



September 30, 2016

The Honorable Pedro Nava, Chairman
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

Subject: Little Hoover Commission Hearing on Special Districts

Dear Chairman Nava:

Eastern Municipal Water District (EMWD), would like to express appreciation to the Little Hoover Commission (Commission) for its willingness to have a thorough and thoughtful dialogue on California's special districts. EMWD provided verbal testimony during the hearing on Thursday, August 25, 2016, and we wish to submit this written correspondence to provide clarification and correct inaccuracies expressed in written testimony submitted by panelists prior to the hearing.

EMWD is a water, wastewater, and recycled water provider to 795,000 residents within a 555-square mile territory serving seven cities and a portion of the unincorporated county within western Riverside County. Formed in 1950, EMWD was created to import water from the Colorado River Aqueduct and later from the Sacramento-San Joaquin Delta by way of the Metropolitan Water District of Southern California to farming communities in western Riverside County. Since that time, EMWD has diversified its water supply portfolio to include a variety of local sources including groundwater, desalinated brackish groundwater, and recycled water supplies.

Since 2000, EMWD has almost doubled in size – and the region is projected to grow by yet another 500,000 people over the next 25 years. High growth regions, such as ours, must anticipate and adjust for the growth to keep pace with demand and ensure that the development of new local water supply options is available to address the needs of a growing population. In response, EMWD has advanced a number of local and regional infrastructure projects designed to reclaim, treat, and redistribute supplies throughout the region. In order

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to sustain a viable and highly reliable system, water and wastewater providers must maintain adequate financial reserves necessary to develop new water supplies, fund capital infrastructure projects necessary for long-term growth, establish mandated local match requirements for grants from state and federal funding agencies, demonstrate financial strength to rating agencies in order to keep borrowing costs low, proactively address repair and replacement needs, and be prepared to address emergency repair situations.

EMWD's financial resources have allowed it to provide steady, reliable and cost-effective service throughout the growth of recent years and have further enabled EMWD to withstand five years of intense drought coupled with state mandated water use reductions – both of which have resulted in significant financial consequences for many agencies due to drastically reduced water sales.

Since the last Commission report on special districts, EMWD has advanced a number of policy and program reforms to secure both its water supplies and its financial resources. Policy reforms for the management and transparent reporting of funds have included:

- Passage of Board-adopted policy principles governing the use of reserves and revenues;
- Adoption and on-line posting of EMWD's Administrative Code which is a comprehensive document of all Board adopted policies;
- Yearly reporting and online posting of EMWD's award-winning Comprehensive Annual Financial Reports (CAFR);
- Adoption of multi-year capital improvement plans;
- Adoption of agency strategic plans detailing vision, mission, policy, financial goals, and community interaction strategy;
- Compliance with all state and federal financial reporting and transparency requirements – including Proposition 218 rate and fee notifications, and State Controller required financial data and compensation reporting; and
- Public adoption and website postings of agency budgets, salary schedules, salary classification and reimbursements in amounts exceeding one-hundred dollars.

EMWD strives to work collaboratively with the community, regional developers, and local jurisdictions to establish a vision for addressing the water needs of the region in an open and transparent manner. Much thought and preparation has been given to develop the advanced system necessary to provide dedicated water, sewer, and recycled water to the region.

Misreporting of Funds by the Howard Jarvis Taxpayer Association Testimony

EMWD is dedicated to addressing the reporting standards required by state and federal regulators and providing information that is accurate and transparent, and takes great pride in

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doing so. Misreporting the financial information and mischaracterizing EMWD's "Net Position" as cash on-hand is harmful to an agency's standing in the community and misleads for the purpose of sensationalism - and therefore must be corrected.

In their written public testimony provided prior to the August 25, 2016 the Howard Jarvis Tax Payer's Association identified EMWD's "Statement of Net Position" as cash on-hand, and alluded to the listed service providers targeted in the testimony as "...abusing public trust by hoarding vast sums of money." Over ninety-percent of EMWD's net position is comprised of capital assets in operation currently delivering essential services to its customers. The net position also includes long-term obligations that need to be repaid. Specific to EMWD, the District's net position includes:

- Capital assets/ infrastructure (water treatment plants, pipelines and equipment; wastewater treatment plants and equipment; water rights, meters, laterals, general "in-the-ground" facilities, land, etc.);
- EMWD obligations including State Revolving Fund loans, revenue bonds, other debt and payables; and
- Pension and employee obligations.

EMWD's Net Position assets are not resources that can be allocated, or reassigned given the fixed nature of much of the liabilities.

Reserves and Property Taxes

EMWD maintains prudent cash reserves, and has adopted policy principles - both before 2000 and then enhanced after the release of the 2000 Commission report - to govern reserves. A majority of EMWD's reserves are completely restricted and must go to its capital improvement program for infrastructure improvements and bond debt service obligations. These obligations typically include designated construction costs for wastewater treatment plant expansion, recycled water expansion, sewer collection system expansion, water tank capacity, etc. Additionally, restricted reserve assets include irrevocable trusts and accounts to fund other long-term obligations responsibly, including healthcare, pensions, and taxes.

The unrestricted reserves allow EMWD to absorb unanticipated cost increases in imported water supply and electricity increases, allocate resources to critical infrastructure replacement, and represents less than six months' emergency operating resources (an industry best practice for sensible fiscal viability).

The EMWD-adopted reserve policy has funding limits for each of its designated reserves within its four main funding categories of operations, construction, debt service, and trust. The

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reserves are essential for maintaining liquidity in the marketplace, which enables EMWD to access the lowest cost capital borrowing opportunities. Securing these low-interest rates helps ensure minimal rate increases for the benefit of our customers.

Again, we thank the Commission for the opportunity to provide comments and welcomes the opportunity to further discuss its additional fiscal management policies and practices with staff or Commission members. Please consider EMWD as a resource while the Commission develops recommendations. I can be contacted at 951-928-6130 or by email at jonesp@emwd.org, or EMWD's Sacramento advocate, Ron Davis can be contacted at (916) 492-6082 or by email rdavis1228@gmail.com.

Sincerely,



Paul D. Jones II, P.E.
General Manager

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