**BOARD OF COMMISSIONERS**
**MEETING AGENDA**

**Thursday, December 10, 2020**
**To begin at 7:00 A.M.**

Pursuant to the provisions of Executive Order N-25-20 Issued by Governor Gavin Newsom on March 12, 2020, any Commissioner and any member of the public who desires to participate in the open session items of this meeting may do so by accessing the Webex link below without otherwise complying with the Brown Act's teleconference requirements:

**https://walnutvalley.webex.com/meet/bmeeting**
(Computer and Telephone Audio Accessible)

Any member of the public wishing to make any comments to the Commission may do so by accessing the above-referenced link where they may select the option to join via webcam or teleconference. The meeting Chair will acknowledge such individual(s) at the appropriate time in the meeting prior to making his or her comment. Members of the public will be disconnected from the meeting prior to the Closed Session.

*NOTE: To comply with the Americans with Disabilities Act, if you need special assistance to participate in any Commission meeting, please contact the Administrative Officer's office at least 4 hours prior to a Commission meeting to inform the Agency of your needs and to determine if accommodation is feasible. Each item on the agenda shall be deemed to include any appropriate motion, resolution, or ordinance, to take action on any item.*

Materials related to an item on this agenda submitted after distribution of the agenda packet are available for public review at https://puentebasin.com/board-packets/.

I. Welcome and Introductions — Chairman Lewis

II. Flag Salute

III. Roll Call
Commissioner Lewis ______ Commissioner Lee ______
Commissioner Lima ______ Commissioner Tang ______

IV. Public Comment
The Chair may impose reasonable limitations on public comments to assure an orderly and timely meeting.

V. 2019-20 Audited Financial Statements Prepared by Fedak & Brown (telephone call) — Mr. Teuber
a. Discussion b. Action Taken

VI. Approval of Minutes for October 1, 2020 (attachment) — Chairman Lewis
a. Discussion b. Action Taken

VII. Review of Financial Statements: First Quarter FY 20-21 (attachment) — Mr. Teuber
a. Discussion b. Action Taken

VIII. Reeb Government Relations, LLC - 2020 Annual Report (attachment) — Mr. Teuber
a. Discussion b. Action Taken

IX. Regional Water Supply Reliability Program Updates/Status: — Mr. Coleman/ Mr. Hitchman

(1) California Domestic Water Company

(2) Pathfinder Road – Colima Interties

(3) Pomona Basin Regional Groundwater Project
a. Six Basins Groundwater Project Update
b. Proposition 84

(4) Central Basin Well
a. Central Basin Well Site Evaluation

(5) Proposition 1 Integrated Regional Water Management Grant

X. PBWA's Proposed 2020 Meeting Schedule and Approval of Resolution No. 12-20-016 Noting Same (attachment) — Chairman Lewis
a. Discussion b. Action Taken

XI. Commission Follow-Up (attachment) — Mr. Hitchman
a. Discussion b. Action Taken

XII. Commissioner Comments
a. Discussion b. Action Taken

XIII. Items for Future Discussion/Review — Chairman Lewis
a. Discussion b. Action Taken

XIV. Attorney's Report
a. Legal Counsel will report on matters of interest or having an effect on the Agency

XV. Public Comment on Closed Session — Chairman Lewis

XVI. Closed Session
(1) CONFERENCE WITH REAL PROPERTY NEGOTIATOR [§54956.8]
Property: Acquisition and/or Lease
Negotiators: Tom Coleman, Erik Hitchman
Negotiating Parties: Various Property Owners
Under Negotiations: Price and Payment Term

(2) CONFERENCE WITH REAL PROPERTY NEGOTIATOR [§54956.8]
Property: Acquisition and/or Lease of Central Basin Water Rights
Negotiators: Tom Coleman, Erik Hitchman
Negotiating Parties: Various Water Rights Holders
Under Negotiations: Price and Payment Term

(3) CONFERENCE WITH LEGAL COUNSEL- ANTICIPATED LITIGATION [§54956.9(d)(4)]
Initiation of Litigation – One Potential Case

XVII. Reconvene in Open Session

Report of action, if any, taken in Closed Session

Adjournment

December 10, 2020

TO: Board of Commissioners
FROM: Josh Byerrum
RE: 2019-2020 Audited Financial Statements Prepared by Fedak & Brown LLP

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**Recommendation**

That the Commissioners receive, approve, and file:

A. 2019-20 Audited Financial Statements; and
B. Summary of Audit Results (SAS) 114 Letter

**Background**

A Fedak & Brown, LLP, representative will be participating in a teleconference to present the audited 2019-20 financial statements. The representative will review the firm's findings and will be available to answer any questions.

# Puente Basin Water Agency

## Annual Financial Report

## For the Fiscal Year Ended June 30, 2020

# Our Focus

***"Achieving a sustainable and reliable local water supply through innovative planning and regionally-beneficial projects"***

| Name | Title | Member Agency | Elected*/ Appointed |
|---|---|---|---|
| Robert W. Lewis | Chair | Rowland Water District | Appointed |
| Theresa Lee | Vice-Chair | Walnut Valley Water District | Appointed |
| Anthony J. Lima | Commissioner | Rowland Water District | Appointed |
| Vacant | Commissioner | Walnut Valley Water District | Appointed |

* Members are elected based on member agency decisions.



**Puente Basin Water Agency**
**Erik Hitchman, Administrative Officer**
**271 S. Brea Canyon Road**
**Walnut, California 91789**
**(909) 595-1268 – www.puentebasin.com**

# Puente Basin Water Agency

# Annual Financial Report

# For the Fiscal Year Ended June 30, 2020

**Puente Basin Water Agency**
**Annual Financial Report**
**For the Fiscal Year Ended June 30, 2020**

## Table of Contents

# Financial Section

**Independent Auditor's Report**

Board of Commissioners
Puente Basin Water Agency
Rowland Heights, California

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Puente Basin Water Agency (Agency), which comprises the statement of net position as of June 30, 2020, and the related statement of revenues, expenses, and changes in net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Puente Basin Water Agency as of June 30, 2020, and the respective changes in net position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance. This report can be found on pages 30 and 31.

**Fedak & Brown LLP**
Cypress, California
December 10, 2020

**Puente Basin Water Agency**
***Management's Discussion and Analysis***
**For the Fiscal Year Ended June 30, 2020**
***With comparative amounts for June 30, 2019***

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Puente Basin Water Agency (Agency) provides an introduction to the financial statements of the Agency for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

## Financial Highlights

Fiscal Year 2020

- The Agency's net position as of June 30, 2020 were $33,961,250, an increase of $676,101, or 20.3% over the prior year.
- Operating revenues totaled $17,332,577 for the year, an increase of $840,804 from the prior year.
- Beginning in July 2014, in order to account for the costs and benefits of water produced from the water reliability projects, funded jointly by the Walnut Valley Water District (WVWD) and the Rowland Water District (RWD), imported water purchased from Three Valleys Municipal Water District (TVMWD) was invoiced through the Agency. For fiscal year 2020, the total of these pass-through costs was $16,223,060 and is reflected in both the revenues and expenses of the Agency.
- Operating expenses for the year totaled $17,809,659 for the year, these costs include the pass-through water costs from TVMWD.
- The La Habra Heights water reliability project produced no water for the year. Although no water was produced, internal costs, in the amount of $4,883, were incurred related to the maintenance and management of the project facilities.
- During the year, the Cal Domestic Project water reliability project produced 1,112 acre-feet of water. The costs related to the production of this water totaled $1,348,636 for the year. These costs included the use of stored water in the amount of $585,840, that was purchased and paid for in prior years.
- The Agency recorded an additional $284,947 and $1,221,576 in construction costs related to the Pathfinder Project and Pomona Basin Project respectively, which is currently being constructed and is reflected in the Agency's construction-in-process account.
- The Agency entered a 20-year lease with the City of La Verne in 2018 for land and an old well site, which was recorded as a capital lease. The value of the lease is recorded at the value of the future minimum lease payments in the amount of $1,747,797.

Fiscal Year 2019

- The Agency's position as of June 30, 2019 were $33,285,149, an increase of $4,505,285, or 15.7% over the prior year.
- Revenues totaled $16,491,773 for the year, an increase of $389,169 from the prior year.
- Beginning in July 2014, in order to account for the costs and benefits of water produced from the water reliability projects, funded jointly by the Walnut Valley Water District (WVWD) and the Rowland Water District (RWD), imported water purchased from TVMWD was invoiced through the Agency. For fiscal year 2019, the total of these pass-through costs was $15,173,416 and is reflected in both the revenues and expenses of the Agency.

## Financial Highlights, continued

Fiscal Year 2019, continued

- Operating expenses for the year totaled $17,474,328 for the year, these costs include the pass-through water costs from TVMWD.
- The La Habra Heights water reliability project produced no water for the year. Although no water was produced, internal costs, in the amount of $17,859, were incurred related to the maintenance and management of the project facilities.
- During the year, the Cal Domestic Project water reliability project produced 1,481 acre-feet of water. The costs related to the production of this water totaled $1,692,541 for the year. These costs included the use of stored water in the amount of $780,508 that was purchased and paid for in prior years.
- The Agency recorded an additional $1,703,708 and $1,990,438 in construction costs related to the Pathfinder Project and Pomona Basin Project respectively, which is currently being constructed and is reflected in the Agency's construction-in-process account.
- The Agency entered into a 20-year lease with the City of La Verne in 2018 for land and an old well site, which was recorded as a capital lease. The value of the lease is recorded at the value of the future minimum lease payments in the amount of $1,779,919.

## Required Financial Statements

The financial statements report information about the Agency using accounting methods similar to those used by private sector companies. The financial statements, comprised of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, offer short-term and long-term financial information about the Agency's activities. Each financial statement is identified and defined in this section and analyzed in subsequent sections of MD&A.

Statement of Net Position

The Statement of Net Position presents the Agency's financial position (assets, deferred outflows of resources, liabilities, and deferred inflows of resources) as of June 30, 2020 and 2019. The Statement of Net Position includes all the Agency's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency. As of June 30, 2020 and 2019, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by $33,961,250 and $33,285,149, respectively.

Statement of Revenues, Expenses & Changes in Net Position

All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Agency's operations and can be used to determine whether the Agency has successfully recovered all of its costs through member assessments and other revenues. Revenues are recognized (recorded) when services are provided, and expenses are recognized when incurred. Operating revenues and expenses are related to the Agency's core activities. The change in net position for the years ending June 30, 2020 and 2019, was $676,101 and $4,505,285, respectively.

## Required Financial Statements, continued

Statement of Cash Flows

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Agency's cash receipts and cash payments during the fiscal year. The statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the year. As of June 30, 2020, cash and cash equivalents totaled $2,516,036 an increase of $882,924 from the previous fiscal year.

## Financial Analysis of the Agency

One of the most important questions to ask about the Agency's finances is, "Whether the Agency, as a whole, is better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Agency's finances in a way that will help answer that question. Measuring the change in the Agency's *net position*, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources, is one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

## Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 through 29.

## Statements of Net Position

**Condensed Statements of Net Position**

| | | 2020 | 2019 | Change | 2018 | Change |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and investments | $ | 2,516,036 | 1,633,112 | 882,924 | 1,008,025 | 625,087 |
| Accounts receivable | | 4,170,761 | 3,837,490 | 333,271 | 3,102,215 | 735,275 |
| Grant receivable | | 836,965 | 1,876,000 | (1,039,035) | 27,518 | 1,848,482 |
| Interest receivable | | 145,688 | 154,637 | (8,949) | 156,980 | (2,343) |
| Installment purchase receivable | | 31,335,000 | 32,285,000 | (950,000) | 33,195,000 | (910,000) |
| Prepaid expenses | | 6,000 | - | 6,000 | - | - |
| Prepaid water/stored water | | 5,949,147 | 6,080,786 | (131,639) | 6,861,294 | (780,508) |
| Capital assets, net | | 27,188,627 | 26,059,054 | 1,129,573 | 22,741,862 | 3,317,192 |
| **Total assets** | | 72,148,224 | 71,926,079 | 222,145 | 67,092,894 | 4,833,185 |
| **Liabilities:** | | | | | | |
| Accounts payable | | 4,952,489 | 4,425,982 | 526,507 | 3,156,515 | 1,269,467 |
| Unearned revenue | | 6,000 | - | 6,000 | - | - |
| Interest payable | | 145,688 | 150,029 | (4,341) | 153,635 | (3,606) |
| Long-term debt | | 33,082,797 | 34,064,919 | (982,122) | 35,002,880 | (937,961) |
| **Total liabilities** | | 38,186,974 | 38,640,930 | (453,956) | 38,313,030 | 327,900 |
| **Net position:** | | | | | | |
| Net investment in capital assets | | 25,440,830 | 24,279,135 | 1,161,695 | 20,933,982 | 3,345,153 |
| Unrestricted | | 8,520,420 | 9,006,014 | (485,594) | 7,845,882 | 1,160,132 |
| **Total net position** | $ | 33,961,250 | 33,285,149 | 676,101 | 28,779,864 | 4,505,285 |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As seen from the table above, the Agency's net position exceeded liabilities by $33,961,250 and $33,285,149 for the fiscal years ending June 30, 2020 and 2019, respectively.

By far, the largest component of net position is the Agency's net investment in capital assets, which increased $1,129,573 from the prior year. This increase was due primarily to the recognition of capital costs, attributable to the water supply reliability projects. As of June 30, 2020, the balance of construction-in-process was $5,060,845.

In 2019, the Agency's net investment in capital assets increased $3,317,192 from the prior year. This increase was due primarily to the recognition of capital costs, attributable to the water supply reliability projects, which totaled $3,694,146 for the year. As of June 30, 2019, the balance of the construction-in-process account was $5,835,394.

In 2013, the Agency issued $19,385,000 of 2012 Series A Water Revenue Bonds related to capital facilities of RWD. In addition, the Agency issued $17,300,000 related to capital facilities of WVWD. In accordance with the separate installment purchase agreements, each District is obligated to pay the interest and principal payments related to the bonds. To account for the debt and installment purchase agreement, a liability and corresponding asset has been recorded. As of June 30, 2020, the balance of the installment purchase receivable and related liability was $31,335,000.

**Puente Basin Water Agency**
***Management's Discussion and Analysis, continued***
**For the Fiscal Year Ended June 30, 2020**
***With comparative amounts for June 30, 2019***

## Statements of Revenues, Expenses and Changes in Net Position

### Condensed Statements of Revenues, Expenses and Changes in Net Position

| | 2020 | 2019 | Change | 2018 | Change |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Sale of Water (TVMWD) | $ 16,233,060 | 15,173,416 | 1,059,644 | 14,742,678 | 430,738 |
| Sale of Water (Project) | 890,300 | 1,010,002 | (119,702) | 1,093,524 | (83,522) |
| Member Assessments | 179,884 | 210,891 | (31,007) | 186,402 | 24,489 |
| Other revenue | 29,333 | 97,464 | (68,131) | 80,000 | 17,464 |
| **Total operating revenues** | 17,332,577 | 16,491,773 | 840,804 | 16,102,604 | 389,169 |
| **Non-operating revenues:** | | | | | |
| Interest income | 1,467,411 | 1,491,971 | (24,560) | 1,515,962 | (23,991) |
| **Total non-operating revenues** | 1,467,411 | 1,491,971 | (24,560) | 1,515,962 | (23,991) |
| **Total revenues** | 18,799,988 | 17,983,744 | 816,244 | 17,618,566 | 365,178 |
| **Operating expenses:** | | | | | |
| Water Supply (TVMWD) | 16,231,000 | 15,171,357 | 1,059,643 | 14,742,678 | 428,679 |
| Water Supply (Project) | 1,353,519 | 1,710,400 | (356,881) | 1,731,353 | (20,953) |
| Legal | 56,798 | 104,745 | (47,947) | 36,709 | 68,036 |
| Accounting | 9,090 | 9,040 | 50 | 7,802 | 1,238 |
| Engineering | 1,396 | 1,543 | (147) | 21,955 | (20,412) |
| Administrative | 40,008 | 42,774 | (2,766) | 40,433 | 2,341 |
| Professional services | 117,848 | 57,516 | 60,332 | 79,511 | (21,995) |
| Depreciation | 376,950 | 376,953 | (3) | 318,030 | 58,923 |
| **Total operating expenses** | 18,186,609 | 17,474,328 | 712,281 | 16,978,471 | 495,857 |
| **Non-operating expenses:** | | | | | |
| Interest expense | 1,505,936 | 1,546,758 | (40,822) | 1,507,692 | 39,066 |
| **Total non-operating expenses** | 1,505,936 | 1,546,758 | (40,822) | 1,507,692 | 39,066 |
| **Total expenses** | 19,692,545 | 19,021,086 | 671,459 | 18,486,163 | 534,923 |
| **Net loss before capital contributions** | (892,557) | (1,037,342) | 144,785 | (867,597) | (169,745) |
| **Capital contributions** | 1,568,658 | 5,542,627 | (3,973,969) | 515,480 | 5,027,147 |
| **Changes in net position** | 676,101 | 4,505,285 | (3,829,184) | (352,117) | 4,857,402 |
| **Net position, beginning of year** | 33,285,149 | 28,779,864 | 4,505,285 | 29,131,981 | (352,117) |
| **Net position, end of year** | $ 33,961,250 | 33,285,149 | 676,101 | 28,779,864 | 4,505,285 |

## Statements of Revenues, Expenses and Changes in Net Position, continued

Fiscal Year 2020 – Revenues and Expenses

For fiscal year 2020, the Agency had total operating revenues of $17,332,577, an increase of $840,804 from the prior year. The largest source of revenue for the year is member payments for water purchased from TVMWD. Beginning in 2014, water purchased by the WVWD and RWD from TVMWD is invoiced through the Agency. For the year, revenues collected for water purchased from TVMWD totaled $16,233,060, an increase of $1,059,644 from the prior year. In addition, the Cal Domestic project produced 1,112 acre-feet of water during the year. A total of $890,300 was collected from the Districts to cover the costs related to the production of this water, a decrease of $119,702 from prior year. Member assessments vary from year to year and represent payments received from the Districts to cover the other general and administrative costs incurred by the Agency. For the year, member assessments totaled $179,884, a decrease of $31,007 over the prior year. In addition, interest income and interest expense, related to the debt that was issued by the Agency and the corresponding installment purchase agreements, were recorded in the amount of $1,467,411.

For fiscal year 2020, the Agency had total operating expenses of $18,186,609, an increase of $712,281 from the prior year. As discussed above, the most significant costs were attributable to the purchase and production of water, which totaled $17,584,519 for the year, an increase of $727,519 from the prior year.

Capital contributions for the year totaled $1,568,658. Capital contributions included the money paid by each member agency and grant revenue for alternative water supply projects.

Fiscal Year 2019 – Revenues and Expenses

For fiscal year 2019, the Agency had total operating revenues of $16,491,773, an increase of $389,169 from the prior year. The largest source of revenue for the year is member payments for water purchased from TVMWD. Beginning in 2014, water purchased by the WVWD and RWD from TVMWD is invoiced through the Agency. For the year, revenues collected for water purchased from TVMWD totaled $15,173,416, an increase of $430,738 from the prior year. In addition, the Cal Domestic project produced 1,481 acre-feet of water during the year. A total of $1,010,002 was collected from the Districts to cover the costs related to the production of this water, a decrease of $83,522 from prior year. Member assessments vary from year to year and represent payments received from the Districts to cover the other general and administrative costs incurred by the Agency. For the year, member assessments totaled $210,891, an increase of $24,489 over the prior year. During the year, the Agency leased water to three agencies amounting to $67,500 in revenue. In addition, interest income and interest expense, related to the debt that was issued by the Agency and the corresponding installment purchase agreements, were recorded in the amount of $1,491,971.

For fiscal year 2019, the Agency had total operating expenses of $17,474,328, an increase of $495,857 from the prior year. As discussed above, the most significant costs were attributable to the purchase and production of water, which totaled $16,856,600 for the year, an increase of $415,880 from the prior year.

Capital contributions for the year totaled $5,542,628. Capital contributions included the money paid by each member agency and grant revenue for alternative water supply projects.

## Capital Asset Administration

As of June 30, 2020, the Agency had invested $27,188,627 in capital assets, an increase of $1,129,572 from the prior fiscal year. These assets were comprised of construction-in-process capital assets related to several alternative water supply projects.

## Debt Administration

| | | 2020 | 2019 | Change | 2018 | Change |
|---|---|---|---|---|---|---|
| Long-term debt: | | | | | | |
| 2012 Series A Water Revenue Bonds (RWD Project) | $ | 16,935,000 | 17,395,000 | (460,000) | 17,840,000 | (445,000) |
| 2013 Series A Water Revenue Bonds (WVWD Project) | | 14,400,000 | 14,890,000 | (490,000) | 15,355,000 | (465,000) |
| Capital lease payable | | 1,747,797 | 1,779,919 | (32,122) | 1,807,880 | (27,961) |
| Total | $ | 33,082,797 | 34,064,919 | (982,122) | 35,002,880 | (937,961) |

## Economic Factors and Next Year's Budget

| | | Budget 2021 | Actual 2020 | Change |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Sale of water (TVMWD) | $ | 13,712,790 | 16,233,060 | (2,520,270) |
| Sale of water (Project) | | 1,202,620 | 890,300 | 312,320 |
| Member assessments | | 251,375 | 179,884 | 71,491 |
| Other | | 42,000 | 50,399 | (8,399) |
| **Total operating revenues** | | 15,208,785 | 17,353,643 | (2,144,858) |
| Use of stored water | | 822,470 | 585,840 | 236,630 |
| **Total revenues** | | 16,031,255 | 17,939,483 | (1,908,228) |
| **Expenses:** | | | | |
| Water supply (TVMWD) | | 13,712,790 | 16,233,060 | (2,520,270) |
| Water supply (Project) | | 2,017,590 | 1,456,719 | 560,871 |
| Legal | | 100,000 | 56,798 | 43,202 |
| Accounting | | 8,375 | 9,090 | (715) |
| Engineering | | 5,000 | 1,396 | 3,604 |
| Professional service | | 125,000 | 117,848 | 7,152 |
| Administrative expenses | | 45,000 | 37,948 | 7,052 |
| **Total operating expenses** | | 16,013,755 | 17,912,859 | (1,899,104) |
| **Net income** | $ | 17,500 | 26,624 | (9,124) |

## Conditions Affecting Current Financial Position

The COVID-19 pandemic in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the Agency and the duration cannot be estimated at this time.

## Conditions Affecting Current Financial Position, continued

Management is unaware of any other conditions, which could have a significant impact on the Agency's current financial position, net position or operating results in terms of past, present and future.

## Requests for Information

This financial report is designed to provide the Agency's present users, including funding sources, customers, stakeholders and other interested parties with a general overview of the Agency's finances and to demonstrate the Agency's accountability with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Agency's Treasurer, Brian Teuber, 271 S. Brea Canyon Road, Walnut, California, 91789 or (909) 595-1268.

# Basic Financial Statements

# Puente Basin Water Agency
## Statement of Net Position
### June 30, 2020

| | | 2020 |
|---|---|---|
| **Current assets:** | | |
| Cash and cash equivalents (note 2) | $ | 2,516,036 |
| Accrued interest receivable | | 145,688 |
| Accounts receivable | | 5,007,726 |
| Prepaid expenses | | 6,000 |
| Water-in-storage inventory | | 5,949,147 |
| Long-term assets – due in one year: | | |
| Loan receivable (note 3) | | 985,000 |
| **Total current assets** | | 14,609,597 |
| **Non-current assets:** | | |
| Long-term assets – due after one year: | | |
| Loan receivable (note 3) | | 30,350,000 |
| Capital assets – not being depreciated (note 4) | | 15,463,799 |
| Capital assets – being depreciated, net (note 4) | | 11,724,828 |
| **Total non-current assets** | | 57,538,627 |
| **Total assets** | | 72,148,224 |
| **Current liabilities:** | | |
| Accounts payable and accrued expenses | | 4,952,489 |
| Unearned revenue | | 6,000 |
| Accrued interest payable | | 145,688 |
| Long-term liabilities – due in one year: | | |
| Bond payable (note 5) | | 985,000 |
| Capital lease payable (note 5) | | 36,540 |
| **Total current liabilities** | | 6,125,717 |
| **Non-current liabilities:** | | |
| Long-term liabilities – due in more than one year: | | |
| Bond payable (note 5) | | 30,350,000 |
| Capital lease payable (note 5) | | 1,711,257 |
| **Total non-current liabilities** | | 32,061,257 |
| **Total liabilities** | | 38,186,974 |
| **Net position** (note 6)**:** | | |
| Net investment in capital assets | | 25,440,830 |
| Unrestricted | | 8,520,420 |
| **Total net position** | $ | 33,961,250 |

See accompanying notes to the basic financial statements

## Puente Basin Water Agency
### Statement of Revenues, Expenses, and Changes in Net Position
### For the Fiscal Year Ended June 30, 2020

| | 2020 |
|---|---|
| **Operating revenues:** | |
| Sale of water to member agencies | $ 17,117,801 |
| Member assessments | 214,776 |
| **Total operating revenues** | 17,332,577 |
| **Operating expenses:** | |
| Water supply | 17,560,037 |
| Engineering | 1,396 |
| Professional services | 117,848 |
| Legal | 56,798 |
| Administrative | 40,008 |
| Accounting | 9,090 |
| Other | 24,482 |
| **Total operating expenses** | 17,809,659 |
| **Operating loss before depreciation expense** | (477,082) |
| Depreciation expense | (376,950) |
| **Operating income** | (854,032) |
| **Non-operating revenue(expense):** | |
| Investment income | 1,467,411 |
| Interest expense – long-term debt | (1,505,936) |
| **Total non-operating revenue(expense), net** | (38,525) |
| **Net income before capital contributions** | (892,557) |
| **Capital contributions:** | |
| Capital contributions – state | 650,954 |
| Capital contributions – member agency assessments | 463,504 |
| Contributions – member agency stored water purchases | 454,200 |
| **Total capital contributions** | 1,568,658 |
| **Change in net position** | 676,101 |
| **Net position, beginning of the year** | 33,285,149 |
| **Net position, end of year** | $ 33,961,250 |

See accompanying notes to the basic financial statements

**Puente Basin Water Agency**
**Statement of Cash Flows**
**For the Fiscal Year Ended June 30, 2020**

| | | 2020 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received for water sales and assessments | $ | 18,048,949 |
| Cash paid to vendors and suppliers for materials and services | | (17,157,513) |
| **Net cash provided by operating activities** | | 891,436 |
| **Cash flows from capital and related financing activities:** | | |
| Acquisition and construction of capital assets | | (1,506,523) |
| Capital contributions | | 917,704 |
| Payments received for loans receivable | | 950,000 |
| Proceeds from capital grants | | 650,954 |
| Principal paid on long-term debt | | (982,122) |
| Interest paid on debt | | (1,510,277) |
| **Net cash used in capital and related financing activities** | | (1,480,264) |
| **Cash flows from investing activities:** | | |
| Interest and investment earnings | | 1,471,752 |
| **Net cash provided by investing activities** | | 1,471,752 |
| **Net increase in cash and cash equivalents** | | 882,924 |
| **Cash and cash equivalents, beginning of year** | | 1,633,112 |
| **Cash and cash equivalents, end of year** | $ | 2,516,036 |
| | | |
| **Reconciliation of operating loss to net cash provided by operating activities:** | | |
| Operating loss | $ | (854,032) |
| **Adjustments to reconcile operating loss to net cash provided by operating activities:** | | |
| Depreciation expense | | 376,950 |
| (Increase)Decrease in assets: | | |
| Accounts receivable | | 710,372 |
| Prepaid expenses and other deposits | | (6,000) |
| Inventory – water | | 131,639 |
| Increase in liabilities: | | |
| Accounts payable and accrued expenses | | 526,507 |
| Unearned revenue | | 6,000 |
| Total adjustments | | 1,745,468 |
| **Net cash provided by operating activities** | $ | 891,436 |

See accompanying notes to the basic financial statements

## (1) Reporting Entity and Summary of Significant Accounting Policies

### A. Organization and Operations of the Reporting Entity

The Puente Basin Water Agency (the Agency) was created April 1, 1971 by the execution of a Joint Powers Agreement between Rowland Water District (RWD) and Walnut Valley Water District (WVWD). The Agreement was made pursuant to Article 1, Chapter 5, Division 7, Title 1 of the government code of the State of California. The Agency's purpose is to achieve a sustainable and reliable local water supply through innovative planning and the development of regionally-beneficial projects The Agency was organized for the purpose of protection and utilization of the local, imported, and reclaimed water supply within the Puente Basin. The Agency is governed by an appointed Board of Commissioners consisting of four members.

### B. Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the cost of providing water to its member agencies on a continuing basis be financed or recovered primarily through water sales, capital contributions and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal value. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

### C. Financial Reporting

The Agency's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Agency's proprietary fund.

The Agency has adopted the following GASB pronouncements in the current year:

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

### D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

#### 1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

## (1) Reporting Entity and Summary of Significant Accounting Policies, continued

### D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

#### 2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on Agency and the duration cannot be estimated at this time.

#### 3. Cash and Cash Equivalents

Substantially all of the Agency's cash is invested in interest bearing accounts. The Agency considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

#### 4. Investments and Investment Policy

The Agency's investment policy authorizes investments in certificates-of-deposit and the California Local Agency Investment Fund (LAIF). The Agency's investment policy does contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

#### 5. Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

#### 6. Accounts Receivable and Allowance for Uncollectible Accounts

The Agency extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Agency uses the allowance method for the reservation and write-off of those accounts. As of June 30, 2020, there is no allowance for uncollectible accounts as management believes all accounts will be collected.

#### 7. Water-In-Storage Inventory

Water-in-storage inventory consists primarily of water purchased, contributed, and held in storage with the Main San Gabriel Basin Watermaster, the Agency's water wholesaler. In 2020, the Agency received 600 acre-feet of water through Three Valleys Municipal Water District. The water was purchased by Rowland Water District and Walnut Valley Water District and is held in storage with the Main San Gabriel Basin Watermaster. As of June 30, 2020, the Agency had a total of 10,166 acre-feet of water-in-storage valued using an average cost of $585 per acre-foot.

## (1) Reporting Entity and Summary of Significant Accounting Policies, continued

### D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

#### 8. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

#### 9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at acquisition value at the date of the donation. Capital assets received in service concession arrangements are reported at acquisition value. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Water mains – 60 years
- Pipelines and improvements – 20 years

#### 10. Unearned Revenue

Unearned revenue consists of cash received prior to services being performed. A liability will be recognized on the financial statements until the services are rendered and completed.

#### 11. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments, or constraints imposed by law through enabling legislation.
- **Unrestricted** – Consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

#### 12. Water Sales and Services

Water sales are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

#### 13. Capital Contributions

Capital contributions represent cash contributed to the Agency by member agencies and by the State.

#### 14. Budgetary Policies

The Agency adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

## (1) Reporting Entity and Summary of Significant Accounting Policies, continued

### D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

#### 15. Reclassification

The Agency has reclassified certain prior year information to conform to current year presentations.

## (2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30 consist of the following:

| | | 2020 |
|---|---|---|
| Cash and investments | | |
| Deposits with financial institutions | $ | 166,496 |
| Deposits in Local Agency Investment Fund (LAIF) | | 2,349,540 |
| Total cash and investments | $ | 2,516,036 |

As of June 30, the Agency's authorized deposits had the following maturities:

| | 2020 |
|---|---|
| Deposits in Local Agency Investment Fund (LAIF) | 191 days |

***Investments Authorized by the California Government Code and the Agency's Investment Policy***

The table below identifies the investment types that are authorized by the Agency in accordance with the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| State Obligations - CA and Others | 5 years | None | None |
| CA Local Agency Obligations | 5 years | None | None |
| U.S. Agency Obligations | 5 years | None | None |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Collateralize Bank Deposits | 5 years | None | None |
| Corporate debt - Short and Long Term | 5 years | None | None |
| Commercial Paper - Pooled Funds | 270 days | 40% of the District's money | 10% |
| Commercial Paper - Non-Pooled Funds | 270 days | | |
| Repurchase agreements | 1 year | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

## (2) Cash and Cash Equivalents, continued

***Investment in State Investment Pool***

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 and is under the management of the Treasurer of the State of California with oversight provided by the Local Agency Investment Advisory Board. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the Agency's deposits with the bank in accordance with the Code.

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures, or comes close to maturity evenly over time, as necessary to provide requirements for cash flow and liquidity needed for operations.

## (2) Cash and Cash Equivalents, continued

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

***Concentration of Credit Risk***

The Agency's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The Agency's deposit portfolio with governmental agencies, LAIF, is 93% as of June 30, 2020 of the Agency's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the Agency's total investments.

## (3) Loans Receivable

The Agency entered into an Installment Purchase Contracts with Rowland Water District (RWD) and Walnut Valley Water District (WVWD) related to the issuing of Bonds. RWD and WVWD received the proceeds of the Bonds and are required to make semi-annual installment purchase payments that are equal in amount and timing to the principal and interest payments that are paid on a semi-annual basis by the Agency to the holders of the Bonds. The current portions to be paid by RWD and WVWD as of June 30, 2020, are $475,000 and $510,000, respectively, while the total amounts required to be paid by RWD and WVWD as of June 30, 2020, are $16,935,000 and $14,400,000, respectively. Please also see note 5 for further detail.

## (4) Capital Assets

Changes in capital assets for the year ended June 30, 2020, are as follows:

| | Balance 2019 | Additions/ Transfers | Deletions/ Transfers | Balance 2020 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Water rights | $ 10,402,954 | - | - | 10,402,954 |
| Construction-in-process | 5,835,394 | 1,506,523 | (2,281,072) | 5,060,845 |
| Total non-depreciable assets | 16,238,348 | 1,506,523 | (2,281,072) | 15,463,799 |
| Depreciable assets: | | | | |
| Old Baldy well | 1,841,213 | - | - | 1,841,213 |
| Pumping plant and equipment | 8,873,325 | 2,281,072 | - | 11,154,397 |
| Total depreciable assets | 10,714,538 | 2,281,072 | - | 12,995,610 |
| Accumulated depreciation: | | | | |
| Old Baldy well | (117,837) | (88,378) | - | (206,215) |
| Pumping plant and equipment | (775,995) | (288,572) | - | (1,064,567) |
| Total accumulated depreciation | (893,832) | (376,950) | - | (1,270,782) |
| Total depreciable assets, net | 9,820,706 | 1,904,122 | - | 11,724,828 |
| Total capital assets, net | $ 26,059,054 | 3,410,645 | (2,281,072) | 27,188,627 |

For the fiscal year ending June 30, 2020, the Agency transferred $2,281,072 of construction-in-process to pumping plant and equipment.

## (4) Capital Assets, continued

***Construction-in-Process***

The Agency has been involved in various construction projects throughout the year. The projects that comprise the construction-in-process balances at June 30, 2020, are as follows:

| | | 2020 |
|---|---|---|
| 20" Water Transmission Main Project | $ | 36,736 |
| Six Basins Groundwater Project | | 5,024,109 |
| Contruction-in-process | $ | 5,060,845 |

## (5) Long-Term Debt

Changes in long-term debt for the year ended June 30, 2020, are as follows:

| | Balance 2019 | Additions | Payments/ Retirements | Balance 2020 | Current Portion | Long-term Portion |
|---|---|---|---|---|---|---|
| Bonds payable: | | | | | | |
| 2012 Series A Water Revenue Bonds: | | | | | | |
| Rowland Water District | $ 17,395,000 | - | (460,000) | 16,935,000 | 475,000 | 16,460,000 |
| 2013 Series A Water Revenue Bonds: | | | | | | |
| Walnut Valley Water District | 14,890,000 | - | (490,000) | 14,400,000 | 510,000 | 13,890,000 |
| Total bonds payable | 32,285,000 | - | (950,000) | 31,335,000 | 985,000 | 30,350,000 |
| Capital lease payable | 1,779,919 | - | (32,122) | 1,747,797 | 36,540 | 1,711,257 |
| Total | $ 34,064,919 | - | (982,122) | 33,082,797 | 1,021,540 | 32,061,257 |

***2012 Series A Water Revenue Bonds – Rowland Water District***

On November 1, 2012, the Agency issued $19,835,000 of 2012 Series A Water Revenue Bonds. The Bonds will be used to finance certain capital facilities of RWD, a member agency. RWD is obligated under terms of the Installment Purchase Contract associated with the Bonds, to make semiannual installment purchase payments that are equal in amount and timing to the principal and interest payments that are paid on a semiannual basis by the Agency to the holders of the Bonds. The Bonds were issued at a premium of $1,570,182, which is being recorded and amortized over the life of the debt service by RWD, since RWD received the proceeds and premium. Interest and principal are payable on December 1st and June 1st of each year beginning June 1, 2013, with interest rates ranging from 1% to 5%. The Bonds are scheduled to mature on December 1, 2042. The rate covenants of the Bonds require that net revenues of RWD for each fiscal year be equal to at least 110% of the annual debt service payments required for that fiscal year.

## (5) Long-Term Debt, continued

***2012 Series A Water Revenue Bonds – Rowland Water District, continued***

Future annual debt service payments are as follows:

| Year | | Principal | Interest | Total |
|---|---|---|---|---|
| 2021 | $ | 475,000 | 685,500 | 1,160,500 |
| 2022 | | 495,000 | 666,500 | 1,161,500 |
| 2023 | | 515,000 | 646,700 | 1,161,700 |
| 2024 | | 540,000 | 626,100 | 1,166,100 |
| 2025 | | 560,000 | 604,500 | 1,164,500 |
| 2026-2030 | | 3,105,000 | 2,706,850 | 5,811,850 |
| 2031-2035 | | 3,630,000 | 2,197,025 | 5,827,025 |
| 2036-2040 | | 4,400,000 | 1,472,000 | 5,872,000 |
| 2041-2043 | | 3,215,000 | 326,750 | 3,541,750 |
| Total | | 16,935,000 | 9,931,925 | 26,866,925 |
| Current | | (475,000) | | |
| Non-current | $ | 16,460,000 | | |

***2013 Series A Water Revenue Bonds – Walnut Valley Water District***

On March 1, 2013, the Agency issued $17,300,000 of 2013 Series A Water Revenue Bonds. The Bonds will be used to finance certain capital facilities of WVWD, a member agency. WVWD is obligated under terms of the Installment Purchase Contract associated with the Bonds, to make semiannual installment purchase payments that are equal in amount and timing to the principal and interest payments that are paid on a semiannual basis by the Agency to the holders of the Bonds. The Bonds were issued at a premium of $2,695,738, which is being recorded and amortized over the life of the debt service by WVWD, since WVWD received the proceeds and premium. Interest is payable on June 1st and December 1st of each year beginning December 1, 2013, with interest rates ranging from 1% to 5%. Principal is due December 1st each year beginning December 1, 2013. The Bonds are scheduled to mature on December 1, 2038. The rate covenants of the Bonds require that net revenues of WVWD for each fiscal year be equal to at least 125% of the annual debt service payments required for that fiscal year.

## (5) Long-Term Debt, continued

***2013 Series A Water Revenue Bonds – Walnut Valley Water District, continued***

Future annual debt service payments are as follows:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 510,000 | 720,000 | 1,230,000 |
| 2022 | 535,000 | 694,500 | 1,229,500 |
| 2023 | 565,000 | 667,750 | 1,232,750 |
| 2024 | 595,000 | 639,500 | 1,234,500 |
| 2025 | 620,000 | 609,750 | 1,229,750 |
| 2026-2030 | 3,610,000 | 2,550,250 | 6,160,250 |
| 2031-2035 | 4,610,000 | 1,552,750 | 6,162,750 |
| 2036-2040 | 3,355,000 | 341,000 | 3,696,000 |
| Total | 14,400,000 | 7,775,500 | 22,175,500 |
| Current | (510,000) | | |
| Non-current | $ 13,890,000 | | |

***Capital Lease***

On January 24, 2018, the Agency entered into a lease agreement for the use of a well. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the value of the future minimum lease payments as of the inception date in the amount of $1,841,213. The lease is payable in semi-annual payments of $50,000, adjusted every July 1 for the Consumer Price Index for All Urban Consumers for the Los Angeles-Riverside-Orange County, California Area published by the Bureau of Labor Statistics for the preceding year, through July 31, 2039 at an annual interest rate of 4%.

Future annual lease payments are as follows:

| Year | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 36,540 | 69,550 | 106,090 |
| 2022 | 41,231 | 68,042 | 109,273 |
| 2023 | 46,207 | 66,344 | 112,551 |
| 2024 | 51,484 | 64,443 | 115,927 |
| 2025 | 57,076 | 62,329 | 119,405 |
| 2026-2030 | 381,466 | 271,491 | 652,957 |
| 2031-2035 | 578,613 | 178,343 | 756,956 |
| 2036-2039 | 555,180 | 46,004 | 601,184 |
| Total | 1,747,797 | 826,546 | 2,574,343 |
| Current | (36,540) | | |
| Non-current | $ 1,711,257 | | |

## (6) Net Position

Calculation of net position as of June 30, were as follows:

| | | 2020 |
|---|---|---|
| **Net investment in capital assets:** | | |
| Capital assets, net | $ | 27,188,627 |
| Capital lease, current | | (36,540) |
| Captial lease, non-current | | (1,711,257) |
| **Total investment in capital assets** | | 25,440,830 |
| **Unrestricted net position** | | 8,520,420 |
| **Total net position** | $ | 33,961,250 |

## (7) Risk Management

The Agency is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

On June 30, 2020, the Agency participated in the ACWA/JPIA pooled programs for liability, property, and workers' compensation programs as follows:

- General and auto liability, public officials and employees' errors and omissions: The ACWA/JPIAs total risk financing self-insurance limits of $5,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: $55 million for general, auto and public officials' liability, which increases the limits on the insurance coverage noted above.

In addition, the Agency also has the following insurance coverage:

- Crime coverage up to $1,000,000 per loss includes public employee dishonesty, depositor's forgery or alteration, theft, computer, and funds transfer fraud coverages. subject to $1,000 deductible per loss.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $500 million per loss, subject to a $2,500 deductible per loss. Mobile equipment and vehicles, on file, are paid on actual cost value basis at time of loss and subject to $1,000 deductible per loss.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to various deductibles depending on the type of equipment, on file.
- Workers' compensation coverage up to California statutory limits for all work-related injuries/illnesses covered by California law; a pooled self-insured limit of $2,000,000. The ACWA/JPIA purchased additional excess coverage layer: $2,000,000 employer's liability.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Agency's insurance coverage during the fiscal years ended June 30, 2020, 2019 and 2018. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There was no IBNR claims payable as of June 30, 2020, 2019 and 2018.

## (8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2020, that have effective dates that may impact future financial presentations.

The following pronouncement implementation dates have been delayed due to the COVID-19 pandemic.

***Governmental Accounting Standards Board Statement No. 84***

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 87***

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 89***

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

## (8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

***Governmental Accounting Standards Board Statement No. 89, continued***

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

***Governmental Accounting Standards Board Statement No. 90***

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

## (8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

***Governmental Accounting Standards Board Statement No. 91***

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 92***

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

## (8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

***Governmental Accounting Standards Board Statement No. 93***

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR.

This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 94***

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

## (8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

***Governmental Accounting Standards Board Statement No. 96***

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 97***

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

## (9) Commitments and Contingencies

***Grant Awards***

Grant funds received by the Agency are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Agency believes that such disallowances, if any, would not be significant.

***Construction Contracts***

The Agency has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the Agency's replacement reserves and capital contributions.

***Litigation***

In the ordinary course of operations, the Agency is subject to claims and litigation from outside parties. After consultation with legal counsel, the Agency believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

***COVID-19 Pandemic***

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Agency could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The Agency has not included any contingencies in the financial statements specific to this issue.

## (10) Subsequent Events

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of December 10, 2020, which is the date the financial statements were available to be issued.

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# Report on Internal Controls and Compliance

**Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Commissioners
Puente Basin Water Agency
Walnut, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Puente Basin Water Agency (Agency) as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated December 10, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards, (continued)***

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Fedak & Brown LLP**
Cypress, California
December 10, 2020

# Puente Basin Water Agency

## Management Report

## June 30, 2020

**Puente Basin Water Agency**

**Management Report**

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**CONFIDENTIAL**

Board of Commissioners
Puente Basin Water Agency
Walnut, California

**Dear Members of the Board:**

In planning and performing our audit of the financial statements of the Puente Basin Water Agency (Agency) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Agency internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weakness. Given these limitations during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Summary of Current Year Comments and Recommendations**

Our comments, all of which have been discussed with the appropriate members of management, are summarized as follows:

***No Comments Noted in the Current Year***

* * * * * * * * * *

This communication is intended solely for the information and use of management, Board of Commissioners, and others within the Agency, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

**Fedak & Brown LLP**
Cypress, California
December 10, 2020

**APPENDIX**

**Puente Basin Water Agency**

**Audit/Finance Committee Letter**

**June 30, 2020**

Board of Commissioners
Puente Basin Water Agency
Walnut, California

We have audited the financial statements of the business-type activities of the Puente Basin Water Agency (Agency) for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

**Auditor's Responsibility under United Stated Generally Accepted Accounting Standards**

As stated in our Audit Engagement Letter dated April 14, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with oversight of the Governing Commission are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve the Governing Commission or management of its responsibilities of oversight in the Agency's external financial reporting process or any other processes.

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Governmental Auditing Standards.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing requirements previously communicated to the Agency and management in our Audit Engagement Letter dated April 14, 2020.

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020.

**Qualitative Aspects of Accounting Practices, continued**

We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

**Management's Judgments, Accounting Estimates and Financial Disclosures**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Agency's financial statements was:

> Management's estimate of the fair value of cash and cash equivalents is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and cash equivalents in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the capital asset depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were:

> The disclosure of fair value of cash and cash equivalents in Note 2 to the financial statements represents amounts susceptible to market fluctuations.
>
> The disclosure of capital assets, net in Note 4 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The financial statement disclosures are neutral, consistent, and clear.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit processes and testwork.

**Corrected and Uncorrected Misstatements**

Generally Accepted Auditing Standards require us to accumulate all known and likely misstatements identified during the audit, except those that are considered trivial, and communicate them to the appropriate level of management as follows:

There were no audit adjustments and/or reclassification entries made to the original trial balance presented to us to begin our audit.

**Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the Management Representation Letter to the auditor dated December 10, 2020.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Restriction on Use**

This information is intended solely for the information and use of the Board of Commissioners and management of the Agency and is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

**Conclusion**

We appreciate the cooperation extended to us by Erik Hitchman, Administrative Officer, Brian Teuber, Treasurer, Josh Byerrum, Accounting Manager, and the Agency's staff in the performance of our audit testwork.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Agency.

**Fedak & Brown LLP**
Cypress, California
December 10, 2020

**MINUTES OF MEETING**
**OF THE BOARD OF COMMISSIONERS OF**
**PUENTE BASIN WATER AGENCY**

**October 1, 2020**
**Rowland Water District hosted the Zoom Teleconference Meeting**

**COMMISSIONERS PRESENT:**
Theresa Lee, Commissioner
Anthony Lima, Commissioner
Robert Lewis, Commissioner
Jerry Tang, Commissioner

**STAFF PRESENT:**
Erik Hitchman, Administrative Officer
Tom Coleman, Assistant Administrative Officer
Brian Teuber, Treasurer
Myra Malner, Assistant Treasurer
Jim Ciampa, Legal Counsel
Carmen Fleming, Secretary

Staff, guests and others in attendance: Mr. Dave Warren, Rowland Water District; and Ms. Sherry Shaw, Mr. Josh Byerrum, Walnut Valley Water District.

The Zoom teleconference meeting was called to order at 7:13 a.m. with Chair Lewis presiding.

**Item IV: Public Comment**
None.

**Item V: Approval of Minutes for August 6, 2020**
***Upon consideration thereof, it was moved by Commissioner Lee, seconded by Commissioner Lima and carried (4-0) to approve the minutes of the Commission meeting held August 6, 2020. A roll call vote was then taken:***

***Yes: Lee, Lewis, Lima, Tang***
***Noes: None***
***Motion Passed (4-0)***

**Chair Lewis indicated that the motion was approved by a 4-0 roll call vote**

**Item VI: Receive and File Walnut Valley Water Districts 2020 PBWA Board Member Appointment Resolution**
- Mr. Hitchman reported that due to the resignation of Commissioner Ebenkamp, the attached resolution appointing Walnut Valley Water District's Commissioners for 2020 was adopted by Walnut Valley Water District's Board of Directors.

***Upon consideration thereof, it was moved by Commissioner Lima seconded by Commissioner Lee and unanimously carried (4-0), to receive and file the Walnut Valley Water District's 2020 PBWA Board Member appointment resolution. A roll call vote was then taken:***

***Yes: Lee, Lewis, Lima, Tang***
***Noes: None***
***Motion Passed (4-0)***

**Chair Lewis indicated that the motion was approved by a 4-0 roll call vote**

**Item VII: Review of Financial Statements: Fourth Quarter FY 19-20**
- Mr. Byerrum reviewed the Fourth Quarter Fiscal Year 2019-20 financials.

***Upon consideration thereof, it was moved by Commissioner Lima seconded by Commissioner Lee, and unanimously carried (4-0), to approve, receive and file the financials for the Fourth Quarter Fiscal Year 2019-20.***

***Yes: Lee, Lewis, Lima, Tang***
***Noes: None***
***Motion Passed (4-0)***

**Chair Lewis indicated that the motion was approved by a 4-0 roll call vote**

**<u>Item VIII: PBWA Legislative Activities</u>**

***(1) Engagement of Lobbyist***

- Mr. Hitchman stated that the Lobbying Firm Retention Contract and Cost Sharing Agreement with Reeb Government Relations, LLC (RGR), is expiring effective October 31, 2020. The parties to the cost sharing agreement desire to renew the agreement with RGR for lobbying services at the total cost of $6,000 per month, to be divided among the participating agencies of PBWA, Palmdale Water District and Valley County Water District.

***Upon consideration thereof, it was moved by Commissioner Lima, seconded by Commissioner Lee, and unanimously carried (4-0), to authorize the Administrative Officer to enter into an agreement with Reeb Government Relations, LLC for lobbying services at the cost of $6,000 per month. A roll call vote was then taken:***

***Yes: Lee, Lewis, Lima, Tang***
***Noes: None***
***Motion Passed (4-0)***

**Chair Lewis indicated that the motion was approved by a 4-0 roll call vote**

**<u>Item IX: Regional Water Supply Reliability Program Updates/Status:</u>**

(1) *California Domestic Water Company*

- Mr. Warren reported that the Cal Domestic connection and line is offline, and will likely continue to be unavailable until the weather is cooler.

(2) *Pathfinder Road-Colima Interties*

- Ms. Shaw reported that the City of Diamond Bar permit is pending and the project is continuing to move forward.

(3) *Pomona Basin Regional Groundwater Project*

a. *Consider Award of Contract for the Six Basins Project (Phase 2)-Durward Well Development & Equipping (P.N. PB18-0005)*

- Ms. Shaw requested the Commission to authorize the award of a contract to Civiltec Engineering, Inc. (Civiltec) to prepare the preliminary design report (PDR), final design, and provide partial construction oversight services for the Six Basins Project (Phase 2) – Durward Well Development & Equipping at a cost of $248,517.

***Upon consideration thereof, it was moved by Commissioner Lee, seconded by Commissioner Lima, and unanimously carried (4-0), to authorize the award of a contract to Civiltec Engineering, Inc. (Civiltec) to prepare the preliminary design report (PDR), final design, and provide partial construction oversight services for the Six Basins Project (Phase 2) – Durward Well Development & Equipping at a cost of $248,517. A roll call vote was then taken:***

***Yes: Lee, Lewis, Lima, Tang***
***Noes: None***
***Motion Passed (4-0)***

**Chair Lewis indicated that the motion was approved by a 4-0 roll call vote**

b. *Six Basins Groundwater Project Update:* Ms. Shaw reported that staff is working with the contractors to continue the work on the project.

c. *Proposition 84:* Mr. Hitchman will be preparing and submitting the project quarterly progress report.

(4) *Central Basin Well*

a. *Central Basin Well Site Evaluation:* No update at this time.

(5) *Proposition 1 Integrated Regional Water Management Grant:*

♦ Mr. Hitchman reported that staff receives regular updates from Wendy La, of LASER, Inc., on potential projects for which grant funding may be sought.

**Item X: Commission Follow-Up**

♦ The Commission received a follow-up report on prior actions.

**Item XI: Commissioner Comments**

None.

**Item XII: Items for Future Discussion/Review**

None.

**Item XIII: Attorney's Report**

♦ Mr. Ciampa updated the Commission on the litigation and legislation concerning Central Basin Municipal Water District.

**Item XIV: Public Comment on Closed Session**

There were no requests to comment on closed session.

**Item XV: Closed Session at 7:53 a.m.**

(1) The Commission met in closed session in accordance with Government Code [§54956.8] to discuss one real property matter. The negotiators are Mr. Tom Coleman and Mr. Erik Hitchman. The negotiating parties are various property owners. Under negotiations are the price and terms of payment.

- No discussion on this item.

(2) The Commission met in closed session in accordance with Government Code [§54956.8] to discuss one real property matter pertaining to the acquisition and/or lease of Central Basin water rights. The negotiators are Mr. Tom Coleman and Mr. Erik Hitchman. The negotiating parties are various water rights holders. Under negotiations are the price and terms of payment.

- No discussion on this item.

(3) The Commission met in closed session in accordance with Government Code 54956.9(d)(4) regarding anticipated litigation concerning one case.

- The Commission was briefed on the facts and circumstances of the potential case and no reportable action under the Brown Act was taken.

**Item XVI: Reconvene in Open Session at 7:59 a.m. – see above for the closed session report concerning Items 1-3.**

**Adjournment – 8:01 a.m.**

***There being no further business to discuss, upon consideration thereof, it was moved by Commissioner Lee, seconded by Commissioner Tang and unanimously carried (4-0), to adjourn to the next Commission meeting to be held December 10, 2020.***

# Puente Basin Water Agency
## FY 2020-21 Operating Results By Quarter

| | | 9/30/2020 | TOTAL | Budget |
|---|---|---|---|---|
| 1 | Income | | | |
| 2 | Administrative Assessment | $ 51,140 | $ 51,140 | $ 283,375 |
| 3 | Water Sales - Project | 65,981 | 65,981 | 1,195,120 |
| 4 | Water Sales - TVMWD | 5,339,229 | 5,339,229 | 13,712,790 |
| 5 | Project Maintenance Reserve | - | - | 7,500 |
| 6 | Used of Stored/Leased Water | - | - | 822,470 |
| 7 | Total Income | 5,456,350 | 5,456,350 | 16,021,255 |
| 8 | Expense | | | |
| 9 | Source of Supply | | | |
| 10 | Purchased Water - TVMWD | 5,195,999 | 5,195,999 | 13,091,350 |
| 11 | Purchased Water - CDWC | - | - | 587,360 |
| 12 | Purchased Water - Stored Water | - | - | 822,470 |
| 13 | Assessments - MSGBWM | - | - | 300,000 |
| 14 | Total Source of Supply | 5,195,999 | 5,195,999 | 14,801,180 |
| 15 | Fixed Charges | | | |
| 16 | TVMWD Equivalent Small Meters | 16,039 | 16,039 | 66,650 |
| 17 | TVMWD Water Use Charge | 17,914 | 17,914 | 71,270 |
| 18 | TVMWD Connected Capacity | 15,370 | 15,370 | 63,940 |
| 19 | MWD Capacity Reservation Charge | 91,847 | 91,847 | 417,480 |
| 20 | CDWC Ready To Serve | 1,859 | 1,859 | 7,440 |
| 21 | Total Fixed Charges | 143,029 | 143,029 | 626,780 |
| 22 | Other Costs | | | |
| 23 | Energy - Pumping and Treatment | 2,741 | 2,741 | 118,500 |
| 24 | Materials & Supplies - Chemical | - | - | 21,000 |
| 25 | Materials & Supplies - Others | 2,294 | 2,294 | 19,000 |
| 26 | Other Costs (RWD Labor etc.) | 7,103 | 7,103 | 35,520 |
| 27 | Baldy Lease Agreement | 51,500 | 51,500 | 106,300 |
| 28 | Permits & Fees | 2,060 | 2,060 | 2,100 |
| 29 | Total Other Costs | 65,698 | 65,698 | 302,420 |
| 30 | Administrative & General | | | |
| 31 | Legal | 3,982 | 3,982 | 100,000 |
| 32 | Engineering | - | - | 5,000 |
| 33 | Professional Services- Other | 26,618 | 26,618 | 125,000 |
| 34 | Insurance - Property & Liability | 2,065 | 2,065 | 5,000 |
| 35 | Accounting | 3,055 | 3,055 | 8,375 |
| 36 | Administrative Expenses - Other | 15,905 | 15,905 | 40,000 |
| 37 | Total Administrative & General | 51,624 | 51,624 | 283,375 |
| 38 | Total Expense | 5,456,350 | 5,456,350 | 16,013,755 |
| 39 | Other Income/Expense | | | |
| 40 | Stored Water Purchased | - | - | - |
| 41 | Leased Water Income | 50,000 | 50,000 | - |
| 42 | LAIF Interest | - | - | 10,000 |
| 43 | Grant Revenue | - | - | - |
| 44 | Stored Water Expense | - | - | - |
| 45 | Net Other Income | 50,000 | 50,000 | 10,000 |
| 46 | Net Income (Loss) Before Transfers | 50,000 | 50,000 | 17,500 |
| 47 | Transfer In: Maint. Reserve Funds Used | - | - | - |
| 48 | Transfer Out: Maint. Reserve Funds Collected | - | - | (7,500) |
| 49 | Net Income (Loss) After Transfers | $ 50,000 | $ 50,000 | $ 10,000 |

| | PBWA Maintenance Reserve | 9/30/2020 | Year to Date | Budget |
|---|---|---|---|---|
| 50 | Beginning Balance | $ 146,157 | $ 146,157 | $ 140,599 |
| 51 | Transfers In | - | - | 7,500 |
| 52 | Transfers Out | - | - | - |
| 53 | Ending Balance September 30, 2020 | $ 146,157 | $ 146,157 | $ 148,099 |

# Puente Basin Water Agency
## FY 2020-21 Operating Results By Quarter

| | Capital Projects | 9/30/2020 | Year to Date | Life to Date |
|---|---|---|---|---|
| 54 | **Revenues** | | | |
| 55 | **Member Assessment - RWD** | $ 32,298 | $ 32,298 | $ 3,181,747 |
| 56 | **Member Assessment - WVWD** | 32,298 | 32,298 | $ 3,181,747 |
| 57 | **Grant Proceeds Use** | 337,727 | 337,727 | $ 1,380,745 |
| 58 | **Total Revenues** | **402,322** | **402,322** | **$ 7,744,239** |
| | | | | |
| 59 | **Expenses** | | | |
| 60 | **Pathfinder** | 64,595 | 64,595.39 | $ 2,382,403 |
| 61 | **Pomona Basin** | 337,727 | 337,726.74 | $ 5,361,836 |
| 62 | **Total Expenses** | **$ 402,322** | **402,322** | **$ 7,744,239** |

| | PBWA Stored Water | 9/30/2020 | Year to Date |
|---|---|---|---|
| 63 | **Stored Water ($$):** | | |
| 64 | **Beginning Balance** | $ 5,949,147 | $ 5,949,147 |
| 65 | **Add: Purchased Water** | - | - |
| 66 | **Less: Water Produced** | - | - |
| 67 | **Ending Balance** | $ 5,949,147 | $ 5,949,146 |
| | | | |
| 68 | **Stored Water (AF):** | | |
| 69 | **Beginning Balance** | 10,166 | 10,166 |
| 70 | **Add: Purchased Water** | - | - |
| 71 | **Less: Water Produced** | - | - |
| 72 | **Ending Balance** | **10,166** | **10,165** |

PUENTE BASIN WATER AGENCY
STATEMENT OF CASH FLOWS
FY 2020-21

| | | | | |
|---|---|---|---|---|
| | | BEGINNING BALANCE JULY 1, 2020 | | $ 2,504,549.65 |
| Deposits: | | | | |
| | | Rowland | 1,595,334.53 | |
| | | WVWD | 4,335,860.19 | |
| | | Palmdale Water District | 4,999.98 | |
| | | Valley County Water District | 3,000.00 | |
| | | Montebello Land & Water Company | 50,000.00 | |
| | | LAIF-Interest | 8,535.46 | |
| | | Subtotal Deposits | | 5,997,730.16 |
| | | Total Deposits | | 8,502,279.81 |
| | | | | |
| Disbursements | | | | |
| Date | Check # | Payee | | |
| 07/17/20 | EFT | TVMWD | (2,100,199.37) | |
| 08/18/20 | EFT | TVMWD | (1,590,954.77) | |
| 07/15/20 | EFT | Bank of America | (1,054.30) | |
| 09/17/20 | EFT | TVMWD | (1,820,787.17) | |
| 07/01/20 | 1559 | City of La Verne | (51,500.00) | |
| 07/01/20 | 1560 | Water Replenishment District of Southern | (675.50) | |
| 07/09/20 | 1561 | Fedak & Brown | (3,050.00) | |
| 07/09/20 | 1562 | Ferguson Waterworks | (8,531.97) | |
| 07/09/20 | 1563 | LASER LLC | (5,500.00) | |
| 07/09/20 | 1564 | Reeb Government Relations, LLC | (6,000.00) | |
| 07/09/20 | 1565 | Rowland Water District | (408,500.00) | |
| 07/09/20 | 1566 | Walnut Valley Water District | (409,897.64) | |
| 07/15/20 | 1567 | ACWA/JPIA (VOID) | - | |
| 07/15/20 | 1568 | Brkich Construction Corp. (VOID) | - | |
| 07/15/20 | 1569 | Lagerlof, LLP (VOID) | - | |
| 07/15/20 | 1570 | Morrow Meadow (VOID) | - | |
| 07/15/20 | 1571 | Rowland Water District (VOID) | - | |
| 07/15/20 | 1572 | Western Water Works Supply Co. (VOID) | - | |
| 08/06/20 | 1573 | Fedak & Brown | (765.00) | |
| 08/06/20 | 1574 | Lagerlof, LLP | (5,272.50) | |
| 08/06/20 | 1575 | Rowland Water District | (309.83) | |
| 08/06/20 | 1576 | Walnut Valley Water District | (620.85) | |
| 08/11/20 | 1577 | ACWA/JPIA | (2,064.83) | |
| 08/11/20 | 1578 | Brkich Construction Corp. | (76,014.65) | |
| 08/11/20 | 1579 | Lagerlof, LLP | (495.00) | |
| 08/11/20 | 1580 | Morrow Meadow | (1,664.20) | |

| PUENTE BASIN WATER AGENCY<br>STATEMENT OF CASH FLOWS<br>FY 2020-21 | | | | |
|---|---|---|---|---|
| 08/11/20 | 1581 | Rowland Water District | (2,683.53) | |
| 08/11/20 | 1582 | Western Water Works Supply Co. | (38,380.15) | |
| 08/27/20 | 1583 | Brkich Construction Corp. | (49,073.58) | |
| 08/27/20 | 1584 | Lagerlof, LLP | (180.00) | |
| 08/27/20 | 1585 | Reeb Government Relations, LLC | (6,000.00) | |
| 08/27/20 | 1586 | Rowland Water District | (4,980.91) | |
| 08/27/20 | 1587 | San Gabriel Valley Watermaster (VOID) | - | |
| 08/27/20 | 1588 | Walnut Valley Water District | (79.36) | |
| 09/16/20 | 1589 | Fedak & Brown | (765.00) | |
| 09/16/20 | 1590 | Ferguson Waterworks | (4,288.14) | |
| 09/16/20 | 1591 | Lagerlof, LLP | (330.00) | |
| 09/16/20 | 1592 | LASER LLC | (4,900.00) | |
| 09/16/20 | 1593 | Walnut Valley Water District | (1,031.69) | |
| 09/16/20 | 1594 | Woodard & Curran - RMC | (5,400.58) | |
| 09/16/20 | 1595 | San Gabriel Valley Watermaster | (183,420.60) | |
| 09/29/20 | 1596 | Dangelo Co | (16,815.58) | |
| 09/29/20 | 1597 | Ferguson Waterworks | (1,275.76) | |
| 09/29/20 | 1598 | Reeb Government Relations, LLC | (6,000.00) | |
| 09/29/20 | 1599 | Rowland Water District | (3,940.15) | |
| 09/29/20 | 1600 | Woodard & Curran - RMC | (1,951.35) | |
| | | | | |
| | | Total Disbursements | | (6,825,353.96) |
| | | ENDING BALANCE SEPTEMBER 30, 2020 | | $ 1,676,925.85 |
| | | | | |
| | | LAIF | | $ 1,430,588.74 |
| | | Checking | | $ 246,337.11 |
| | | Total Cash Balance | | $ 1,676,925.85 |

# MEMORANDUM

November 30, 2020

**TO:** Dennis F. LaMoreaux, General Manager
Palmdale Water District

Tom Coleman, General Manager/Assistant Administrative Officer
Rowland Water District/Puente Basin Water Agency

Jose L. Martinez, General Manager
Valley County Water District

Erik Hitchman, General Manager/Administrative Officer
Walnut Valley Water District/Puente Basin Water Agency

**FROM:** Bob Reeb and Raquel Ayala
Reeb Government Relations, LLC

**SUBJECT:** 2020 Annual Report

The COVID-19 pandemic presented a crushing blow to the normal course of business in the State Capitol this year, with access to executive branch and legislative representatives severely restricted. Legislative offices were closed to the general public and registered lobbyists for most of the second year of the legislative session, making communications a challenge. The number of bills processed by the Legislature this year was significantly limited as compared to prior years. In a sense, this relative inactivity benefited the Districts as most of the effort to influence the outcome of legislation is expended on the defeat of measures that run counter to the interests of the Districts.

**State Budget**

Governor Newsom presented his proposed state budget to the Legislature on January 10, 2020. At the time, the administration expected revenues for 2019-20 to continue to exceed expectations from the 2019-20 Budget Act. With continued expected revenue growth, the administration anticipated a surplus of about $6 billion for Fiscal Year 2020-21. The Governor proposed allocating that surplus to a variety of purposes, two of the largest of which were homelessness and re-envisioning Medi-Cal.

In March, the state's public health and economic situations began to change dramatically. Governor Newsom declared a state of emergency on March 4 in response to the first confirmed death of a coronavirus patient in California. Later that month, the Governor issued an executive order requiring Californians to shelter in place statewide and requested —and the President approved— a major disaster declaration for the state of California in response to the COVID-19 public health emergency. Meanwhile, California began to experience an unprecedented rise in unemployment. Between March 22 and 28, California processed more than 1 million initial claims for regular unemployment insurance, surpassing the record high prior to COVID-19 by nearly ten times.

Before beginning a recess in mid-March, the Legislature passed SB 89 and SB 117 which authorized the administration to spend up to $1 billion for COVID-19 response and provided funding for schools to purchase equipment and clean facilities. In addition, the administration used its authority under the Disaster Response Emergency Operations Account (DREOA, a subaccount within the State's Fund for Economic Uncertainties) to make additional COVID-19-related expenditures.

The federal government passed Coronavirus relief bills in March and April directing funding to states, local governments, and private entities in response to the COVID-19 emergency. The bills included: the Coronavirus Preparedness and Response Act; the Families First Coronavirus Response Act; the Coronavirus Aid, Relief, and Economic Security (CARES) Act; and the Paycheck Protection Program and Health Care Enhancement Act. Among many other changes, these pieces of legislation provided additional funding for state and local governments to respond to COVID-19; increased the federal share of costs for state Medicaid programs; provided financial assistance to small businesses; increased unemployment insurance benefits; and provided direct, broad-based cash assistance to most individuals. In addition, federal emergency declarations authorized FEMA to provide additional funding to states and local governments to reimburse them for certain COVID-19-related costs.

On May 14, 2020, Governor Newsom presented a revised state budget proposal to the Legislature, which estimated a budget deficit of $54.3 billion by June 30, 2021. The Legislature passed an initial budget on June 15, 2020. A key feature of the initial budget package is that it assumed $14 billion in federal funding would be forthcoming, reducing the need for spending reductions and other actions to balance the budget. The initial budget package also would have reinstated two General Fund payment deferrals, including a fourth quarter payment deferral to California Public Employees' Retirement System (CalPERS) and the state employee payroll deferral.

The Legislature passed a final budget package on June 26, 2020, which assumed that $2 billion in federal funds would be forthcoming and took the Governor's approach in the May Revision to make other spending reductions contingent on other federal money arriving before October. In addition, relative to the June 15 initial package, the final package made several changes, including increasing school deferrals by $3.5 billion (assuming no federal money is forthcoming), increasing revenue assumptions by more than $1 billion, and eliminating the plan to reinstate General Fund payment deferrals. The Governor signed the 2020-21 Budget Act and related budget legislation on June 29, 2020.

Since the initial budget passed, the state has collected more in taxes than expected although budget experts caution that the strong returns reflect pre-recession economic activity in 2019. Tax revenue for the 2019-20 fiscal year, which ended in June, came in more than $1 billion higher than projected, according to the Department of Finance. Revenue from July came in $2.5 billion higher than forecast. Nonetheless, increased state expenditures for unemployment and health and human services led the Department of Finance to project the state faces an $8.7 billion deficit by June 2021.

A November 18 fiscal outlook report issued by the Office of the Legislative Analyst, however, sheds new light on the FY 2021-22 state budget picture. The clear conclusion in the report is that "(W)hile negative economic consequences of the pandemic have been severe, they do not appear to have been catastrophic from a fiscal standpoint as the budget anticipated."

In fact, California state government is overly-reliant on a small segment of taxpayers to generate the bulk of personal, corporate and capital gains tax revenues. And, the LAO found that the revenues generated from those taxpayers has remained robust with "recent data on actual tax collections consistent with a more positive economic picture." What was billed as a one-time $26 billion windfall is likely the norm when it comes to revenues generated from upper-income taxpayers. While the LAO argues that the so-called "windfall" is a one-time occurrence, it argues that General Fund revenues from the state's three largest sources will grow at an average annual rate of less than 1 percent.

"Meanwhile," the LAO report continues, "General Fund expenditures under current law and policy grow at an average 4.4 percent per year. The net result is that the state faces an operating deficit, which is relatively small in 2021-22, but grows to around $17 billion by FY 2024-25."

This begs the question: Is the challenge facing California state government one of revenue or one of spending?

<u>Wildfire Continues to Plague the State</u>

Five of the six largest fires ever recorded in California occurred this year. On October 5, 2020, the August complex fire in northern California expanded beyond 1 million acres, elevating it from a "megafire" to a new classification, "gigafire"; a classification never before used in a contemporary setting in the state. The fire, which burned across several counties, began as a series of separate fires sparked by lightning strikes in August. Those smaller fires later morphed into the larger complex that firefighters battled for three months before being able to fully contain it. Since the beginning of the year, there have been over 9,200 wildfires that have burned well over 4 million acres in California.

The Newsom Administration has focused on increasing resources for CalFire to suppress wildfire, and, together with the Legislature, continues to pour General Fund and Greenhouse Gas Reduction Fund monies into forest and watershed health projects. The latter funding source—intended to provide $250 million a year for four years—has experienced a dramatic drop in auction revenues such that future funding for state priorities is threatened. The 2020-21 State Budget, for example, provides a $130 million loan from the Underground Storage Tank Fund to the Safe and Affordable Drinking Water Fund (also known as SAFER) to account for the loss of GGRF revenue.

<u>Climate Change and California Response</u>

On October 7, 2020, Governor Newsom signed Executive Order N-82-20 setting a first-in-the-nation goal of conserving 30 percent of the state's land and coastal waters by 2030.

Current law declares it to be the policy of the state that the protection and management of natural and working lands is an important strategy in meeting the state's greenhouse gas emissions reduction goals, and requires all state agencies, departments, boards, and commissions to consider this policy when revising, adopting, or establishing policies, regulations, expenditures, or grant criteria relating to the protection and management of natural and working lands.

EO N-82-20 directs the California Natural Resources Agency (CNRA) to establish the California Biodiversity Collaborative (Collaborative) with the purpose of bringing together governmental partners, California Native American tribes, experts, business and community leaders and stakeholders from across the state to protect and restore the State's biodiversity. According to the Order, the Collaborative would advise state agencies in the development of strategies for achieving the 30 by 2030 goal. These strategies are to be developed and reported to the Governor by February 1, 2022; and must, among other things, safeguard the state's economic sustainability and food security.

The Order directs CNRA to use existing authorities and resources to identify and implement near-and long-term actions to accelerate natural removal of carbon and build climate resilience in the State's forests, wetlands, urban greenspaces, agricultural soils, and land conservation activities in ways that serve all communities; in particular low-income, disadvantaged and vulnerable communities. CNRA must develop within a year of this Order a Natural and Working Lands Climate Smart Strategy to serve as a framework towards the State's carbon neutrality goal and climate resiliency.

The Executive Order is similar to legislation introduced this year by Assemblymember Ash Kalra (D-San Jose) which died in the Senate after being held in the Senate Appropriations Suspense File. Assemblymember Kalra's AB 3030 would have declared it to be the goal of the state to protect at least 30 percent of the State's land areas and waters by 2030. The bill would have gone further to also establish it to be the goal of the state to help advance the protections of 30 percent of the nation's oceans, and to support regional, national, and international efforts to protect at least 30% of the world's land areas and waters, and 30 percent of the world's oceans by 2030.

Association of California Water Agencies (ACWA) and other water organizations opposed AB 3030, and requested that the bill be amended to among other things, remove all references to water from the bill, clarify that the implementation of this policy would include voluntary cooperation with public agencies, and clarify that the goal of conserving 30 percent of the State's land area is "aspirational". While ACWA is supportive of protecting California's rich biodiversity and the water resources upon which many species and people depend, it was concerned that the ambiguity of the bill's language created a confusing and likely contentious state policy which would have failed to promote the collaboration necessary to achieve meaningful conservation in California.

In the press conference where he announced the new executive order, Governor Newsom stated that the state cannot turn a blind eye to climate change any longer and the signs are right in front of us.

"Hottest recorded temperatures ever in modern recorded world history that we experienced seven plus weeks ago in the Death Valley, California - 130 degrees. This is real," Governor Newsom said.

EO N-82-20 comes on the heels of an executive order signed last month mandating that all new passenger vehicles sold in the state be zero-emission by 2035; as well as a call for a ban on fracking oil and gas in California.

"As we work to mitigate greenhouse gas emissions, we must also accelerate actions to enable the State to adapt and become more resilient to the impacts of climate change, including expanding nature-based solutions – the use of sustainable land management practices to tackle environmental, social and economic challenges," Governor Newsom said in the Order.

**Climate Resilience Bonds**

As the second year of the two-year session began, and with state revenues expected to continue to increase, Governor Newsom and Democratic members of both houses signaled interest in placing a state general obligation bond for climate resilience projects on the November ballot. Governor Newsom's Department of Finance released a budget trailer bill that proposed a $4.75 billion climate resiliency bond proposal; Senator Ben Allen (D-Santa Monica) authored SB 45 which proposed a $5.51 billion bond proposal, and Assembly Member Eduardo Garcia (D-Coachella) introduced AB 3256 which did not specify the total amount of bonds that would be authorized. As amended in June, AB 3256 would enact the Economic Recovery, Wildfire Prevention, Safe Drinking Water, Drought Preparation, and Flood Protection Bond Act of 2020, which, if approved by the voters, would authorize the issuance of bonds in the amount of $6.98 billion to finance projects for an economic recovery, wildfire prevention, safe drinking water, drought preparation, and flood protection program. Of the total funding, only $755 million would be allocated for traditional water infrastructure financing, including competitive grants for projects that support sustainable groundwater management implementation ($395 million), and safe drinking water ($360 million). In addition, $150 million for flood protection projects was limited to multibenefit projects that included a preference for natural infrastructure.

In the face of projected state budget deficits over the next several years, Governor Newsom removed his climate resiliency bond proposal from his Budget May Revision, with Legislators following suit shortly after.

A study done in May by the Bay Area Council Economic Institute on the "Economic Impacts of Climate Resilience Bond Investments in California", found that climate resilience investments not only provide environmental benefits to the state, but also significant employment and provide economic stimulus. A package of climate resilience expenditures in California can support nearly 120,000 full-time equivalent jobs under an $8 billion spending program, or nearly 75,000 jobs under a smaller $5 billion package. The study found these investments also have the potential to save billions of dollars in the long term by presenting or reducing the magnitude of damage that climate-induced natural disasters cause.

**Activity in the Legislature**

The Districts began the year actively monitoring or engaging in direct lobbying on over 39 bills. Many of these bills were dropped throughout the session due to the abbreviated legislative session. Below, we highlight a handful of bills the Districts were active on this year. Although some of these bills received limited review, we included them in this list as they may be reintroduced in the 2021-22 legislative session.

Emergency backup generators: water and wastewater facilities

Assembly Bill 2182, by Assemblymember Blanca Rubio (D-Baldwin Park), sought to exempt the operation of an alternative power source relied on to provide power to a critical facility, including water and wastewater facilities, from any local, regional, or state regulation regarding the operation of that source. The bill would have authorized providers of essential public services, in lieu of compliance with applicable legal requirements, to comply with the maintenance and testing procedure set forth in the National Fire Protection Association Standard for Emergency and Standby Power System, NFPA 110, for alternative power sources designated by the providers for the support of critical facilities.

The legislation defined “water and wastewater facilities” to mean water and wastewater facilities critical to maintain public health and safety standards, including, but not limited to, treatment plants, pumping stations and other storage facilities, and water facilities needed to maintain water service and water pressure necessary for firefighting. The legislation would have provided the exemption for periods during a “deenergization event” that the legislation defined to mean the loss of electricity to a critical facility due to an emergency, including, but not limited to, wildfire.

The Districts took a “support” position on the bill. However, the bill’s first hearing set for March 16 in the Assembly Committee of Utilities and Energy was postponed by the committee to an undetermined date.

The bill died in the Assembly after failing to meet the June 5 legislative deadline for non-fiscal bills to be heard in committee and reported to their house floor. While the Author’s office has expressed a willingness to carry this bill proposal again next year, a similar fate was visited upon SB 1099 by Senator Bill Dodd (D-Napa), which is discussed later in this report.

State Water Resources Control Board: local primacy delegation funding

The State Water Resources Control Board (State Water Board or Board) has regulatory oversight over about 7,500 public drinking water systems in California. Thirty of California’s 58 counties have Local Primacy Agency (LPA) delegation agreements with the State Water Board, and therefore have primary responsibility of regulatory oversight of the public drinking water systems in their counties. LPA counties regulate a total of approximately 4,500 public drinking water systems, which consist of community water systems with more than 14 and less than 200 connections, non-community non-transient systems, and non-community transient systems.

Assembly Bill 2296, authored by Assemblymember Bill Quirk (D-Hayward), included provisions similar to AB 402 of 2019 by the same author. The legislation addresses the relationship between the State Water Board and LPAs. Last year, ACWA and its members opposed AB 402 due to a provision that would create a new funding stabilization program that would provide State funds to the LPAs to enhance the ability to provide oversight and enforcement activity. Proponents of the new funding approach argue that currently LPAs cannot impose fees on small water systems at a level that enables the LPA to recover its costs.

AB 2296 would authorize any LPA, with approval of the State Water Board, to elect to participate in a funding stabilization program effective for the 2022–23 fiscal year and fiscal years thereafter. The bill would require a public water system under the jurisdiction of a LPA participating in the funding stabilization program to pay the fees to the State Water Board, and would require the Board to provide funding to the LPA each year for the reasonable costs incurred for the implementation of activities set forth in the work plan submitted by the LPA to, and approved by, the Board. The bill would prohibit a participating LPA from charging a public water system any fee in addition to the fees established and collected by the funding stabilization program for the activities in the LPA work plan and would require all fines, penalties, and reimbursement of costs collected by such a LPA to be remitted to the Board for deposit in the Safe Drinking Water Account.

ACWA, California Municipal Utilities Association (CMUA), and their members did not oppose AB 2296 despite concern that the revenue that the State Water Board will rely on to pay the costs of the funding stabilization program will come from the Safe Drinking Water Account, which places a greater funding burden on larger public water systems--the same systems that rarely require regulatory actions to be undertaken by the State Water Board. Proponents of the legislation convinced ACWA and others that, as more counties return primacy to the State Water Board--seven have done so over the past 15 years, the Board will resume responsibility for oversight of the smaller systems and that the revenue relied on to support the Board’s efforts will come from the Safe Drinking Water Account.

AB 2296 passed the Assembly on a 63-6 vote and the Senate on a 29-9 vote, and was sent to the Governor’s desk for his signature. On September 29, Governor Newsom returned the bill to the Assembly without his signature. In his veto message, Governor Newsom stated:

> *“This bill would authorize Local Primacy Agency (LPA) counties to elect to participate in a funding stabilization program, administered by the State Water Resources Control Board (State Water Board), to fund regulatory oversight of small public drinking water systems. The goal of stabilizing the funding that is needed to assist LPA's with providing proper regulatory oversight of small water systems is laudable and fits into the state's overarching goal of achieving clean drinking water for every Californian. However, to the extent that LPA counties choose to participate in the new funding stabilization program authorized by the bill, the State Water Board would need to raise fees to cover the costs of the program. If participation among LPAs is high, the total funding needed from the Safe Drinking Water Account to administer the funding stabilization program would almost certainly exceed the statutory funding cap and as a result the State Water Board would be unable to implement the program.”*

Water Quality: Notification and Response Levels

The California Safe Drinking Water Act requires the State Water Board to adopt drinking water standards for contaminants in drinking water based upon specified criteria and requires any person who owns a public water system to ensure that the system, among other things, complies with those drinking water standards. The Act requires a public water system to provide prescribed notices within 30 days after it is first informed of a confirmed detection of a contaminant found in drinking water delivered by the public water system for human consumption that is in excess of a maximum contaminant level, a notification level, or a response level established by the State Water Board.

Assembly Bill 2560, by Assemblymember Bill Quirk (D-Hayward), would require the State Water Board to comply with public notice and comment and peer review procedures before establishing or revising notification or response levels. The legislation would require the State Water Board to (1) electronically post on its internet website and distribute through email a notice informing interested persons that the State Water Board has initiated the development of a notification or response level, (2) electronically post on its internet website and distribute through electronic mail a notice that a draft notification or response level is available. Notice and document availability must occur at least 45 calendar days before finalizing the notification or response level, (3) submit its draft notification or response level for external peer review, and (4) take a formal action to finalize and adopt the notification or response level.

This bill is in response to recent actions taken by the State Water Board to issue new regulations related to the presence of PFAS/PFOS chemicals in drinking water. The intent of the legislation is to require greater transparency on the part of the State Water Board and to provide greater access by public water systems to the State Water Board and its staff during the deliberative process regarding the establishment or revision of notification or response levels. To do otherwise, likely results in the abandonment of drinking water sources due to a lack of time or resources to address the contaminant, and may unnecessarily reduce public confidence in drinking water quality.

The Districts took a “support” position on the bill arguing that an open and transparent process that includes the opportunity to review and comment is essential to enable public water systems to appropriately plan and respond to safe drinking water threats.

The bill passed both chambers with bipartisan support and was signed into law on September 20. (Chapter 350, Statutes of 2020)

Emergency backup generators: critical facilities

Current law imposes limitations on emissions of air contaminants for the control of air pollution from vehicular and non-vehicular sources. Current law generally designates air pollution control and air quality management districts with the primary responsibility for the control of air pollution from all sources other than vehicular sources.

Consistent with federal law, Senate Bill 1099, by Senator Bill Dodd (D-Napa), would require air districts to adopt a rule, or revise its existing rules, to allow critical facilities with a permitted emergency backup generator to use that emergency backup generator during a deenergization event or other loss of power, and to test and maintain that emergency backup generator without having that usage, testing, or maintenance count toward that emergency backup generator’s time limitation on actual usage and routine testing and maintenance. The bill would prohibit air districts from imposing a fee on the issuance or renew of a permit issued for those critical facility emergency backup generators.

Electric utility providers have adopted the use of Public Safety Power Shutoff (PSPS) events to protect lives and property from uncontrolled wildfires. The loss of power due to these deenergization events can last for several days and has created significant operational and cost impacts on local agency water and wastewater utilities. One such operational impact is the extended use of emergency backup generators, which not only imposes costs, but leads to the potential violation of strict air quality regulatory requirements.

The bill passed in the Senate with a 37-0 vote. The bill died in the Assembly, after failing to meet the June 29 legislative deadline for fiscal bills to be heard in policy committees and referred to fiscal committees. Senator Dodd and California Municipal Utilities Association, which sponsored the legislation, worked tirelessly to reach a compromise with the South Coast Air Quality Management District to establish a streamlined process by which generator owners and operators could secure regulatory relief from strict air quality regulations. In the end, a compromise was achieved and SB 1099 became unnecessary. While an outright exemption for emergency operations during a PSPS was not secured, a streamlined process is expected to be produced by the South Coast air district that could lead to similar actions by air districts in other areas of California.

Assessments, fees, and charges: water: hydrants

The California Constitution specifies various requirements with respect to the levying of assessments and property-related fees and charges by a local agency, including requiring that the local agency provide public notice and a majority protest procedure for property owners subject to the fee or charge for water service. The Proposition 218 Omnibus Implementation Act prescribes specific procedures and parameters for local jurisdictions to comply with these requirements and defines the term water for these purposes to mean any system of public improvements intended to provide for the production, storage, supply, treatment, or distribution of water from any source.

Senate Bill 1386, by Senator John Moorlach (R-Costa Mesa), would specify that, for the purposes of the Proposition 218 Implementation Act, the fees or charges for property-related water service may include the costs to construct and maintain fire hydrants and may include the cost of the water distributed through the hydrants. Additionally, the bill defines hydrant to mean all hydrants and related infrastructure owned by a water service provider for distributing water that aids in the protection of property from fire.

The Districts took a “support” position on the bill arguing that the provisions of SB 1386 are consistent with long-standing utility service practices in California that only recently have come into question due to specious litigation. The clarification proposed by SB 1386 is consistent with urban retail water supplier understanding of their existing authority relating to cost recovery for public hydrants. The Districts usually ask the Legislature to refrain from action on legislation that would interfere with pending litigation. In this instance, however, the Districts believe legislative action is appropriate to declare that which the Districts believe to be existing law.

Governor Newsom signed SB 1386 into law on September 29. (Chapter No. 240, Statutes of 2020)

Electricity: microgrids

The United States Department of Energy Microgrid Exchange Group defines a microgrid as a group of interconnected loads and distributed energy resources (DERs) within clearly defined electrical boundaries that acts as a single controllable entity with respect to the grid. A microgrid can connect and disconnect from the grid to enable it to operate in both connected or island-mode. Microgrids also offer the security of being hardened from severe weather and natural disasters, or from deenergization events, by not having large assets and miles of above-ground wires and other electric infrastructure that needs to be maintained or repaired following these events.

Senate Bill 1215, by Senator Henry Stern (D-Los Angeles), would require the California Public Utilities Commission (CPUC), in consultation with the Office of Emergency Services (OES), to create a database of critical facilities and critical infrastructure, and related critical circuits that are located in tier 2 or tier 3 high fire-threat districts served by electrical corporations, and identify with respect to each whether it serves low-income households or low-income communities.

The bill would require an electrical corporation, upon request, to collaborate with local governments or community choice aggregators within its service area to identify critical circuits and microgrid projects, and would authorize the listed entities and local publicly owned utilities to use capacity resulting from a microgrid project to satisfy specified resource adequacy requirements. The bill would also require electrical corporations to provide local governments, tribal governments, and community choice aggregators with electrical distribution equipment data, transmission and distribution circuit data, grid hardening plans, and other information requested by those entities to ensure that they are able to plan and develop microgrid projects collaboratively with the electrical corporations. The bill would authorize the electrical corporations to require the use of a commission-approved nondisclosure agreement before providing the requested information.

The bill defines “local government” to mean a city, county, or city and county.

WVWD supported SB 1215 efforts to provide local governments with the tools to better prepare for the next PSPS event. On that same note, the District requested that the bill’s definition of “local government” be amended to include either “special districts” or “other political subdivisions of the state”. The District argued that, as recognized by the bill’s findings and declarations, just like cities, counties, and cities and counties, special districts affected by deenergization events have essential government services shut down during PSPS events, affecting public health and safety.

SB 1215 passed the Senate on a 28-8 vote. The bill died in the Assembly after failing to meet the July 1 deadline for bills to be heard and referred out of policy committee.

**What Lies Ahead**

The results of the November 2020 election have not been certified as of this writing, but it is clear that Democratic Party control of the California Legislature continues unabated. Democrats expanded their control of the Senate by picking up two seats and will enter the 2021-22 Regular Session with a 30-9 advantage. Senate District No. 30 will be vacant due to the election of Senator Holly Mitchell to the Los Angeles County Board of Supervisors. The District is a safe Democratic district. In the Assembly, Republicans picked up one seat, but the Democrats will still hold 60 of the 80 district seats (one member is registered No Party Preference).

The California Citizens Redistricting Commission is working on its decennial re-establishment of the boundaries of its Congressional, State Senate, State Assembly, and State Board of Equalization districts to reflect new population data and shifting populations. The work of the Commission will not likely result in more competitive legislative seats, meaning the intra-party battles between centrist and progressive elements in the Democratic Party and centrist and conservative elements in the Republican Party will be the focus of campaigns going forward.

Hopefully, the availability of a vaccine in response to COVID-19 (SARS-CoV-2) will enable the Legislature to return to its normal course of conducting its session sometime next year. We anticipate a continued focus on wildfire response and forest health, affordable housing, homelessness, and COVID-19 issues. Work on a resources or climate resilience state general obligation bond is also expected in 2021, although a final proposal may not come until the spring of 2022 as a proposal would not appear on the statewide ballot until November 2022. Finally, Governor Newsom and the Legislature will be focused on crafting a state budget in the first half of 2021, which will be heavily influenced first by the state's economic picture in the face of the COVID-19 pandemic, and second, on spending priorities that outstrip existing (and projected) revenues. The latter portends new efforts to increase state revenues through tax increase proposals, which at some juncture could involve the resurrection of a water tax to provide low income rate assistance, among other items.

**RESOLUTION NO. 12-20-016**

**A RESOLUTION OF THE PUENTE BASIN WATER AGENCY ESTABLISHING CALENDAR YEAR 2021 MEETING SCHEDULE**

**WHEREAS**, the Board of Commissioners of the Puente Basin Water Agency (the “Commission”) is required to set an annual meeting calendar to establish dates and times to assist the Commissioners and staff with advance planning and scheduling of business; and

**WHEREAS,** in accordance with California Government Code Section 54954, the following calendar is established, notwithstanding the possible scheduling of additional meetings or meetings on alternative dates, as required upon proper notice under the Brown Act, and by proper motion and vote of the Commission,

**NOW, THEREFORE,** the Board of Commissioners of the Puente Basin Water Agency hereby adopts the following resolutions:

SECTION 1: The Commission establishes the following meeting schedule and meeting locations for the Calendar Year of 2021:

| Date | Time | Location |
|---|---|---|
| February 4, 2021* | 7:00 a.m. | Rowland Water District |
| April 1, 2021** | 7:00 a.m. | Walnut Valley Water District |
| June 3, 2021 | 7:00 a.m. | Rowland Water District |
| August 5, 2021 | 7:00 a.m. | Walnut Valley Water District |
| October 7, 2021 | 7:00 a.m. | Rowland Water District |
| December 2, 2021 | 7:00 a.m. | Walnut Valley Water District |

** The annual meeting to designate Commission Officers, leadership, and staff positions.*
*** The annual budget meeting shall be held no later than the third week of April*

SECTION 2: With proper notice during the year, meetings may be cancelled, rescheduled, or added as necessary pursuant to California law by motion duly approved by a majority of the Commissioners.

SECTION 3: The Secretary of the Commission shall certify to the adoption of this resolution.

**PASSED by roll call vote and ADOPTED this 10th day of December, 2020.**

Attest:

____________________________________
Chair, Puente Basin Water Agency

____________________________________
Secretary, Puente Basin Water Agency

____________________________________
Legal Counsel

# PBWA MEETINGS

## 2021 Calendar

| JANUARY | | | | | | |
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| DECEMBER | | | | | | |
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### Holidays

**January**

1 New Year's Day

18 Martin Luther King, Jr. Day

**February**

15 President's Day

**May**

31 Memorial Day

**July**

4 Independence Day

**September**

6 Labor Day

**November**

11 Veterans' Day

25 Thanksgiving Day

**December**

25 Christmas Day

**All PBWA meeting are scheduled to begin at 7:00 A.M.**

December 10, 2020

TO: Board of Commissioners
FROM: Erik Hitchman, Administrative Officer
RE: Commission Follow-Up

## Recommendation

For information only.

## Background

Following is an update regarding matters that have recently come before the Commission.

| Item | Meeting Date | Commission Activity | Completed | Follow-Up |
|---|---|---|---|---|
| PBWA Legislative Activities: Engagement of Lobbyist | 10/1/2020 | Authorize the Administrative Officer to enter into an agreement with Reeb Government Relations, LLC for lobbying services at the cost of $6,000 per month. | 10/22/2020: Mailed updated agreement to Reeb Government Relations, LLC for execution. | Pending |
| Pomona Basin Regional Groundwater Project: Award of Professional Engineering Services Contract for the Six Basins Project (Phase 2) – Durward Well Development & Equipping (P.N. PB18-0005) | 10/1/2020 | Authorize the award of contract to Civiltec Engineering, Inc. (Civiltec) to prepare the preliminary design report (PDR), final design, and provide partial construction oversight services for the Six Basins Project (Phase 2) – Durward Well Development & Equipping at a cost of $248,517. | 11/03/2020: Received executed agreement from Civiltec Engineering, Inc. | None. |