its employee(s) have the qualifications and skills necessary to perform the services under this Agreement in a competent, professional manner, without the advice or direction of AUTHORITY. CONTRACTOR will supply all tools, materials and equipment required to perform the services under this Agreement. The parties agree that no work, act, commission or omission of CONTRACTOR or its employee(s) pursuant to this Agreement shall be construed to make CONTRACTOR and its employee(s) the agent, employee or servant of

AUTHORITY. CONTRACTOR and its employee(s) are not entitled to receive from AUTHORITY vacation pay, sick leave, retirement benefits, Social Security, workers' compensation, disability benefits, unemployment benefits or any other employee benefit of any kind. CONTRACTOR shall be solely responsible for paying all federal and state employment and income taxes, for carrying workers' compensation insurance and for otherwise complying with all other employment law requirements with respect to CONTRACTOR or its employee(s). To the maximum extent allowable by law, CONTRACTOR agrees to indemnify, defend and hold AUTHORITY harmless from any and all liability, damages or losses (including attorney's fees, costs, penalties and fines) AUTHORITY suffers as a result of (a) CONTRACTOR'S failure to meet its employer obligations, or (b) a third party's designation of CONTRACTOR or its employee as an employee of AUTHORITY, regardless of any actual or alleged negligence by AUTHORITY.

10. ASSIGNMENT. Neither this Agreement nor any duties or obligations under this Agreement may be assigned or subcontracted by CONTRACTOR without the prior written consent of AUTHORITY. AUTHORITY has entered into this Agreement in order to receive the professional services of CONTRACTOR. The provisions of this Agreement shall apply to any subcontractor of CONTRACTOR. AUTHORITY shall have the right to approve any subcontractor agreements, in addition to the written consent required by this section.
11. PROPRIETARY RIGHTS. Any written, printed, graphic, or electronically or magnetically recorded information furnished by AUTHORITY for CONTRACTOR'S use are the sole property of AUTHORITY. CONTRACTOR and its employee(s) will keep any information identified by AUTHORITY as confidential in the strictest confidence, and will not disclose it by any means to any person except with AUTHORITY approval, and only the extent necessary to perform the services under this Agreement. This prohibition also applies to CONTRACTOR'S employees, agents, and subcontractors. On termination of this Agreement, CONTRACTOR will promptly return any confidential information in its possession to AUTHORITY.
12. PARTIAL INVALIDITY. If any non-material provision of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining provisions will continue in full force and effect without being impaired or invalidated in any way.
13. COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall constitute an original, but all of which together shall constitute one and the same agreement, and the signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.
14. PROVISIONS REQUIRED BY LAW. Each and every provision of law and clause required by law to be inserted in this Agreement shall be deemed to be inserted herein, and the Agreement shall be read and enforced as though they were included herein. If through mistake or otherwise any such provision is not inserted, or is not correctly inserted, then upon the request of either party, the Agreement shall forthwith be physically amended to make such insertion.
15. GOVERNING LAW. This Agreement and all questions relating to its validity, interpretation, performance, and enforcement (including, without limitation, provisions

concerning limitations of actions), shall be governed by and construed in accordance with the laws of the State of California, notwithstanding any conflict-of-laws doctrines of such state or other jurisdiction to the contrary and without the aid of any canon, custom, or rule of law requiring construction against the draftsman.

16. JURISDICTION, FORUM AND VENUE. The proper jurisdiction, forum and venue for any claims, causes of action or other proceedings concerning this Agreement shall be in the state and federal courts located in the State of California, County of San Diego. AUTHORITY and CONTRACTOR agree not to bring any action or proceeding arising out of or relating to this Agreement in any other jurisdiction, forum or venue. AUTHORITY and CONTRACTOR hereby submit to personal jurisdiction in the State of California for the enforcement of this Agreement and hereby waive any and all personal rights under the law of any state to object to jurisdiction within the State of California for the purposes of any legal action or proceeding to enforce this Agreement, whether on grounds of inconvenient forum or otherwise.
17. COMPLETE AGREEMENT. This written Agreement, including all writings specifically incorporated herein by reference, shall constitute the complete agreement between the parties hereto. No oral agreement, understanding, or representation not reduced to writing and specifically incorporated herein shall be of any force or effect, nor shall any such oral agreement, understanding, or representation be binding upon the parties hereto.
18. AUDIT. AUTHORITY shall have the option of inspecting and/or auditing all records and other written materials used by CONTRACTOR in preparing its statements to AUTHORITY as a condition precedent to any payment to CONTRACTOR. This agreement is subject to examination and audit of the State Auditor, at the request of AUTHORITY or as part of any audit of AUTHORITY, for a period of three (3) years after final payment under the agreement. CONTRACTOR shall cooperate with AUTHORITY, including any authorized representatives of AUTHORITY, regarding any such audit at no charge to AUTHORITY.
19. NOTICE. All written notices to the parties hereto shall be sent by United States mail, postage prepaid by registered or certified mail addressed as follows:

AUTHORITY

General Manager  
San Elijo Joint Powers Authority  
2695 Manchester Avenue  
Cardiff, CA 92007

CONTRACTOR

Olin Corporation, dba Olin  
Chlor Alkali Products  
26700 South Banta Road  
Tracy, CA 95304

Notices shall be deemed communicated as of the day of receipt or the fifth day after mailing, whichever occurs first.

20. PROTECTION OF EXISTING FACILITIES AND NON-INTERFERENCE WITH PLANT OPERATIONS. CONTRACTOR shall perform his duties in such a way that there will be no damage done to existing facilities and all facilities shall be left in the condition they were in prior to the beginning of the contract. CONTRACTOR will also perform all work in such a way that there is no interference with plant operations.

21. AUTHORITY TO EXECUTE AGREEMENT. AUTHORITY and CONTRACTOR do covenant that the individual executing this agreement on their behalf is a person duly authorized and empowered to execute this Agreement for such party.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed the day and year first above written.

ATTEST:

SAN ELIJO JOINT POWERS AUTHORITY

By: \_\_\_\_\_  
Michael T. Thornton, P.E., General Manager

SAN ELIJO JOINT POWERS AUTHORITY

By: \_\_\_\_\_  
Thomas Campbell, Chair of the Board

CONTRACTOR

By: \_\_\_\_\_  
(Signature)

Name: \_\_\_\_\_  
(Print)

Title: \_\_\_\_\_

SAN ELIJO JOINT POWERS AUTHORITY  
MEMORANDUM

June 10, 2013

TO: Board of Directors  
San Elijo Joint Powers Authority

FROM: Director of Finance/Administration

SUBJECT: ADOPTION OF THE SAN ELIJO JOINT POWERS AUTHORITY FISCAL YEAR  
2013-14 BUDGET, INVESTMENT POLICY, AND APPOINTMENT OF SEJPA  
TREASURER

RECOMMENDATION

It is recommended that the Board of Directors:

1. Adopt Resolution No. 2013-02, Resolution Approving the San Elijo Joint Powers Authority Operating and Capital Improvement Budgets for Fiscal Year 2013-14;
2. Adopt Resolution No. 2013-03, Resolution Approving the San Elijo Joint Powers Authority Investment Policy and Guidelines and Appointment of SEJPA Treasurer; and
3. Discuss and take action as appropriate.

DISCUSSION

The Fiscal Year (FY) 2013-14 Recommended Budget was presented publicly to the Board of Directors at the April and May 2013 Board meetings for discussion, comments, and direction. SEJPA staff also conducted meetings with staff from both Member Agencies to review the recommended budget. From the conclusion of these meetings, the recommended Fiscal Year 2013-14 Budget is being presented to the Board of Directors for adoption under Resolution No. 2013-02.

The total recommended FY 2013-14 operating budget for the Wastewater Treatment Fund is \$5,629,967, which is a 4.7 percent increase from a year ago. The majority of this increase is due to the intensive water quality monitoring required by the ocean discharge permit. Revenues to support the Wastewater Treatment Fund come from the users of the provided services. The total recommended FY 2013-14 operating budget for the Water Reclamation Fund is \$2,036,111, which is a 6.4 percent increase from a year ago. The addition of the AWT project attributed to a portion of this increase, but aided the program in providing water that meets permit requirements. Water Reclamation Fund revenues come from the sale of recycled water. The FY 2013-14 appropriation for the Capital Project Fund is \$1,098,000, which will fund repair and replacement activities associated with the wastewater treatment, pump stations, water reclamation, and ocean outfall system.



SEJPA management has reviewed in detail all aspects of operations to control costs without impacting the agency's ability to perform its vital functions. The proposed budget for all operating programs will increase by approximately \$320,620. The Ocean Outfall Program had the largest single impact to this increase (\$180,000) due to the intensive water quality monitoring, which is required to be performed once every five years by the SEJPA's ocean discharge permit. The Recycled Water Program had the second largest impact (\$70,000), which will be offset by the addition of new water sales to the Olivenhain Municipal Water District. All other programs averaged an increase of 1.7 percent.

The recommended FY 2013-14 Budget is now ready for consideration for adoption as presented in the attached Resolution No. 2013-02.

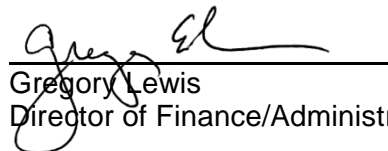
### INVESTMENT POLICY

State law requires that the Investment Policy be reviewed and adopted annually. The SEJPA investment policy allows for investment in the State Local Agency Investment Fund (LAIF) and in the San Diego County Investment Pool. These two tools have been the basis of all investment activity since the SEJPA became independent from the County of San Diego. In addition, State law requires that a SEJPA Treasurer be appointed annually. The current SEJPA Treasurer is the Director of Finance/Administration, Gregory Lewis. As Mr. Lewis is retiring this month, it is proposed that Christopher Trees, Director of Operations, be appointed as the SEJPA Treasurer for FY 2013-14.

It is therefore recommended that the Board of Directors:

1. Adopt Resolution No. 2013-02, Resolution Approving the San Elijo Joint Powers Authority Operating and Capital Improvement Budgets for Fiscal Year 2013-14;
2. Adopt Resolution No. 2013-03, Resolution Approving the San Elijo Joint Powers Authority Investment Policy and Guidelines and Appointment of SEJPA Treasurer; and
3. Discuss and take action as appropriate.

Respectfully submitted,

  
\_\_\_\_\_  
Gregory Lewis  
Director of Finance/Administration

Attachment 1: Resolution No. 2013-02, "Resolution Approving the San Elijo Joint Powers Authority Operating and Capital Improvement Budgets for Fiscal Year 2013-14"

Attachment 2: Resolution No. 2013-03, "Resolution Approving the San Elijo Joint Powers Authority Investment Policy and Guidelines and Appointment of SEJPA Treasurer"

Attachment 1 to Agenda Item No. 13

**RESOLUTION NO. 2013-02**

**RESOLUTION APPROVING THE SAN ELIJO JOINT POWERS AUTHORITY  
OPERATING AND CAPITAL IMPROVEMENT BUDGETS  
FOR FISCAL YEAR 2013-14**

WHEREAS, the San Elijo Joint Powers Authority (SEJPA) General Manager has submitted for the consideration of the SEJPA Board of Directors proposed SEJPA Operating and Capital Projects Budgets for Fiscal Year 2013-14;

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE SAN ELIJO JOINT POWERS AUTHORITY HEREBY RESOLVES AS FOLLOWS:

1. The Board of Directors has reviewed the proposed Operating Budgets and Capital Projects Budget and the funds included herein for the period of July 1, 2013 through June 30, 2014 and hereby finds that such budgets, as reviewed, are sound plans for the financing of required SEJPA operations and capital improvements during Fiscal Year 2013-14. Such budgets are hereby adopted.

San Elijo Operations and Maintenance Fund	\$ 5,629,967
San Elijo Water Reclamation Operating Fund	2,036,111
San Elijo Capital Projects Fund	<u>1,098,000</u>
Total	\$8,764,078

2. The Board of Directors authorizes carrying forward unexpended capital project appropriations and encumbered operating funds for the Fiscal Year 2013-14.

PASSED AND ADOPTED this 10th day of June, 2013, by the following vote:

AYES: Boardmembers:

NOES: Boardmembers:

ABSENT: Boardmembers:

ABSTAIN: Boardmembers:

---

Thomas M. Campbell, Chairperson  
SEJPA Board of Directors

ATTEST:

---

Michael T. Thornton, P.E.  
Secretary of the Board

Attachment 2 to Agenda Item No. 13

**RESOLUTION NO. 2013-03**

**RESOLUTION APPROVING THE SAN ELIJO JOINT POWERS AUTHORITY  
INVESTMENT POLICY AND GUIDELINES AND  
APPOINTMENT OF SEJPA TREASURER**

WHEREAS, the San Elijo Joint Powers Authority (SEJPA) General Manager has submitted for the consideration of the SEJPA Board of Directors, the proposed SEJPA Investment Policy and Guidelines;

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE SAN ELIJO JOINT POWERS AUTHORITY HEREBY RESOLVES AS FOLLOWS:

1. The SEJPA Treasurer prepared an Investment Policy and Guidelines in 1996, attached hereto as Exhibit A, and incorporated herein by reference as if set forth in full. In order to comply with prudent financial management practices, these guidelines are reviewed and approved on an annual basis in conjunction with the annual budget adoption.
2. The policy is intended to provide guidelines for the prudent investment of the SEJPA's temporary idle cash and outline the policies for maximizing the efficiency of the SEJPA's cash management system.
3. The investment goal is to enhance the economic condition of the SEJPA while insuring the safety of funds invested.
4. The assignment of Christopher Trees as SEJPA Treasurer for the 2013-14 fiscal year.
5. The Board of Directors of the San Elijo Joint Powers Authority does hereby approve the Investment Policy and Guidelines attached hereto as Exhibit A.

PASSED AND ADOPTED at a regular meeting of the Board of Directors of the San Elijo Joint Powers Authority, California, held on this 10th day of June, 2013 by the following vote:

AYES: Boardmembers:

NOES: Boardmembers:

ABSENT: Boardmembers:

ABSTAIN: Boardmembers:

---

Thomas M. Campbell, Chairperson  
SEJPA Board of Directors

ATTEST:

---

Michael T. Thornton, P.E.  
Secretary of the Board

**EXHIBIT A  
TO  
RESOLUTION NO. 2013-03**

**SAN ELIJO JOINT POWERS AUTHORITY  
INVESTMENT POLICY AND GUIDELINES AND  
APPOINTMENT OF SEJPA TREASURER**

1. PURPOSE

This Statement is intended to provide guidelines for the prudent investment of the San Elijo Joint Powers Authority's (SEJPA) temporary idle cash, and outline the policies for maximizing the efficiency of the SEJPA's cash management system. The investment goal is to enhance the economic condition of the SEJPA while insuring the safety of funds invested.

2. OBJECTIVE

The SEJPA's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the SEJPA to invest funds to the fullest extent possible. The SEJPA attempts to obtain the highest yield on its investments consistent with the criteria established for safety and liquidity.

3. POLICY

The SEJPA Treasurer is responsible for investing the surplus funds in the SEJPA Treasury in accordance with the California Government Code, Sections 53600 et seq. and 53635 et seq. The SEJPA makes investments in accordance with California Government Code 53600.3, which states "all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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 as authorized by law."

The three principal factors of safety, liquidity and yield are to be taken into consideration when making investment decisions.

- A) Safety. Safety and the minimizing of risk associated with investing refer to attempts to reduce the potential for loss of principal, interest or a combination of the two. The SEJPA invests only in those instruments that are considered very safe.
  
- B) Liquidity. Liquidity refers to the ability to convert an investment to cash promptly with a minimum risk of losing some portion of principal or interest. A portion of the portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements.

- C) Yield. Yield is the average annual return on an investment based on the interest rate, price, and length of time to maturity. The SEJPA attempts to obtain the highest yield possible, provided that the basic criteria of safety and liquidity have been met.

#### 4. INVESTMENT INSTRUMENTS

The SEJPA may invest in the following instruments under the guidelines as provided herein:

- A) Local Agency Investment Fund (LAIF). Investment of funds in the California LAIF which allows the State Treasurer to invest through the Pooled Money Investment Account. Maximum investment is subject to state regulation.
- B) County of San Diego County Treasury. Investment of funds in the Treasury of the County of San Diego that allows the County Treasurer to invest through the Pooled Money Investment Account.

#### 5. SAFEKEEPING

All investments of the SEJPA shall have the San Elijo Joint Powers Authority as registered owner or shall be kept in the custody of the SEJPA or by a qualified safekeeping institution.

#### 6. INVESTMENT REPORTS

- A) The SEJPA Treasurer shall submit a monthly investment report to the SEJPA General Manager and SEJPA Board of Directors containing the following information:
- Financial institution
  - Type of investment
  - Amount of deposit
  - Rate of interest
- B) The SEJPA Treasurer shall annually render a Statement of Investment Policy to the SEJPA Board of Directors.

#### 7. INVESTMENT OF BOND FUNDS

In accordance with Government Code Section 53601, moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds . . . may be invested in accordance with the statutory provisions governing the issuance of those bonds, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance as identified in an "Indenture of Trust".

\* \* \* End of Policy \* \* \*

SAN ELIJO JOINT POWERS AUTHORITY  
MEMORANDUM

June 10, 2013

TO: Board of Directors  
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: ACCEPT AND FILE 2013 RECYCLED WATER COST OF SERVICE STUDY

RECOMMENDATION

It is recommended that the Board of Directors:

1. Accept and file the 2013 Recycled Water Cost of Service Study; and
2. Discuss and take action as appropriate.

BACKGROUND

The San Elijo Joint Powers Authority (SEJPA) owns and operates a municipal recycled water utility that is located in the cities of Encinitas, Solana Beach, and Del Mar. SEJPA's recycled water is a locally produced, drought resistant water supply, with a carbon footprint less than imported water from northern California. It is used to offset potable water demands, which improves the overall reliability of the local potable water systems. Both San Diego County Water Authority (County Water Authority) and the Metropolitan Water District of Southern California (Metropolitan) provide financial incentives to SEJPA for producing recycled water, because recycled water provides supply reliability in their service area.

The SEJPA utility sells recycled water to four water purveyors; Santa Fe Irrigation District (SFID), San Dieguito Water District (SDWD), the City of Del Mar; and Olivenhain Municipal Water District (OMWD), and also has an interruptible service agreement directly with the Encinitas Ranch Golf Authority. The purveyors then sell the recycled water to end customers. Except for the OMWD agreement, the SEJPA owns the entire recycled water infrastructure system including treatment, storage and distribution facilities, and pipelines. In general, the water districts only own the recycled water meter that measures the customer's usage.

The SEJPA has individual wholesale water agreements with each water purveyor that includes pricing structure, water quality, and minimum purchase volume. These types of agreements are commonly known as "take or pay" agreements. Most of these agreements were created in the mid-1990's and use an "index pricing method" to establish the price of recycled water. The agreements indexed the recycled water at 85% of the potable water rate. Therefore, if the price of potable water is \$4.00 per unit, then the corresponding price of recycled water would be \$3.40 per unit. This pricing structure methodology is common in southern California and is endorsed by the San Diego County Water Authority.



Since the execution of the original wholesale agreements, more than 13 years ago, both the pricing structures of the purveyors and the consumption habits of the end users have changed. Some of the purveyors have not consistently reached their minimum purchase volumes as established by the agreements, which has caused these purveyors to “purchase” recycled water that they had no demand for. Other purveyors have experienced dramatic potable water price increases, which by “indexing” has caused recycled water rates to spike as well. Such dramatic price increases appears to correlate with reduced use of recycled water by the end customers. In interviewing some of the large customers, they have indicated that price of water has resulted in them consciously reducing use. This might be appropriate if the recycled water utility was at full capacity and conservation was needed, but that is not the current case for the recycled water utility. In actuality, the recycled water utility has stranded capacity that if fully utilized, would result in the stabilization of future water rates. To address these market changes, the SEJPA Board of Directors authorized the commencement of a cost of service study to achieve the following goals:

- provide decision makers with information on the cost of providing recycled water service relative to revenues generated from the program
- provide decision makers with information regarding the estimated future financial condition of the program under a range of planning scenarios
- analyze the financial impacts of changing the pricing structure from an “indexed model” to a singular wholesale rate for each level of service provided by the SEJPA
- describe the policy decisions that are necessary to implement reserve funds and a cost-of-service revenue model.

In 2012, the SEJPA retained the professional services of GHD to prepare the recycled water cost of service study. This staff report includes the completed cost of service study and public comments received during the 30-day public comment period for consideration by the SEJPA Board of Directors.

## DISCUSSION

The SEJPA has commenced a recycled water cost of service study that could serve as the basis for modifying or extending the existing wholesale agreements. The water purveyors have indicated that they are interested in continuing to purchase recycled water from the SEJPA and also agree that the pricing structure should be reviewed. The general consensus among the agencies is for the use of “cost of service” principles for determining future recycled water pricing as long as it produces pricing less than 85% of the applicable potable water price. Furthermore, the water purveyors are supportive of creating pricing that is consistent between the districts for similar levels of service.

### *Analysis*

On February 11, 2013, the Board heard an initial briefing on recycled water reserves and the cost of service study. This briefing highlighted several facts about SEJPA’s recycled water utility:

1. The utility has a relatively high percentage of fixed costs (approximately 85%), which include debt service and which do not vary with recycled water sales
2. The utility has a variable revenue structure, dependent on the volume of water sold
3. The utility does not control the price per unit of water sold and so it cannot increase the price to make up for lost water sales
4. With the exception of a \$630,000 repair and replacement reserve, the utility has not budgeted for capital replacement of the system

5. The utility has an “unrestricted reserve” or fund balance that has helped manage capital needs and system repairs to date

At that briefing, the Board gave direction to staff and the consultants to complete the ongoing cost of service study based on the following assumptions:

1. Establishing an operational reserve equal to one year of expenses, including debt service
2. Establishing a capital reserve with future “goals” for the balance in that reserve
3. Maintaining a competitive price for recycled water
4. Moving away from the “indexed” rate model to a cost of service model, where possible

### Recommended Reserve Targets

**Operational Reserve:** For future planning, the study assumes that SEJPA will maintain one year of operational costs, including debt service costs, in an operational reserve. Based on the current balance in the Recycled Water Program Fund, estimated at \$2.2 million, there is adequate funding here to create the proposed operational reserve.

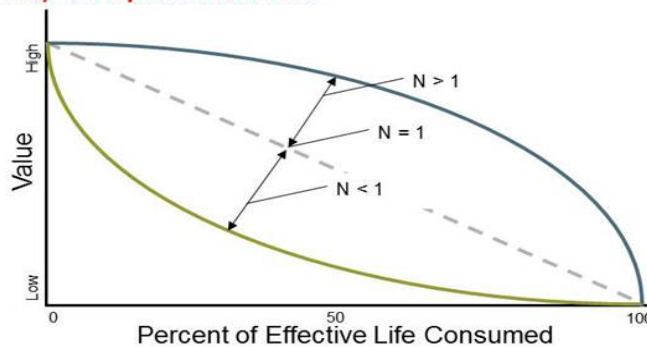
**Capital Reserve:** One strategy for managing repair and replacement of the recycled water system is to fully fund depreciation of the system. If SEJPA had been fully funding depreciation, the repair and replacement reserve would currently be approximately \$3.7 million. This exceeds the current value of \$630,000 in the fund balance.

The cost of service study utilized a fiscal model to help determine “milestone” capital reserve goals that would allow accrual of a capital reserve with a value close to the depreciated value of the assets in Fiscal Year 2030-31, when the debt is retired. This initial analysis suggests that SEJPA should target for a capital reserve of approximately \$3.0 million in Fiscal Year 2020-21, a key program milestone after which the SRF loan is paid off. This funding level equates to approximately 38% of the straight-line depreciation value, but is likely acceptable as high valued assets typically experience a non-linear replacement schedule with more cost being incurred later in the asset life. Condition-based depreciation reflects this asset replacement curve when  $N > 1$ , as shown below.

## Condition-based depreciation

Calculate condition-based (CB) *depreciation* cost

- Cumulative CB *depreciated* historical cost = (Life to date/Estimated useful life)<sup>N</sup> x Original cost
- **Cumulative CB depreciated replacement cost = (Life to date/Estimated useful life)<sup>N</sup> x Replacement cost**



Infrastructure passive assets,  $N = 4$ ; architectural passive assets,  $N = 3$ ; mechanical, electrical, and other dynamic assets,  $N = 2$

The study also suggests that SEJPA should target for a capital reserve of approximately \$4.8 million in Fiscal Year 2025-26, another key program milestone after which the last of the incentive funding expires. This funding level equates to approximately 47% of the straight-line depreciation value. These repair and replacement goals reflect a practical strategy for managing replacement of assets, given the current fiscal status of the system and the likely long life cycle and decay curve of the assets.

### *Scenarios Modeled*

With reserve goals and historic financial performance established, the cost of service study reviewed three future water delivery scenarios to help “bookend” the potential impacts on rates.

*Status Quo:* Under this scenario, recycled water sales remain flat, except within the OMWD service area, where they grow from 35 acre feet to 80 acre feet annually.

In order for SEJPA to meet the reserve goals, the model projects future recycled water rate increases at 5 percent or more annually. Water purveyors that are meeting or exceeding their minimum purchase volumes typically experienced lower rate increases than those that did not.

*Ten Percent Sales Increase Scenario (1,335 AFY by FY 2018-19):* Under this scenario, recycled water deliveries grow at a rate of approximately 2% per year.

In order for SEJPA to meet its reserve goals, the model projects future recycled water rate increases are predominately between 3 to 5 percent annually. Water purveyors that are meeting or exceeding their minimum purchase volumes typically experienced lower rate increases than those that did not.

*Twenty Percent Sales Increase Scenario (1,437 AFY by FY 2018-19):* Under this scenario, recycled water deliveries grow at a rate of approximately 4% per year.

In order for SEJPA to meet its reserve goals, recycled water rate increases for the participating agencies are predominately between 2 to 4 percent annually. As with the previous scenarios, water purveyors that are meeting or exceeding their minimum purchase volumes typically experienced lower rate increases than those that did not.

All of these scenarios allow the SEJPA to meet or exceed the recommended \$4.8 million Repair and Replacement Reserve balance in FY 2025-26.

### *Conclusions*

Each of the scenarios considered allows SEJPA to cover costs, meet capital reserve goals, and repay the Member Agencies. However, the model clearly shows the beneficial impact of increasing water sales as a means to manage future water rate increases. Rapid increase in water sales in near term years produces noticeable gains in both reserve balance and in lower required rate increases. Growing the recycled water utility from FY 2011-12 deliveries of approximately 1,157 acre feet per year to future deliveries of 1,437 acre feet per year or more will result in the lowest future recycled water costs and the best opportunities to manage future water rate increases.

The Study recommends that SEJPA:

1. Formalize the recommended Operational and Capital Reserve Policies and goals in order to provide transparency and fiscal targets to guide water sales contract negotiations

2. Develop an updated market assessment, with its partner agencies, in order to identify the best strategies for increasing recycled water sales
3. Moving forward, refine the fiscal model as necessary in order to transition rates toward a cost-of-service model based on actual performance of the recycled water utility

The 2013 Recycled Water Cost of Service Study was presented to the public and SEJPA Board of Directors on April 8, 2013. The public provided comments to the study at this meeting, which commenced a 30-day public comment period. Comments received as of June 4, 2013 are included as attachments to this staff report.

### RECOMMENDATION

It is recommended that the Board of Directors:

1. Accept and file the 2013 Recycled Water Cost of Service Study; and
2. Discuss and take action as appropriate.

Respectfully submitted,



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Michael T. Thornton, P.E.  
General Manager

ATTACHMENT A: Recycled Water Cost of Service Study, April 2013

ATTACHMENT B: Public Comments

**Attachment A**  
**Agenda Item No. 14**

Recycled Water Cost of Service Study  
San Elijo Joint Powers Authority

Public Review Draft  
April 2013

*This Recycled Water Cost of Service Study ("Report"):*

- 1. has been prepared by GHD Inc. ("GHD") for the San Elijo Joint Powers Authority (SEJPA);*
- 2. may only be used and relied on by SEJPA;*
- 3. must not be copied to, used by, or relied on by any person other than SEJPA without the prior written consent of GHD;*
- 4. may only be used for the purpose of evaluating potential recycled water growth and fund balance scenarios (and must not be used for any other purpose).*

*GHD and its employees and officers otherwise expressly disclaim responsibility to any person other than SEJPA arising from or in connection with this Report.*

*To the maximum extent permitted by law, all implied warranties and conditions in relation to the services provided by GHD and the Report are excluded unless they are expressly stated to apply in this Report.*

*The services undertaken by GHD in connection with preparing this Report were limited to those specifically detailed in this Report.*

*The opinions, conclusions and any recommendations in this Report are based on assumptions made by GHD when undertaking services and preparing the Report, including but not limited to, assumptions about inflation rates and assumptions about potable water cost escalation.*

*GHD expressly disclaims responsibility for any error in, or omission from, this Report arising from or in connection with any of the assumptions being incorrect.*

*Subject to the paragraphs in this section of the Report, the opinions, conclusions, and any recommendations in this Report are based on conditions encountered and information reviewed at the time of preparation.*

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# 1. Background and Purpose

The San Elijo Joint Powers Authority (SEJPA) owns and operates a recycled water utility which has provided service to customers within the Santa Fe Irrigation District (SFID), the San Dieguito Water District (SDWD), and the City of Del Mar (together the “participating water agencies”) since September 2000. In 2011, SEJPA began providing interruptible service to the Encinitas Ranch Golf Course (Golf Course), as part of a three way agreement between SEPJA, SDWD, and the Golf Course. In October 2012, SEJPA began providing recycled water service, on an interruptible wholesale basis, to Olivenhain Municipal Water District (OMWD).

The recycled water system currently includes tertiary treatment, transmission, storage, and distribution facilities. SEJPA has just completed construction of an advanced water treatment (AWT) facility which will reduce the Total Dissolved Solids (TDS) in its recycled water, which both enhances permit compliance and makes its product easier to use for a wide range of irrigation and other nonpotable purposes. As of April 2013, the AWT facility is operational and the contractor has commenced the 30-day system startup.

SEJPA’s recycled water is used to offset potable water demands, which improves the reliability of the local potable water systems. Both San Diego County Water Authority (County Water Authority) and the Metropolitan Water District of Southern California (Metropolitan) provide financial incentives to SEJPA for producing recycled water, because recycled water provides supply reliability in their service area. SEJPA’s recycled water system has the capacity to deliver 3 million gallons per day (mgd) or approximately 1,800 to 2,000 acre-feet (AF) per year. Recycled water sales have been as high as 1,300 acre feet per year, however in the past two fiscal years sales have declined to approximately 1,100 acre feet per year. SEJPA attributes this reduction to the retail price of the recycled water and a strong emphasis on water conservation in its service area, which has caused users of both potable and recycled water to become more efficient in their practices. While SEJPA supports water use efficiency, its recycled water system will be most cost-effective for all users when its average annual delivery rates are closer to the full design capacity of the system.

SEJPA’s agreements with SFID, SDWD, and the City of Del Mar were originally developed in the mid-1990s and were structured to assure that the system could be financed and operated. Each of these three participating water agencies agreed to a “minimum purchase volume” and a recycled water rate set at 85% of the potable water rate in their service area. This practice means that SEJPA’s rate revenue automatically increases when one or more of the participating water agencies raise potable water rates. This revenue recovery structure has provided sufficient revenue for SEJPA to finance and operate the system and has also provided a financial incentive to recycled water customers.

However, with recycled water use well below system capacity and changes to participating water agency rate structures, SEJPA has modified its agreements with SFID and SDWD to better encourage use. Specifically, because of large water rate increases in the SFID service

area, SEJPA has “decoupled” its recycled water rate from the potable water rate and has established a fixed rate with an escalator that is reviewed on a roughly annual basis. Within the SDWD service area, SEJPA, SDWD, and the Golf Course agreed that SEJPA would provide direct service to the Golf Course and that SDWD’s minimum purchase volume would be reduced by 275 acre feet per year to compensate for the loss of this customer. Providing direct interruptible service to the Golf Course’s storage ponds has resulted in operational efficiencies and some increase in financial program incentives to the SEJPA. Also, the interruptible service coupled with the large water storage ponds at the Golf Course has allowed the SEJPA to serve more customers on that distribution system. In its supply agreement with OMWD, SEJPA has provided for an “infrastructure credit” or “rent back”, because OMWD has constructed the recycled water distribution infrastructure within its service area. Without this infrastructure (valued at approximately \$3 million), the SEJPA could not provide water service to the end customers.

## **1.1 Goals for the Cost of Service Study**

The primarily goals of this cost of service study are to:

- provide decision makers with information on the cost of providing recycled water service relative to revenues generated from the program
- provide decision makers with information regarding the estimated future financial condition of the program under a range of planning scenarios
- analyze the financial impacts of decoupling all wholesale agreements from the potable water rate structure
- describe the policy decisions that are necessary to implement reserve funds and a cost-of-service revenue model.

## 2. Current Fiscal Model

SEJPA is in the twelfth year of operating its recycled water system and has developed a fiscal model that allows it to both track the past performance of the utility and forecast its future performance. The fiscal model accounts for both expenditures and revenues and allows SEJPA to track its fund balance and available reserves. The model indicates that the system currently has an unrestricted fund balance of approximately \$2.2 million, and an additional \$630,000 in a dedicated repair and replacement reserve required by the State Revolving Fund (SRF) program, based on Fiscal Year 2012-13 budget projections for revenue and expenditures.

This section describes the current program expenditures and revenues and describes the trends in the recycled water fund balance.

### 2.1 Expenditure Pattern

Historically, SEJPA has managed two major categories of expenditure: debt service and operational costs.

Debt service includes its SRF loan, a recent loan secured for its AWT project, and a purchase agreement with SFID for a recycled water pipeline. The rates and terms of each loan are described below.

*State Revolving Fund Loan:* SEJPA's SRF loan is for an original loan amount of \$12,633,522 with a 2.5% interest rate and a 20 year term. The annual payment on the SRF loan is \$834,675. The loan was secured in 2000, it has a current outstanding balance of approximately \$6.65 million and the final payment is due on August 17, 2020.

*AWT Loan:* SEJPA's AWT loan is for an original loan amount of \$2,000,000 with 4.15% interest rate and a 20 year term. The annual payment on the AWT loan is \$148,153. The loan was secured in 2012, it has a current outstanding balance of approximately \$1.90 million and the final payment is due on December 2, 2031.

*SFID Pipeline Purchase Agreement:* the pipeline purchase agreement between SEJPA and SFID is for an original principal amount of \$526,149 with a minimum interest rate of 1% and a maximum interest rate of 2.5% annually. The actual interest rate paid in any one year is set by the prior four quarters average rate of return paid by the state's Local Agency Investment Fund (LAIF). SEJPA makes monthly payments to SFID to retire the debt, based on the amount of recycled water delivered through the pipeline. If the average volume delivered through the pipeline exceeds 50 AF annually from year 13 through 15, the SEJPA will pay the loan in full at the completion of the 20<sup>th</sup> year, otherwise payments will continue based on usage through the pipeline. As this is a new loan, the SEJPA plans to makes its first payment along with a down payment of \$50,000 by July 2013.

Operational costs include personnel costs for staff that work on the recycled water program and services and supplies for treatment beyond the secondary level as well as distribution of the recycled water.

This cost of service study categorizes operational as fixed and variable. Debt service and fixed operational costs are required program expenditures, regardless of the volume of recycled water sold. Variable operational costs include chemicals, utilities, and other supplies and services that increase and decrease with the volume of recycled water delivered. Within its annual budgets, SEJPA has, from time to time, budgeted for contingencies and capital expenditures from its Fund Balance which functions as an “unrestricted” reserve. For example, approximately half of the capital costs of the AWT Project have been advanced from unrestricted reserves. These types of expenditures, although capital in nature, are also considered variable costs because these types of costs can be modified from year to year.

Table 1 presents the past expenditure pattern for Fiscal Years 2008-09 through 2011-12 and the estimated pattern for Fiscal Year 2012-13. The table illustrates that approximately one half of the recycled water program’s costs are associated with debt service and approximately 85% of the program costs are fixed.

**Table 1 – Operational Program Expenditure Pattern**

Budget Item	FY 2008-09		FY 2009-10		FY 2010-11		FY 2011-12		FY 2012-13	
	Budget	% of Total	Budget	% of Total	Budget	% of Total	Budget	% of Total	Budget	% of Total
<b>Debt Service</b>										
SRF Loan	\$ 834,675		\$ 834,675		\$ 834,675		\$ 834,675		\$ 834,675	
AWT Loan	\$ -		\$ -		\$ -		\$ 74,077		\$ 148,153	
Pipeline Purchase Agreement	\$ -		\$ -		\$ -		\$ -		\$ -	
<b>Subtotal Debt Service</b>	\$ 834,675	51%	\$ 834,675	49%	\$ 834,675	54%	\$ 908,752	55%	\$ 982,828	50%
<b>Fixed Operations</b>	\$ 549,028	34%	\$ 639,845	38%	\$ 539,028	35%	\$ 572,718	35%	\$ 710,400	36%
Chemicals	\$ 74,047	5%	\$ 66,428	4%	\$ 54,098	3%	\$ 31,942	2%	\$ 64,000	3%
Utilities	\$ 148,887	9%	\$ 144,162	8%	\$ 112,938	7%	\$ 127,846	8%	\$ 195,000	10%
Capital Outlay	\$ 26,214	2%	\$ 11,210	1%	\$ 14,917	1%	\$ 18,522	1%	\$ 4,800	0%
Capital Projects	\$ -	0%	\$ -	0%	\$ -	0%	\$ -	0%	\$ -	0%
<b>Total Expenditures</b>	\$ 1,632,851	100%	\$ 1,696,320	100%	\$ 1,555,656	100%	\$ 1,659,780	100%	\$ 1,957,028	100%

Sources:

SRF Loan: Exhibit F - SRF Loan Repayment Scheduled dated 11-July-03

AWT Loan: Exhibit A - Schedule of Loan Repayments, undated

Capital Projects: July 11-12 Financial Model -gl, Capital Projects

Demineralization Project: Fixed Operations Costs: July 11-12 Financial Model -gl, Demineralization Project

SEJPA's Fund Balance provides it with financial flexibility and stability. The current recycled water utility Fund Balance is sufficient to cover slightly more than one year of operating and debt service expenses. This is highly desirable because much of the utility's costs are fixed and there is a potential risk of variable future revenues. However, the utility only has \$630,000 in a dedicated repair and replacement fund, which represents roughly 20% funding of the recycled water utility's FY 2012-13 straight-line asset depreciation value. Developing a robust repair and replacement reserve is desirable for supporting necessary future capital expenditures as the system ages.

## **2.2 Revenue Recovery Pattern**

SEJPA's program has two major sources of revenue: incentive funding and recycled water sales. From time to time, SEJPA also receives grants and interest on its Fund Balance but these are not predictable sources of revenue. This section provides a detailed description of each source of revenue available to SEJPA.

### **2.2.1 Recycled Water Sales Agreements**

SEJPA has wholesale agreements with SFID, SDWD, the City of Del Mar, the Encinitas Ranch Golf Course, and OMWD. These agreements outline the business arrangement between the entities, including minimum purchase volumes, water quality requirements, the recycled water rate, and provisions for escalating the rate over time. These agreements are described in detail below.

At program inception, SFID, SDWD, and City of Del Mar agreed to purchase a minimum volume of water. Together the current minimum purchases total 1,250 acre feet or about 70% of the total system capacity. In the past several years, total recycled water deliveries have been less than the sum of the minimum purchase agreements. While SFID, SDWD, and the City of Del Mar each pay for their minimum purchase volume, which helps maintain SEJPA's revenue, the reduced sales have impacted SEJPA's ability to access the incentive funding (discussed below), which is tied to actual recycled water sales. The more recent interruptible supply agreements, negotiated with Encinitas Ranch Golf Course and OMWD, help increase the volume of actual recycled water deliveries, making better use of system capacity and allowing SEJPA to access additional incentive funding.

*The City of Del Mar:* The City of Del Mar (Del Mar) delivers recycled water to the 22<sup>nd</sup> Agricultural District Association. Del Mar's agreement with SEJPA, expires in 2020 and commits it to a minimum purchase volume of 150 acre feet per year but it typically uses 80 acre feet annually. The agreement sets the price of recycled water at 85% of the "domestic water rate per acre foot." The "domestic water rate per acre foot" is defined in the agreement as the lowest of the total domestic potable water rates for non-residential class charged per acre foot by the San Dieguito Water District, the Santa Fe Irrigation District, or the City of Del Mar. Table 2 compares these rates and illustrates that currently Del Mar's recycled water rate would be set at 85% of \$2.80 per hundred cubic feet (HCF), which is the agricultural water rate charged by SDWD. This rate is \$2.38 per HCF or approximately \$1,037 per acre foot for the minimum purchase volume of 150 acre feet. SEJPA anticipates receiving \$155,550 in revenue from the Del Mar in FY 2012-13 (\$1,037 per acre foot x 150 acre feet). When this revenue is divided by Del Mar's

actual use of 80 acre feet, its effective recycled water rate is closer to \$1,950 per acre foot or \$4.48 per HCF.

**Table 2 – “Domestic Water Rate” Comparison for Calculating Del Mar Recycled Water Rate (all rates in HCF)**

Rate Class	Del Mar	SFID	SDWD
Non-residential	\$3.83	\$3.71	
Irrigation		\$4.04	
Agricultural			\$2.80
Temporary Construction		\$4.39	\$3.98
Fire Lines		\$4.39	
Commercial, Public and Government			\$3.16
Landscaping & Excess Use			\$3.98

*Santa Fe Irrigation District:* SFID’s agreement with SEJPA expires in 2016 and includes a minimum purchase volume of 450 acre feet per year, which SFID meets or exceeds. SFID has experienced rapid water rate increases and in 2011, SEJPA and SFID entered an agreement that decoupled the recycled water rate from the potable water rate and limited the increase in recycled water rates to 5% per year for 2 years. Recently, SEJPA’s Board of Directors approved a 0% rate increase for SFID for the calendar year 2013. The current recycled water rate is \$3.01 per HCF, which translates to a rate of approximately \$1,310 per acre foot or \$2.66 per HCF delivered. This is approximately 74.5% of the applicable potable water rate. SFID adds administration costs of approximately \$120,000 per year, which is added to the final cost to the customer. Of this cost, approximately \$40,000 (or \$0.18 per HCF) is added to the retail water rates and approximately \$80,000 is added through customer meter fees. The net result is that recycled water customers within SFID’s service area pay \$3.19 per HCF, or 79.5% of the applicable potable water rate, and about 50% of the potable water meter fee.

*San Dieguito Water District:* SDWD’s agreement with SEJPA expires in 2017 and originally included a minimum purchase volume of 700 acre feet per year. SDWD struggled to consistently meet the minimum purchase volume. As a result, when SEJPA entered into the interruptible supply agreement with the Encinitas Ranch Golf Course, described below, it also reduced SDWD’s minimum purchase volume to 425 acre feet. SDWD currently retails recycled water rate at 85% of its potable water rate, which varies from \$2.38 per HCF for agricultural use up to \$3.38 per HCF for landscaping use. Review of recent sales data indicates that most recycled water customers within the SDWD service area pay \$3.38 per HCF or 85% of the landscaping water rate of \$3.98 (see Table 2). However, during years when SDWD does not meet the minimum purchase volume, it pays for 425 acre feet at 85% of its middle potable water rate of \$3.16 per HCF. This means that SDWD pays SEJPA a rate of \$2.69 per HCF ( $0.85 \times \$3.16 = \$2.69$ ) for its minimum purchase volume of 425 acre feet, irrespective of the actual rate it collects from the customer. Typically, when SDWD recycled water sales do not meet the minimum purchase volume, SDWD operates the program at a slight loss.

*Encinitas Ranch Golf Course:* In 2011, SEJPA entered into a six year interruptible service agreement with the Golf Course, which is located in the SDWD service area. The agreement provides the SEJPA full access to the Golf Course storage ponds which allows the SEJPA to fill the ponds during low demand periods thus allowing the utility to serve more customers. The Golf Course is also responsible for pressurizing their irrigation system which is a cost savings to the SEJPA. For FY 2012-13, the agreement allows the Golf Course to purchase 200 acre feet of recycled water annually for a lump sum payment \$204,750, which escalates at 5% annually. This is roughly equivalent to a price of \$1,023 per acre foot or \$2.35 per HCF assuming a purchase of 200 acre feet. The agreement also allows the Golf Course to receive any recycled water beyond the 200 acre foot commitment that would otherwise be discharged to the ocean.

Because the Golf Course purchases recycled water that would otherwise not be used, this arrangement allows SEJPA to avoid some ocean discharge costs and to qualify for additional incentive funding from Metropolitan and the County Water Authority, which is worth up to \$450 per acre foot annually. However, the County Water Authority's incentive payments are calculated based on 85% of SDWD's equivalent potable water rate of \$3.98 per HCF, not the rate paid by the Golf Course. This means that in the future, the County Water Authority incentive payments will be calculated based on an "assumed" revenue profile for Encinitas Ranch Golf Course, which is somewhat higher than the actual revenues received by SEJPA.

*Olivenhain Municipal Water District:* In 2012, SEJPA entered into a 20 year interruptible service agreement with OMWD that allows OMWD to purchase recycled water at a rate of \$1,193 per acre foot, or \$2.74 per HCF, which is approximately 85% of OMWD's potable water price. Also, SEJPA provides OMWD with a \$450 per acre foot rental payment for infrastructure constructed by OMWD that allows SEJPA's recycled water to be delivered into OMWD's service area. The agreement provides for the base recycled water rate to increase between 2% and 5% per year. There is a 25 acre foot per year minimum purchase clause and OMWD anticipates using between 50 and 100 acre feet annually. Furthermore, it appears that recycled water sales to OMWD will qualify for incentive payments by Metropolitan and the Authority.

## **2.2.2 Incentive Funding**

Metropolitan and the County Water Authority each provide incentive payments to SEJPA. Both programs extend through Fiscal Year 2025-26, however, the County Water Authority's incentive program includes provisions for "early expiration," as described below and it is likely that SEJPA's incentives will expire before Fiscal Year 2025-26.

Incentives from both programs are paid based on the volume of water delivered, so in years where recycled water sales are low, SEJPA receives lower incentive payments. Over its twelve year history, SEJPA has received annual incentive payments varying from a low of approximately \$370,000 to a high of approximately \$678,000 (which included retroactive incentives from the County Water Authority). The variable incentive payments are a reflection of the variable recycled water deliveries made by the system. Both incentive programs are described in greater detail below.

*The Local Resources Program (Metropolitan):* Metropolitan's program provides incentives from \$0 to \$250 per acre foot. The incentive payment is calculated as the difference between a recycled water agency's annual cost per acre foot for producing recycled water, including capital, operations and maintenance and annualized replacement costs, and the cost of purchasing an equivalent acre foot of supply from Metropolitan. If this difference exceeds the maximum annual payment of \$250 per acre foot, the deferred cost may be carried over into the following year's calculation.

*The Local Water Supply Development Program (County Water Authority):* The County Water Authority's Local Water Supply Development Program provides additional incentives from \$0 to \$200 per acre foot delivered by SEJPA and takes into account the financial need of the program. Therefore, SEJPA only qualifies for incentives during the period when its recycled water program has operating or capital losses. Losses accrue cumulatively and can be carried forward from year to year as deferred credits. At the end of Fiscal Year 2011-12, SEJPA had approximately \$2.3 million in deferred County Water Authority credits, which can be applied to the program moving forward.

The County Water Authority's incentive payments are calculated as the difference between a recycled water agency's annual cost per acre foot (after the Metropolitan incentive is applied) and the larger of the agency's recycled water rate or 85% of the equivalent potable water rate. While the County Water Authority acknowledges that recycled water suppliers may elect to sell recycled water for less than 85% of the potable water rate, incentive payments will not cover this revenue gap. If the recycler chooses to sell the water at a lower cost, then the incentive analysis is based on a hypothetical revenue stream using 85% of the potable water rate. Examples of how this hypothetical calculation can impact each of SEJPA's contract customers are provided below.

- City of Del Mar: when examining the Del Mar agreement and revenues associated with it, the revenues currently generated exceed the 85% indexing requirement of the County Water Authority incentive agreement. As described above, because Del Mar does not meet its minimum purchase volume, its effective recycled water on the 80 acre feet used is over \$4.00 per HCF.
- SFID: SEJPA wholesales recycled water to SFID at \$3.01 per hundred cubic feet (HCF), which is 74.5%, SFID's potable water rate of \$4.04 per HCF. The County Water Authority incentive calculation assumes the water is sold at 85% of potable water cost, or \$3.43 per HCF. The difference between 74.5% (\$3.01/HCF) and 85% (\$3.43/HCF) is \$0.42 per HCF. Typically SFID purchases roughly 500 AF, or 217,800 HCF, per year. Assuming SFID purchases 500 AF in FY 2013-14, then the cash difference between wholesaling the recycled water at 74.5% and 85% is \$91,476 as calculated as  $[(\$3.43 - \$3.01) \text{ per HCF} \times 217,800 \text{ HCF} = \$91,476]$ . Therefore, in the County Water Authority calculations, SEJPA will be credited with more revenue than it will actually receive, because it elected to sell its recycled water at less than 85% of the potable water rate. This difference between assumed and actual revenue reduces the financial need and deferred credit balance of the program, as calculated by the County Water Authority, and may cause SEJPA's incentives to expire before 2025.



- SDWD and Encinitas Ranch Golf Course: when examining the scenario for the SDWD service area, which includes the Encinitas Ranch Golf Course, the calculation is more complex because the recycled water rates are indexed to multiple potable water rates and because of the minimum purchase volume requirement of the contract. For Fiscal Year 2013-14, SEJPA is forecasted to receive \$737,000 in revenue for the estimated delivery of 590 acre feet, or 257,004 HCF, of recycled water, including recycled water sold to the Golf Course. This equates to an average recycled water rate of \$1,249 per acre foot ( $\$737,000/590 \text{ acre feet} = \$1249/\text{acre foot}$ ), or \$2.86 per HCF. The applicable potable water rates are \$3.98 per HCF for landscaping and \$3.16 for Commercial/Government. Approximately 300 acre feet are sold as landscaping and 290 as Commercial/Government. This equates to a melded rate of \$3.58 per HCF and 85% of this melded potable water rate is \$3.04 per HCF. The cash difference between wholesaling the recycled water at \$2.86 per HCF and the melded potable water rate \$3.04 per HCF is \$0.18 per HCF. Assuming the purchase of 590 AF, the cash difference is \$46,261 ( $257,004 \text{ HCF} \times \$0.18/\text{HCF} = \$46,261$ ). Again, in the County Water Authority calculations, SEJPA will be credited with more revenue than it will actually receive, because it elected to sell its recycled water at less than 85% of the potable water rate. This difference between assumed and actual revenue reduces the financial need and deferred credit balance of the program, as calculated by the County Water Authority, and may cause SEJPA's incentives to expire before 2025.
- OMWD: in the recently executed OMWD interruptible wholesale agreement, the recycled water wholesale rate for Fiscal Year 2013-14 will be \$1,253 per acre foot or \$2.88 per HCF (this is the initial rate of \$1,193 per acre foot escalated at 5% as stipulated in the wholesale agreement). The OMWD potable water rate is \$3.60 per HCF. Therefore, SEJPA wholesales recycled water to OMWD at approximately 80% of OMWD's potable water rate. As OMWD is budgeted to purchase 50 AF (or 21,780 HCF) in Fiscal Year 2013-14, the cash difference between wholesaling the recycled water at 80% and 85% is as calculated as  $[(\$3.06 - \$2.88) \text{ per HCF} \times 21,780 \text{ HCF} = \$3,920]$ . The net impact to the County Water Authority incentive calculation is minimal.

Because of the differences in the Metropolitan and County Water Authority programs, it is possible for an agency to receive payments from Metropolitan's program but to not qualify for the County Water Authority's program.

### 2.2.3 Summary of Program Revenue

Table 3 summarizes the SEJPA's estimated program revenue for Fiscal Year 2012-13. The table highlights that recycled water rates are somewhat variable among the customers, reflecting the fact that the County Water Authority's incentive program encourages indexing to 85% of the potable water rate. The table also illustrates that the program is not operating at full capacity. Because the program expenses are largely fixed and because the incentive payments are indexed to actual deliveries, expanding system deliveries could help reduce the revenue requirements for any particular customer or participating water agency.

**Table 3 – Estimated Fiscal Year 2012-13 Program Revenue**

	<b>Recycled Water Wholesale Rate</b>	<b>Minimum Purchase Volume (AF)</b>	<b>Estimated Actual Purchases (AF)</b>	<b>Estimated Total Revenue</b>
City of Del Mar	\$1,037/AF	150	80	\$155,509
Santa Fe Irrigation District	\$1,310/AF	450	510	\$668,690
San Dieguito Water District	\$1,170/AF	425	320	\$498,000
Encinitas Ranch Golf Course	\$204,750 lump sum	200	250	\$204,750
Olivenhain Municipal Water District	\$1,193/AF	25	35	\$26,005
<b>Totals</b>		1,250	1,195	\$1,552,954
Metropolitan Incentive (paid on actual purchases)	\$250/AF		1,195	\$298,750
County Water Authority Incentive (paid on actual purchases)	\$200/AF		1,195	\$239,000
			<b>TOTAL</b>	<b>2,090,704</b>

Note: If the estimated actual is less than the minimum purchase volume, the purveyor pays their wholesale rate times the minimum purchase volume. SEJPA only receives Metropolitan or County Water Authority incentives on actual recycled water delivered.

### **2.3 Current Fund Balance and Cost of Service**

A fund balance model has been developed that allows SEJPA to understand the relationship between expenditures and revenue over time. The model includes historic data on revenue and expenditures and tracks the recycled water fund balance, allowing SEJPA to understand the balance between its expenditures and revenues and confirm that it is maintaining the required SRF reserve. Figure 1 illustrates the fund balance profile for the past four years and the projected profile through Fiscal Year 2013-14, including the SRF repair and replacement reserve of \$630,000 and the remaining “unrestricted” balance. The figure illustrates that the balance has demonstrated consistent but slow growth from Fiscal Year 2008-09 to Fiscal Year 2012-13, when SEJPA withdrew \$2 million to fund the construction of the AWT Facility. Based on the projected revenue stream, the Fund Balance will continue to grow in the future.

**Figure 1 – Recycled Water Fund Balance Profile**

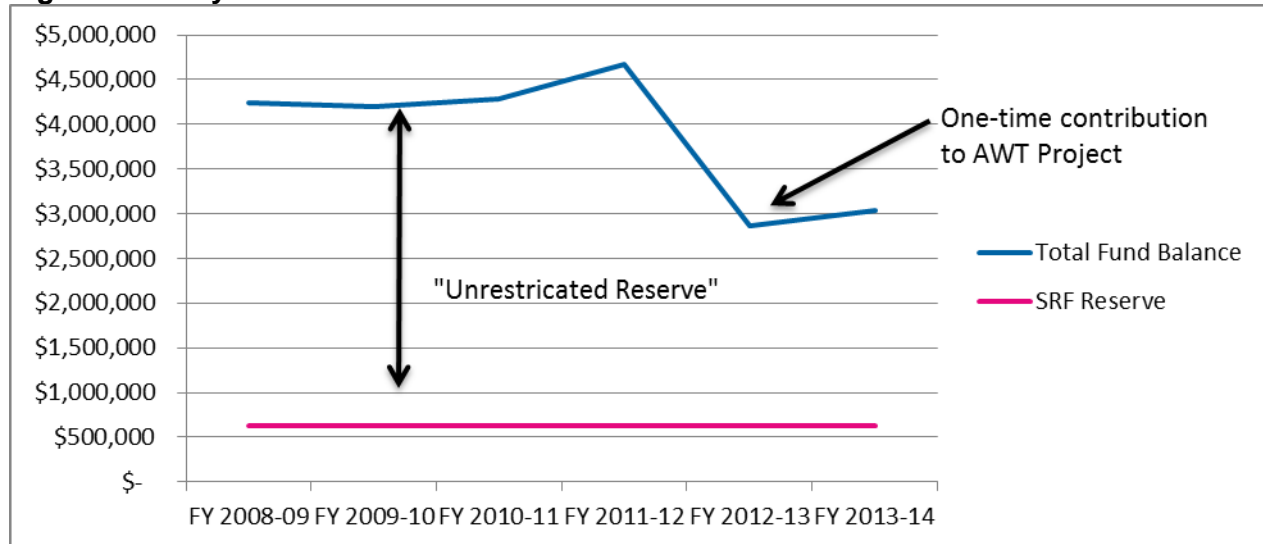


Table 4 provides additional detail on the performance of the recycled water utility and the “cost of delivery” over the past four years. The table illustrates that SEJPA’s current cost of delivery is \$1,638 per acre foot, which is higher than any of the recycled water rates established by SEJPA’s various agreements. While this difference has allowed SEJPA to regularly qualify for the incentive payments, it highlights the fact that the recycled water utility would not be self-sustaining without incentive payments. It is also important to note that the current expenditure program does not include an allowance for depreciation or a contribution to a repair and replacement reserve. Because depreciation is currently “unfunded”, the figures in Table 4 are not the full cost of service for SEJPA’s recycled water utility.

**Table 4 - Summary of Financial Trends FY 2007-08 through 2011-12**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13 (Estimated)
<b>Revenues</b>					
<b>Recycled Water Sales</b>	\$ 1,412,478	\$ 1,421,461	\$ 1,530,480	\$ 1,508,500	\$ 1,552,953
<b>Incentive Revenue</b>	\$ 677,706	\$ 522,135	\$ 454,950	\$ 508,500	\$ 537,750
<b>"Other" Revenues (includes note &amp; grants)</b>	\$ -	\$ 28,055	\$ 13,582	\$ 2,025,484	\$ 790,000
<b>Total Revenue</b>	<b>\$ 2,090,184</b>	<b>\$ 1,971,651</b>	<b>\$ 1,999,012</b>	<b>\$ 4,042,484</b>	<b>\$ 2,880,703</b>
<b>Total Expenditures</b>	<b>\$ 1,632,851</b>	<b>\$ 1,696,320</b>	<b>\$ 1,555,656</b>	<b>\$ 1,659,780</b>	<b>\$ 1,957,028</b>
<b>Annual Cash Flow</b>	\$ 457,333	\$ 275,331	\$ 443,356	\$ 2,382,704	\$ 923,675
<b>Cost per AF w/ incentives</b>	\$ 723	\$ 1,011	\$ 1,082	\$ 996	\$ 1,188
<b>Cost per AF w/o incentives</b>	\$ 1,236	\$ 1,461	\$ 1,530	\$ 1,436	\$ 1,638

- Note: 1) AWT Loan of \$2 million obtained in FY 2011-12.  
 2) IRWM Grant Commitment, estimated at \$790,000, FY 2012-13.  
 3) Total Expenditures for FY 2012-13 are estimated and actual expenditures may be lower.

### 3. Future Fiscal Scenarios

As noted above, SEJPA has developed a fiscal model that allows it to project future performance of the utility. The program's future financial performance is tied to three key time periods:

- Fiscal Year 2016-17 when the current agreements with several of the participating water agencies expire and the business arrangement between SEJPA and its current partners is renegotiated.
- Fiscal Year 2021-22 which is the first year after the payoff of the State Revolving Fund Loan, when debt service demands on the program are reduced.
- Fiscal Year 2025-26 when the financial incentive programs from the County Water Authority and Metropolitan expire, which increases the cash flow demands on the program.

The program's future sustainability depends on SEJPA's ability to effectively implement a fiscal strategy that covers its cost of service, including repair and replacement costs. The payoff of the SRF loan offers SEJPA the opportunity to reprogram revenues, which had been dedicated to debt service, to other uses. The expiration of the incentive programs requires that SEJPA develop a revenue recovery model that will fully cover its costs. The expiration of the current agreements with participating water agencies provides all parties with an opportunity to restructure the current business arrangements to support a more sustainable utility.

SEJPA has some time to manage the transition of its recycled water program and this analysis is intended to assist with planning the transition. This analysis includes three future scenarios which are intended to "bookend" potential utility performance. The scenarios include varied assumptions about recycled water deliveries and consistent assumptions about program expenditures, because expenditures are largely fixed. The "cost of service" recycled water rate can then be estimated for each delivery scenario. No individual scenario is intended to be "predictive"; rather the range of scenarios is intended to assist SEJPA in understanding the potential effects of changes in the recycled water delivery pattern.

By evaluating a range of scenarios, SEJPA will have a planning tool against which it can gauge future system performance and it can begin developing the policies and agreements that will allow for a successful transition.

#### 3.1 Recycled Water Delivery Scenarios

SEJPA's revenue is fundamentally tied to the volume of recycled water delivered. Because the majority of SEJPA's costs are fixed, higher deliveries allow SEJPA to cover its costs with lower recycled water rates. SEJPA has requested that this analysis review the three recycled water delivery rates described below.

- Status Quo: this scenario assumes recycled water deliveries increase from 1,195 acre feet annually in Fiscal Year 2012-13 to 1,240 acre feet annually in Fiscal Year 2018-19. The increase is associated with use developing in the OMWD service area.
- Ten Percent Increase or 1,335 AFY by 2019 Scenario: this scenario assumes recycled water deliveries increase from 1,195 acre feet annually in Fiscal Year 2012-13 to 1,335 acre feet annually in Fiscal Year 2018-19. In addition to developing use within the OMWD service area, this scenario assumes a 10% increase (2% per year) within the SFID, SDWD, and City of Del Mar service areas.
- Twenty Percent Increase or 1,437 AFY by 2019 Scenario: this scenario assumes recycled water deliveries increase from 1,195 acre feet annually in Fiscal Year 2012-13 to 1,437 acre feet annually in Fiscal Year 2018-19. In addition to developing use within the OMWD service area, this scenario assumes a 20% increase (4% per year) within the SFID, SDWD, and City of Del Mar service areas.

### **3.2 Future Expenditure Pattern**

SEJPA's future expenditure program has been modeled to reflect full cost recovery for the recycled water system. The specific assumptions for expenditures are described below.

#### **3.2.1 Debt Service**

SEJPA currently has three debt service payments. The payment for its SRF loan, which financed the initial construction of its system, is \$834,000 per year and will be paid off in Fiscal Year 2020-21. The payment for the note, which financed the construction of the AWT project, is \$148,000 and it will be paid off in Fiscal Year 2030-31. The payment for the SFID pipeline extension is estimated to include an initial payment of \$50,000 and an annual payment stream based on an interest rate between 1.0% and 2.5% and the volume of recycled water sold. This amount can vary based upon the actual volume of recycled water delivered through the pipeline. This loan will be paid off in Fiscal Year 2032-33 if the volume of water delivered is in excess of 50 acre feet per year during year 13 through 15 of this agreement.

#### **3.2.2 Operations and Maintenance**

The fund balance model assumes that SEJPA's operational costs will increase at 3% per year. The model also assumes that operational costs will increase by \$200 per acre-foot for each additional acre-foot delivered. This assumption is designed to account for the additional energy and chemical costs associated with increased recycled water production.

#### **3.2.3 Debt Service Reserve**

SEJPA is currently not required to maintain a "debt service reserve" for either its SRF loan or AWT note. However, because debt service is required to be paid, regardless of recycled water sales, the fiscal model assumes that the operational reserve, described below, will be established to include the costs of debt service. As SEJPA retires its debt, the operational reserve requirement will be reduced accordingly.

### **3.2.4 Operational Reserve**

For future planning, this analysis assumes that SEJPA will maintain one year of operational costs, including debt service costs, in an operational reserve to allow it to manage its high percentage of “fixed costs” in the face of fluctuating revenue from water sales. Based on the current balance in the Recycled Water Program Fund, estimated at \$2.2 million, there is adequate funding here to create the proposed operational reserve. Creating the operational reserve provides purpose and transparency for the funds within the reserve.

### **3.2.5 Capital Reserve**

A core principal of utility management is to maintain a repair and replacement reserve that allows the utility to undertake necessary capital projects and maintain its asset base over the long term. SEJPA’s recycled water utility is relatively new. To date, the utility has established a \$630,000 repair and replacement reserve as required by its SRF loan and has included small capital outlay and improvement projects in its annual budget. It has managed one major upgrade project, the AWT project, through a combination of grants, additional bonded debt, and drawing upon unrestricted reserves. However the recycled water utility does not annually budget for depreciation of its assets and it does not have a dedicated capital reserve that would allow it to undertake projects necessary to maintain existing facilities or expand facilities to support increased recycled water deliveries within its service area.

Long term, as the utility looks to understand its full cost of service, it is important that it include the investment necessary to maintain its assets, acknowledging that incentive payments will not always be available to help offset utility systems cost. SEJPA’s Board of Directors has acknowledged the importance of planning for asset management and when it approved the OMWD agreement, the Board directed that at least one-half of the annual revenue received from OMWD be dedicated to a repair and reserve fund for SEJPA’s infrastructure.

One strategy for managing repair and replacement of the recycled water system is to fully fund depreciation of the system. SEJPA’s existing recycled water infrastructure had an initial cost of approximately \$16.8 million, which if depreciated over a 50 year life, would result in an annual depreciation expense of \$337,334. When the new AWT facilities come on line, SEJPA’s calculated annual depreciation rate increases to \$451,734, again based on a 50 year facility life. If SEJPA had been fully funding depreciation, its repair and replacement reserve would currently be approximately \$3.7 million, which exceeds the value of the current fund balance.

Practically, there are a number of ways to manage repair and replacement of utility system assets. Bond financing, low interest loans, and grants are all mechanisms for funding capital projects within the system, without placing the full burden of depreciation on current rate payers. In addition, utility system assets can provide service beyond the term of their useful life, allowing system replacement to be funded over a longer term. Finally, in SEJPA’s case, the life of its asset base is generally longer than the term of its loans. This affords the utility the ability to “reprogram” the expenditures currently dedicated to debt service, to a capital reserve as its debt is retired, effectively increasing its capital reserve contribution as its assets age.

Acknowledging these practical realities, SEJPA utilized its fiscal model to help it determine “milestone” capital reserve goals that would allow it to accrue a capital reserve with a value close to the depreciated value of its assets in Fiscal Year 2030-31, when its debt is retired. This initial analysis suggests that SEJPA should budget for a capital reserve of approximately \$3.0 million in Fiscal Year 2020-21, a key program milestone after which its SRF loan is paid off. The analysis also suggests that SEJPA should budget for a capital reserve of approximately \$4.8 million in Fiscal Year 2025-26, another key program milestone after which the last of the incentive funding expires. These repair and replacement goals reflect a practical strategy for managing replacement of assets, given the current fiscal status of the system.

### **3.2.6 Repaying SEJPA Member Agencies**

In order to undertake the initial water recycling program, SEJPA’s member agencies made an investment of approximately \$5.2 million, which was advanced to the recycled water utility interest free.

Some of this investment was funded from sewer connection fees collected from new sewer connections to the Cardiff Sanitation District and the Solana Beach Sanitation District beginning around 1982. These connection fees were approved by Cardiff Sanitation District through the passage of the 1982 Proposition M, and approved at Board level by the Solana Beach Sanitation District. The fee amount was \$1,000 per Equivalent Dwelling Unit (EDU) with the funds being specifically directed for the construction of a recycled water facility. These dedicated funds were appropriately invested in the recycled water utility and should not be repaid to the member agencies. SEJPA is working with the member agencies to determine the actual value of the funds collected.

For the purpose of modeling, this cost of service analysis assumes that the amount of repayment actually due to member agencies is \$4 million. This analysis assumes that SEJPA will repay this amount at a rate of \$800,000 per year for five years beginning in Fiscal Year 2021-22, when its SRF debt is retired. Upon determination of the actual value of the connection fees appropriately invested in the recycled water utility, SEJPA will update the fiscal model to reflect the appropriate repayment balance.

While the model provides a budgetary guide for how SEJPA will go about its goal of repaying its member agencies, actual repayments will be based on available recycled water utility cash flow and will be net any revenue collected by the member agencies for the specific purpose of constructing a recycled water system.

### **3.3 Cost of Service at Various Delivery Scenarios**

SEJPA’s cost of delivering service is the fundamental parameter to consider when evaluating both current recycled water rates and the costs and benefits of connecting new customers. Because so much of SEJPA’s budgeted costs are fixed, the opportunity to reduce the cost of service to any individual customer is contingent upon increasing the volume of recycled water deliveries.

As described above, a range of assumptions have been made about future recycled water use in order to analyze the impacts of various growth scenarios on future recycled water rates. These assumptions are intended to allow for a reasonable projection of future performance. Table 5 summarizes the assumptions that are included in the fund balance model for each scenario.

**Table 5 – Summary of Assumptions in the Fiscal Model**

	Minimum Purchase Volume	Actual Purchase Volume		Starting Recycled Water Rate (FY 2012-13)	
	AFY	AFY			
		FY 2012-13	FY 2018-19	\$ HCF	\$ AF
<b>Status Quo Scenario</b>					
City of Del Mar	150	80	80	\$2.38	\$1,037
Santa Fe Irrigation District	450	510	510	\$3.01	\$1,310
San Dieguito Water District	425	320	320	\$2.69	\$1,170
Encinitas Ranch Golf Course	NA	250	250	NA	\$204,750 lump sum
Olivenhain Municipal Water District	25	35	80	\$2.74	\$1,193
<b>Ten Percent Increase Scenario</b>					
City of Del Mar	150	80	88	\$2.38	\$1,037
Santa Fe Irrigation District	450	510	563	\$3.01	\$1,310
San Dieguito Water District	425	320	353	\$2.69	\$1,170
Encinitas Ranch Golf Course	NA	250	250	NA	\$204,750 lump sum
Olivenhain Municipal Water District	25	35	80	\$2.74	\$1,193
<b>Twenty Percent Increase Scenario</b>					
City of Del Mar	150	80	97	\$2.38	\$1,037
Santa Fe Irrigation District	450	510	620	\$3.01	\$1,310
San Dieguito Water District	425	320	390	\$2.69	\$1,170
Encinitas Ranch Golf Course	NA	250	250	NA	\$204,750 lump sum
Olivenhain Municipal Water District	25	35	80	\$2.74	\$1,193

In addition to assumptions about recycled water use patterns and starting rates, the model includes the following assumptions:



- Metropolitan incentives are received on the volume of water delivered until Fiscal Year 2025-26.
- County Water Authority incentives are calculated based on the expenditure and revenue pattern for each scenario until Fiscal Year 2025-26 and generally expire in Fiscal Year 2020-21.
- The operational reserve will be set at each years' expenditures including debt service.
- Remaining fund balance reserves will be placed in a capital reserve.

### **3.3.1 Status Quo**

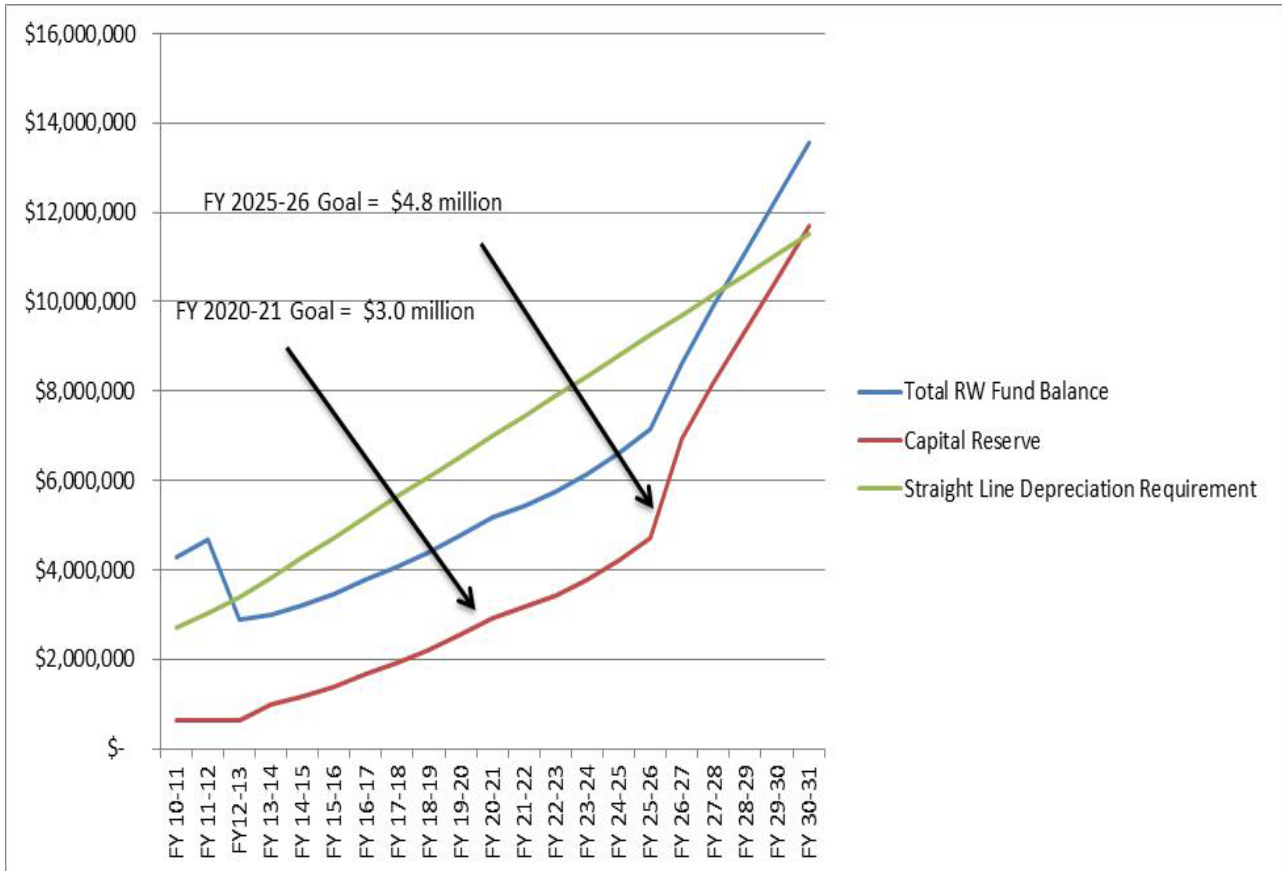
Under this scenario, SEJPA is able to meet its goals for repaying its member agencies and establishing a capital reserve program. In Fiscal Year 2020-21, the total fund balance is estimated at \$4.9 million with \$2.6 million in a dedicated capital reserve, very close to the goal of \$3.0 million. By Fiscal Year 2025-26, the total fund balance is \$6.7 million with \$4.3 million in a dedicated capital reserve, which is very close to the goal. This is illustrated in Figure 2.

In this scenario, recycled water rates for the participating agencies are \$4.24 per HCF (or \$1,845 per acre foot) in Fiscal Year 2020-21. This is generally achieved by a series of 5% annual rate increases, although the model assumes slightly higher one-time increases when the minimum purchase volumes expire for SDWD and Del Mar. In both cases, the increase in unit rate is balanced by the reduction in purchase volume so that the overall revenue requirement from the participating agencies does not increase. By comparison the current potable water landscape rate is \$3.98 per HCF in the SDWD and \$4.04 per HCF in the SFID service area, suggesting the potable water rates would need to increase by about 4% per year in order to allow recycled water to continue to sell at a 15% discount.

By Fiscal Year 2025-26, recycled water rates for the participating agencies would be \$5.40 per HCF or \$2,355 per acre foot, which is again generally achieved by a series of 5% annual rate increases. Rate increases are modest after this point.

The analysis suggests that in order for SEJPA to achieve its capital reserve goals, under a Status Quo scenario, potable water rates will need to continue to increase in order for recycled water to remain price competitive. If potable water rates do not continue to increase, SEJPA may not be able to keep its product "price competitive" while still achieving its milestone capital reserve goals, in which case the actual capital reserve may be less than the initial "goal".

**Figure 2 - Fund Balance Trends: Status Quo**



**3.3.2 Ten Percent Increase Scenario (1,335 AFY by FY 2018-19)**

Under this scenario, SEJPA is able to meet its goals for repaying its member agencies and establishing a capital reserve program. In Fiscal Year 2020-21, the total fund balance is \$5.2 million with \$2.9 million in a dedicated capital reserve, which is very close to the goal of \$3.0 million. By Fiscal Year 2025-26, the total fund balance is \$7.5 million with \$5.0 million in a dedicated capital reserve, which is slightly over the goal of \$4.8 million. This is illustrated in Figure 3.

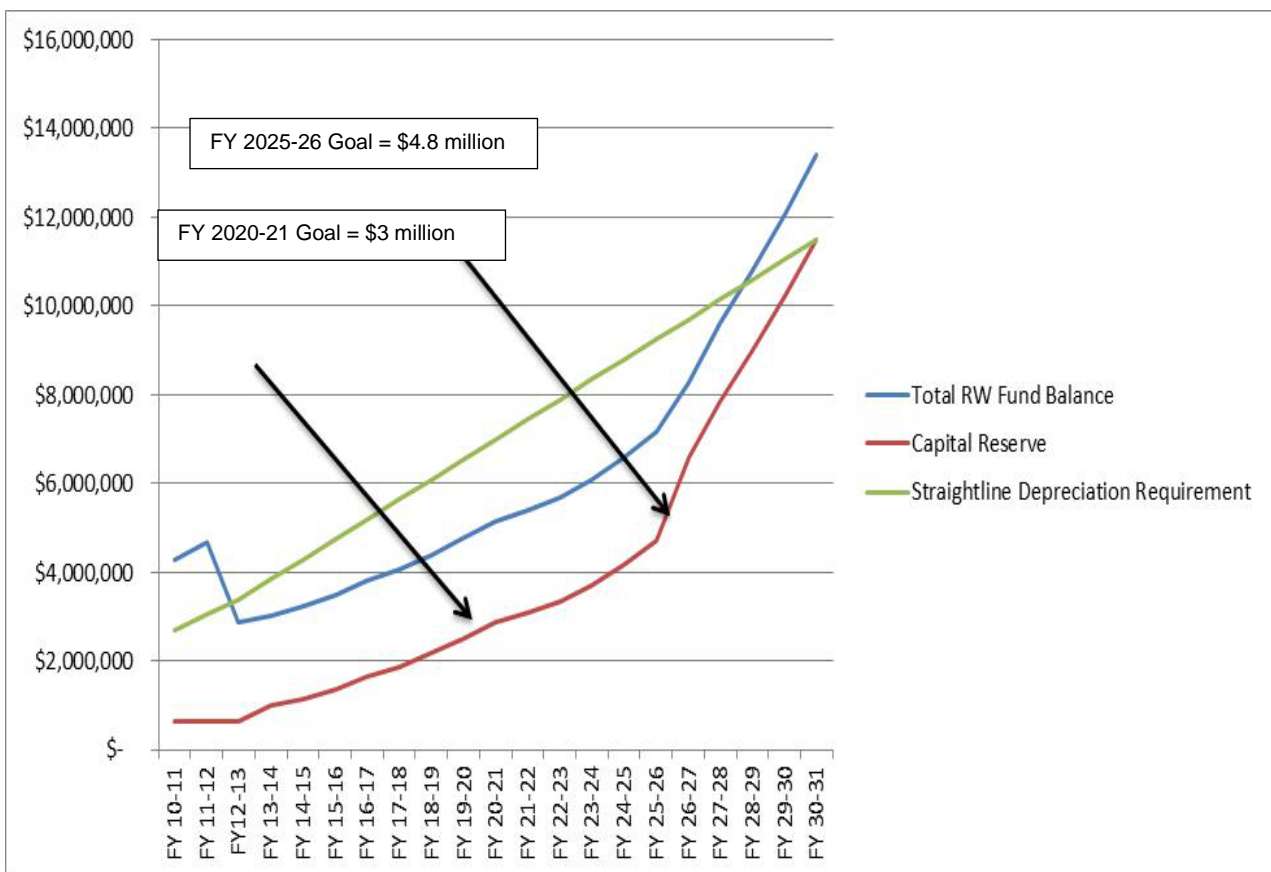
In this scenario, recycled water rates for the participating agencies are \$3.92 per HCF (or \$1,710 per acre foot) in Fiscal Year 2020-21. This is generally achieved by a series of 3% to 5% annual rate increases, although the model assumes slightly higher one-time increases when the minimum purchase volume expires for Del Mar (in the SDWD service area, the planned growth minimizes the need for any one-time increase). As with the Status Quo scenario, the increase in unit rate is balanced by the reduction in purchase volume so that the overall revenue requirement does not increase. By comparison the current potable water landscape rate is

\$3.98 per HCF in the SDWD and \$4.04 per HCF in the SFID service area, suggesting that with growth in the participating water agencies service area, recycled water's price could remain competitive even without regular increases in water rates.

By Fiscal Year 2025-26, recycled water rates for the participating agencies would be \$5.20 per HCF or \$2,267 per acre foot, which is generally achieved by a series of 6% annual rate increases. Rate increases are modest after this point.

The analysis suggests that in the Ten Percent Increase Scenario, SEJPA's ability to achieve its capital reserve goals is less dependent on concomitant potable water rate increases to keep its product price competitive.

**Figure 3 - Fund Balance Trends – 1,335 AFY Scenario**



**3.3.3 Twenty Percent Increase Scenario (1,437 AFY by FY 2018-19)**

Under this scenario, SEJPA is able to meet its goals for repaying its member agencies and establishing a capital reserve program. In Fiscal Year 2020-21, the total fund balance is \$5.6 million with \$3.3 million in a dedicated capital reserve, which exceeds the goal of \$3.0 million.

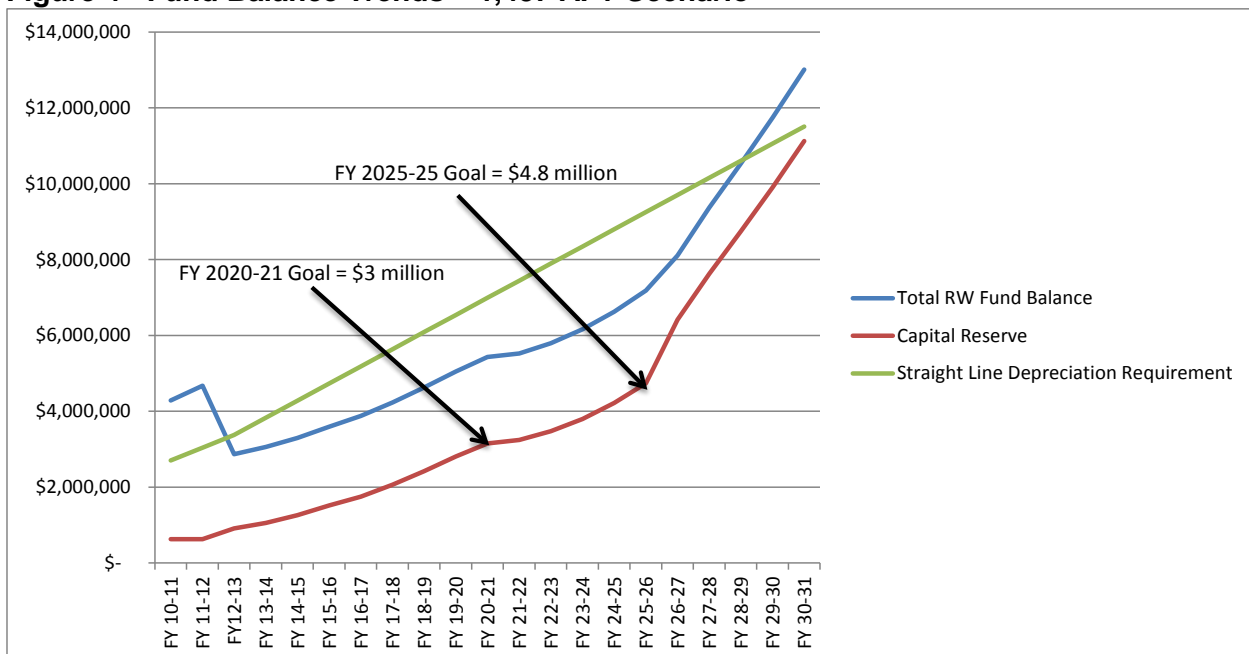
By Fiscal Year 2025-26, the total fund balance is \$7.7 million with \$5.2 million in a dedicated capital reserve, which also exceed the goal of \$4.8 million. This is illustrated in Figure 4.

In this scenario, recycled water rates for the participating agencies are \$3.59 per HCF or (\$1,565 per acre foot) in Fiscal Year 2020-21. This is generally achieved by a series of 1% to 5% annual rate increases, although the model assumes slightly higher one-time increases when the minimum purchase volume expires for Del Mar (in the SDWD service area, the planned growth minimizes the need for any one-time increase). As with the other scenarios, the increase in unit rate is balanced by the reduction in purchase volume so that the overall revenue requirement does not increase. By comparison the current potable water landscape rate is \$3.98 per HCF in the SDWD and \$4.04 per HCF in the SFID service area, suggesting that with growth in the participating water agencies service area, recycled water’s price could remain competitive even without regular increases in water rates.

By Fiscal Year 2025-26, recycled water rates for the participating agencies would be \$4.58 per HCF or \$1,996 per acre foot, which is generally achieved by a series of 6% annual rate increases. Rate increases are modest after this point.

While this modeled scenario predicts a series of 1% rate increases followed by 6% increases in order to meet the targets for the capital reserve fund balance, it is likely that SEJPA would implement higher rates increases (3% to 5%) early in the planning period and reduced rate increases later in the planning period, as it becomes clear that recycled water sales are really increasing. This strategy provides for a smoother transition of rate increases and a better ability to manage revenue needs to the actual growth trajectory of the recycled water utility.

**Figure 4 - Fund Balance Trends – 1,437 AFY Scenario**



### 3.3.4 Scenario Comparisons

Each of the scenarios considered allows SEJPA to cover its costs, meet its capital reserve goals, and repay its member agencies. For the growth scenarios (10% and 20%), the capital reserve goals of \$2.8 million by 2021 and \$4.8 million by 2026 are reached and exceeded. The Status Quo scenario does not quite reach the target reserve goals in either year. Also, each scenario results in differences in the “cost of service” and the recycled water rates required to meet the revenue goals.

Table 6 below, compares these various factors for each scenario at the end of Fiscal Year 2020-21 and Fiscal Year 2025-26. In general, the scenarios that result in growth in recycled water deliveries result in a lower predicted cost of service and are less reliant on incentives for financial viability.

**Table 6 - Scenario Comparison**

	Fiscal Year 2021-22		
	Status Quo	1,335 AFY	1,437 AFY
<b>Cost of Service</b>			
with incentives	\$ 1,654	\$ 1,563	\$ 1,451
without incentives	\$ 2,104	\$ 2,013	\$ 1,901
<b>Capital Reserve Fund Balance</b>	\$ 2,620,226	\$ 2,915,637	\$ 3,336,376
<b>Total Fund Balance</b>	\$ 4,911,764	\$ 5,229,152	\$ 5,673,677
<b>Recycled Water Rates</b>			
Participating Water Agencies	\$ 1,845	\$ 1,710	\$ 1,565
"Interruptible" Golf Course Rate	\$ 1,210	\$ 1,210	\$ 1,210
"Interruptible" Municipal Rate	\$ 1,779	\$ 1,710	\$ 1,564
	Fiscal Year 2025-26		
"Cost of Service"	Status Quo	1,335 AFY	1,437 AFY
with incentives	\$ 2,128	\$ 2,074	\$ 1,862
without incentives	\$ 2,378	\$ 2,324	\$ 2,112
<b>Capital Reserve Fund Balance</b>	\$ 4,274,805	\$ 5,052,464	\$ 5,174,170
<b>Total Fund Balance</b>	\$ 6,737,961	\$ 7,540,381	\$ 7,688,946
<b>Recycled Water Rates</b>			
Participating Agencies	\$ 2,355	\$ 2,267	\$ 1,996
"Interruptible" Golf Course	\$ 1,544	\$ 1,544	\$ 1,544
"Interruptible" Municipal Rate	\$ 2,354	\$ 2,267	\$ 1,996

### **3.4 Potable Water Rate Considerations**

SEJPA's recycled water program is predicated on the fact that recycled water can be sold for less than potable water. In the scenarios described above, some increases in recycled water rates are necessary to allow the program to become financially self-sufficient, without incentives, and to meet its reserve fund goals. Generally these increases range from 1% to 6% annually, with the lower increases being associated with higher sales of recycled water. This need for some increase in recycled water rates, suggests that potable water rates will also need to increase in order for SEJPA's program to remain viable.

The County Water Authority is forecasting wholesale rate increases in the range of 5% to 9% annually, which generally exceeds the rate of increase necessary to make SEJPA's program self-sufficient. These wholesale increases may or may not translate directly to retail water rates because some retailers have local sources of water, which allows them to reduce their need for imported water, and because the local retailers' water rates include their own costs for local storage, distribution, capital, and administration.

However, because wholesale water costs are projected to rise, SEJPA and its partner agencies can reasonably expect that retail water rates will continue to increase in the future. This reasonable expectation means that SEJPA and its partners will likely have the flexibility to renegotiate some terms of their business relationship without undermining the viability of the recycled water program.

## 4. Summary Conclusions and Next Steps

SEJPA is currently managing a viable recycled water utility with its revenue coming from a combination of recycled water sales, under minimum purchase agreements, and incentives from Metropolitan and the County Water Authority. This study examined three different future scenarios for SEJPA including different future program growth rates and different future revenue structures. This study indicates that all of these future scenarios are potentially sustainable. However, this study indicates that growing the recycled water utility from current deliveries of approximately 1,195 acre feet per year to future deliveries of 1,400 acre feet per year or more will result in the lowest future recycled water costs and the best opportunities to manage future water rate increases.

### 4.1 Next Steps

This initial analysis has been based on a series of assumptions in order to allow a range of options to be evaluated at a relatively limited cost. This analysis is not a substitute for a true rate analysis or a detailed asset management plan, but it provides SEJPA with some initial guidance on developing its future strategy. In order to continue to move towards a long-term, self-sustaining utility, SEJPA will want to consider the “next steps” detailed below.

1. Adopt Operational Reserve and Capital Reserve Policies. This analysis assumes that SEJPA will keep a portion of its reserves, equal to one year’s expenses, in an Operational Reserve in order to manage cash flow for the utility. Such a reserve policy provides fund liquidity to manage future cash flow risk associated with a program that has relatively high fixed expenses as compared to the total operating program costs and the potential for varying revenues due to consumer purchasing habits. This analysis also assumes that program revenue above the Operational Reserve requirements will be dedicated to a Capital Reserve. While these are reasonable assumptions for the purpose of evaluating scenarios, formal policies will enhance the transparency of SEJPA’s program to member agencies, participating water agencies, and other partners. It will also help the Board and staff regularly evaluate the fiscal health of the program.
2. Develop a refined, current market assessment. This analysis makes assumptions about the recycled water demand and concludes that an expanded utility is more viable over time. In order to grow the utility, SEJPA will need to work with its members, its participating agencies and other interested parties to understand where 200 to 350 acre feet per year of new demand can be committed to the system over the next five to seven years.
3. Refine the Fiscal Model. This analysis sets Fiscal Year 2020-21 and Fiscal Year 2025-26 Capital Reserve Fund goals and then develops rate projections based on recycled water deliveries. One scenario, the Status Quo scenario, requires potable water rates to increase along with recycled water rates in order for SEJPA to meet its reserve goals and still provide a viably priced commodity. The other two scenarios, which assume

growth in the recycled water market, appear viable even if potable water rates remain flat. When more detailed information is available on new customers, connection timing, and rate preferences, the fiscal model can and should be updated and used to refine the strategy for expansion and confirm that long term goals can be met.



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**Attachment B**  
**Agenda Item No. 14**

## Recycled Water Cost of Service Study

### Public Comments

QUESTION:	Do the water purveyors add additional costs to the final rate charged to the customer?
RESPONSE:	Varies by district, but typically ranges from 0 to 5%. Santa Fe Irrigation District (SFID) adds 5% to the recycled water rate and charges a meter fee to offset administrative costs. San Dieguito Water District (SDWD) does not add additional cost but is considering adding a meter fee to offset administrative costs. The City of Del Mar does not add any costs to recycled water. OMWD adds approximately 5% to the recycled water cost.

QUESTION:	In the study, provide examples that illustrate the San Diego County Water Authority's incentive calculation when the SEJPA charges less than 85 percent of the potable water rate.
RESPONSE:	<p>Examples have been incorporated in the latest version of the cost of service study on page 8 and 9.</p> <p>The County Water Authority's incentive payments are calculated as the difference between a recycled water agency's annual cost per acre foot (after the Metropolitan incentive is applied) and the larger of the agency's recycled water rate or 85% of the equivalent potable water rate. While the County Water Authority acknowledges that recycled water suppliers may elect to sell recycled water for less than 85% of the potable water rate, incentive payments will not cover this revenue gap. If the recycler chooses to sell the water at a lower cost, then the incentive analysis is based on a hypothetical revenue stream using 85% of the potable water rate. Examples of how this hypothetical calculation can impact each of SEJPA's contract customers are provided below.</p> <ul style="list-style-type: none"> <li>• City of Del Mar: when examining the Del Mar agreement and revenues associated with it, the revenues currently generated exceed the 85% indexing requirement of the County Water Authority incentive agreement. As described above, because Del Mar does not meet its minimum purchase volume, its effective recycled water on the 80 acre feet used is over \$4.00 per HCF.</li> <li>• SFID: SEJPA wholesales recycled water to SFID at \$3.01 per hundred cubic feet (HCF), which is 74.5%, SFID's potable water rate of \$4.04 per HCF. The County Water Authority incentive calculation assumes the water is sold at 85% of potable water cost, or \$3.43 per HCF. The difference between 74.5% (\$3.01/HCF) and 85% (\$3.43/HCF) is \$0.42 per HCF. Typically SFID purchases roughly 500 AF, or 217,800 HCF, per year. Assuming SFID purchases 500 AF in FY 2013-14, then the cash difference between wholesaling the recycled water at 74.5% and 85% is \$91,476 as calculated as <math>[(\\$3.43-\\$3.01) \text{ per HCF} \times 217,800 \text{ HCF} =</math></li> </ul>

\$91,476]. Therefore, in the County Water Authority calculations, SEJPA will be credited with more revenue than it will actually receive, because it elected to sell its recycled water at less than 85% of the potable water rate. This difference between assumed and actual revenue reduces the financial need and deferred credit balance of the program, as calculated by the County Water Authority, and may cause SEJPA's incentives to expire before 2025.

- SDWD and Encinitas Ranch Golf Course: when examining the scenario for the SDWD service area, which includes the Encinitas Ranch Golf Course, the calculation is more complex because the recycled water rates are indexed to multiple potable water rates and because of the minimum purchase volume requirement of the contract. For Fiscal Year 2013-14, SEJPA is forecasted to receive \$737,000 in revenue for the estimated delivery of 590 acre feet, or 257,004 HCF, of recycled water, including recycled water sold to the Golf Course. This equates to an average recycled water rate of \$1,249 per acre foot ( $\$737,000/590$  acre feet =  $\$1249/\text{acre foot}$ ), or \$2.86 per HCF. The applicable potable water rates are \$3.98 per HCF for landscaping and \$3.16 for Commercial/Government. Approximately 300 acre feet are sold as landscaping and 290 as Commercial/Government. This equates to a melded rate of \$3.58 per HCF and 85% of this melded potable water rate is \$3.04 per HCF. The cash difference between wholesaling the recycled water at \$2.86 per HCF and the melded potable water rate \$3.04 per HCF is \$0.18 per HCF. Assuming the purchase of 590 AF, the cash difference is \$46,261 ( $257,004 \text{ HCF} \times \$0.18/\text{HCF} = \$46,261$ ). Again, in the County Water Authority calculations, SEJPA will be credited with more revenue than it will actually receive, because it elected to sell its recycled water at less than 85% of the potable water rate. This difference between assumed and actual revenue reduces the financial need and deferred credit balance of the program, as calculated by the County Water Authority, and may cause SEJPA's incentives to expire before 2025.
- OMWD: in the recently executed OMWD interruptible wholesale agreement, the recycled water wholesale rate for Fiscal Year 2013-14 will be \$1,253 per acre foot or \$2.88 per HCF (this is the initial rate of \$1,193 per acre foot escalated at 5% as stipulated in the wholesale agreement). The OMWD potable water rate is \$3.60 per HCF. Therefore, SEJPA wholesales recycled water to OMWD at approximately 80% of OMWD's potable water rate. As OMWD is budgeted to purchase 50 AF (or 21,780 HCF) in Fiscal Year 2013-14, the cash difference between wholesaling the recycled water at 80% and 85% is as calculated as  $[(\$3.06 - \$2.88) \text{ per HCF} \times 21,780 \text{ HCF} = \$3,920]$ . The net impact to the County Water Authority incentive calculation is minimal.

Because of the differences in the Metropolitan and County Water Authority programs, it is possible for an agency to receive payments from Metropolitan's program but to not qualify for the County Water Authority's program.

QUESTION:	Since approximately half of the operating costs are for debt service, it seems prudent to focus on reducing interest paid on the loans. What are the terms of the Recycled Water Utility debt, and when was the last time SEJPA investigated the financial market to reduce the SRF Loan rate?
RESPONSE:	<p>The SEJPA Recycled Water Utility has approximately \$9.08 million in debt service, which has been financed through three separate loans with interest rates between 1% and 4.15%. This does not include funding provided by the sanitation districts of Encinitas and Solana Beach that was contributed at zero interest to launch the program.</p> <p>The basic terms of the three loans are as follows:</p> <p><b>SRF Loan:</b> outstanding balance \$6,653,084; fixed interest rate of 2.5%, 8 years remaining</p> <p><b>AWT Loan:</b> outstanding balance \$1,900,230; fixed interest rate of 4.15%, 19 years remaining</p> <p><b>SFID Loan – Pipeline Purchase:</b> outstanding balance \$526,149; variable interest rate 1.0% - 2.5%; loan term is based on the rate of payment and payment is \$450 per acre-foot of water sold through this pipeline. For example, 50 acre-feet sold equates to \$22,500 payment. SFID estimates that this pipeline can serve up to 90 acre-feet annually. It is likely that this loan will be paid off within 20 years.</p> <p>Between 2009 and 2011, the SEJPA evaluated the lending market for financing opportunities. The terms listed above were the best that the SEJPA could qualify for.</p>

QUESTION:	Can staff provide projections of future potable water rates vs. recycled water rate projections?
RESPONSE:	<p>Projecting future water rates is difficult and speculative. SEJPA's cost of service model suggests that it can accomplish its financial goals with average recycled water rate increases of 2% to 6% annually, depending on the volume of recycled water sold. The more recycled water sold correspond to more modest future rate increases. The San Diego County Water Authority has projected wholesale rate increases of between roughly 4.5% and 9% annually. This may not translate directly into retail water rates because some retailers have local sources of water, which allows them reduce their need for imported water, and because the local retailers' water rates need to include their own costs for storage, distribution, administration. However, because wholesale water costs are expected to rise, SEJPA and its partner agencies can reasonably expect that retail water rates will continue to increase in the future at a pace likely greater than that for recycled water.</p>

QUESTION:	Provide a brief history of Member Agency funding that was contributed to this recycled water program and if/when they will get repaid.
RESPONSE:	<p>This has been included in the cost of service study and can be found on page 16 section 3.2.6</p> <p><b>3.2.6 Repaying SEJPA Member Agencies</b></p> <p>In order to undertake the initial water recycling program, SEJPA's member agencies made an investment of approximately \$5.2 million, which was advanced to the recycled water utility interest free.</p> <p>Some of this investment was funded from sewer connection fees collected from sewer connection fees to the Cardiff Sanitation District and the Solana Beach Sanitation District beginning around 1982. These connection fees were approved by Cardiff Sanitation District through the passage of the 1982 Proposition M, and approved at Board level by the Solana Beach Sanitation District. The fee amount was \$1,000 per Equivalent Dwelling Unit (EDU) with the funds being specifically directed for the construction of a recycled water facility. These dedicated funds were appropriately invested in the recycled water utility and should not be repaid to the member agencies. SEJPA is working with the member agencies to determine the actual value of the funds collected.</p> <p>For the purpose of modeling, this cost of service analysis assumes that the amount of repayment actually due to member agencies is \$4 million. This analysis assumes that SEJPA will repay this amount at a rate of \$800,000 per year for five years beginning in Fiscal Year 2021-22, when its SRF debt is retired. Upon determination of the actual value of the connection fees appropriately invested in the recycled water utility, SEJPA will update the fiscal model to reflect the appropriate repayment balance.</p> <p>While the model provides a budgetary guide for how SEJPA will go about its goal of repaying its member agencies, actual repayments will be based on available recycled water utility cash flow and will be net actual revenues collected by the member agencies for the specific purpose of constructing a recycled water facility.</p>

QUESTION:	Add footnotes to Table 4 of the cost of service study to assist the reader in understanding the table.
RESPONSE:	Footnotes have been added explaining that part of the revenue received in FY 2011-12 was a \$2 million loan for the AWT project and an anticipated grant of \$790,000 to be received in FY 2012-13. The cost per acre-foot with and without incentives does not include these one-time revenue streams for construction, nor does it include the cost of constructing new facilities.

QUESTION:	Table 1; Explain the reason for the increase in Fixed Operations from FY 2011-12 (\$468,235) to FY 2012-13 (\$710,400).
RESPONSE:	<p>As for Table 1 in the report, we have reviewed the cost figures with our consultant for accuracy. The \$468,235 has been corrected to \$572,718 due to incorrect classifications of fixed vs. variable costs in the report. Similarly, the \$705,790 has been corrected to \$710,400.</p> <p>With that said, there is still a large difference between FY 2011-12 and FY 2012-13 Fixed Operations costs. The reason for this difference is that the FY 2011-12 cost is based on actual expenditures and FY 2012-13 is based on forecasted expenditures. The forecasted expenditures included increases in electricity, chemicals, insurances, and labor associated with the recently completed AWT facility, as well as purveyor and permitting fees that can vary from year to year. As FY 2012-13 is nearing end, it appears that the projected operating costs of the new AWT facility were conservative and the actual FY 2012-13 Fixed Operations costs will be more in line with FY 2011-12.</p>

QUESTION:	What impact will deviating from 85% of the potable water rate have on the SDCWA incentive program?
RESPONSE:	<p>The SDCWA incentive program pays when an agency under contract incurs costs greater than the revenue received from recycled water. The agreement is that if an agency sells water for less than 85% of the potable water rate, the "profitability" of recycled water sales will be based on the assumption that the rate was 85% of the potable water rate. Part of the calculation includes a cumulative net balance, which includes monies contributed by the agency to construct facilities to produce recycled water, as well as any cumulative net losses incurred by the agency from the beginning of the agreement. With the construction of the AWT project, it is estimated that the SEJPA will have a cumulative net balance of -\$2.6 million which will have to be eroded each year from the net revenue over expenditures (actual or theoretical) of recycled water before there will be an impact on the incentive provided by SDCWA. It is difficult to estimate when this will occur as it is dependent on future events (i.e., how far the SEJPA deviates from the 85% index in future years, as well as the volume of recycled water sold). The model assumes that the SDCWA incentive expires in FY 2020-21.</p>

SAN ELIJO JOINT POWERS AUTHORITY  
MEMORANDUM

June 10, 2013

TO: Board of Directors  
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: SAN ELIJO JOINT POWERS AUTHORITY AND ENCINA WASTEWATER  
AUTHORITY RESOURCE SHARING EFFORTS

RECOMMENDATION

It is recommended that the Board of Directors:

1. Direct staff to continue to identify opportunities to achieve enhanced effectiveness or cost savings through resource sharing; and
2. Discuss and take other action as appropriate.

BACKGROUND

In July 2012, the Board of Directors authorized the General Manager to preliminarily evaluate opportunities for resource sharing between the San Elijo Joint Powers Authority (SEJPA) and the Encina Wastewater Authority (EWA). In November 2012, staff was directed to work collaboratively with EWA to identify and implement targeted resource sharing strategies and prepare a status report for the Board of Directors consideration. This report describes the activities and outcomes to date.

DISCUSSION

**Agencies.** SEJPA and EWA are analogous high-performing organizations that protect public health and the environment. Like SEJPA, EWA operates, maintains, and administers a jointly owned wastewater treatment plant, an ocean outfall, and multiple sub-regional wastewater pumping stations. EWA's owner agencies are the City of Carlsbad, City of Vista, City of Encinitas, Vallecitos Water District, Buena Sanitation District, and the Leucadia Wastewater District. Attachment 1 provides an Agency Comparison at a Glance.

**Preliminary Evaluation.** Working collaboratively with the SEJPA Member Agency Managers and the EWA staff, a preliminary evaluation was undertaken for the purpose of indentifying resource sharing opportunities that have the potential to improve organizational effectiveness and reduce expenditures at both EWA and SEJPA. The Preliminary Evaluation indicated that



immediate (1-12 months), short-term (1-3 years), and long-term (3 years +) opportunities existed.

**Activities and Outcomes to Date.** As a result of the Preliminary Evaluation, staff was directed in November 2012 to work collaboratively with the EWA to identify and implement targeted resource sharing strategies and prepare a status report for the Board of Directors consideration. Staff's effort has remained focused on immediate and short-term opportunities during the first six-month period. Activities are on-going in three (3) general topics summarized in the following table.

Topic Area	Activity	Outcome	Follow-up
Management Support	Executive Leadership Team Collaboration	Continuing issue ID to improve strategy	Resource Recovery, Asset Management, HR, Training
	Policy Review	Finance, HR in progress	O&M and Laboratory
	Safety Auditing	Peer led audit is planned	Report to CSRMA
	Staff Training	Focus on State mandated training requirements	Joint EWA-SEJPA sessions scheduled for FY 2014
	Remote Facilities Review	Critical review of O&M practices is planned	Report to Governing Board
Staffing	Joint Intern Program	Kept promising EWA Intern; initial response at SEJPA very positive	Formalize Program
	Emergency Response	More robust initial response	Inventory staff capabilities and equipment available
	IT Support	Placed SEJPA domain and MIS back into service	Hosted service or plan for hardening of SEJPA.org
	Administrative Support	Evaluating prospects	Potential in FY 2014
	Account for Resources Shared	Universal labor contract & rates in drafting	Supportive Administrative Systems
Supplies & Services	Cooperative Purchasing	Targeted bulk chemicals	Implement in FY 2014
	Outsourcing Services	Target five (5) categories of service providers	Auditing, Insurance, Ocean Monitoring & Engineering

Based on experience to date, staff remains convinced that resource sharing is producing modest yet important gains for both organizations. Intelligent resource sharing is good government. Communications between the organizations is at an all-time high. For the very first time, the respective executive leadership teams know and trust each other. The current opportunity based on strategy clearly limits the scope of fiscal and organizational impacts;

however, the work being done today sets a foundation for more compelling impacts over the long-term.

#### FISCAL IMPACT

Staff will target resource sharing activities that will create financial and organizational efficiencies.

It is therefore recommended that the Board of Directors:

1. Direct staff to continue to identify opportunities to achieve enhanced effectiveness or cost savings through resource sharing; and
2. Discuss and take other action as appropriate.

Respectfully submitted,



Michael T. Thornton, P.E.  
General Manager

Attachment 1: Agency Comparison at a Glance

Attachment 1 to Agenda Item No. 15

**SEJPA – EWA  
AT A GLANCE COMPARISON**

	<b>SEJPA</b>	<b>EWA</b>
Agency Structure	Joint Powers Authority	Joint Powers Authority
Agency of Choice Law	Sanitation District	Water District
Bidding Required	Yes	No
No. of Member Agencies	2	6
Operating Budget (FY2012-13)	\$7.5 million	\$13.5 million
Capital Budget (FY2012-13)	\$1.0 million	\$10.0 million
Recycled Water Revenue	\$2.0 million	\$0.8 million
Annual Debt Service Payment	\$2.5 million	n/a
Capital Asset Value at Cost (FY2010-11 Audit)	\$59.1 million	\$226.5 million
Accumulated Depreciation	\$23.3 million	\$112.4 million
Debt Service to Revenue Ratio	33.3%	n/a
Debt Service to Assets Ratio	4.2%	n/a
Re-Investment Ratio	1.7%	4.4%
Depreciation Ratio	39.4%	49.6%
Number of Employees	21	65
OPEB Unfunded Liability	\$149,480	\$510,933
OPEB UAAL / EE	\$7,118.10	\$7,861.43
WW Treatment Capacity / Average Flow (MGD)	5.25 / 3.00	43.30 / 23.50
Operates Recycled Water Distribution Facilities	Yes	Yes
Operated Water Reclamation Capacity	2.5 MGD	5.0 MGD
Operates Ocean Outfall	Yes	Yes
Non-Point Source Control Program	No	Yes
Daily Power Production Capacity	n/a	3.0 MW
# of Remote Facilities / Programs Operated	11	5