San Diego County Water Authority
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September 16, 2016

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

MEMBER AGENCIES

Carlsbad Municipal Water District
City of Del Mar
City of Escondido
City of National City
City of Oceanside
City of Poway
City of San Diego
Fallbrook Public Utility District
Helix Water District
Olivenhain Municipal Water District
Otay Water District
Padre Dam Municipal Water District
Camp Pendleton Marine Corps Base
Rainbow Municipal Water District
Ramona Municipal Water District
Rincon del Diablo Municipal Water District
San Dieguito Water District
Santa Fe Irrigation District
South Bay Irrigation District
Vallecitos Water District
Valley Center Municipal Water District
Vista Irrigation District
Yuima Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

SUBJECT: Little Hoover Commission Review of California Special Districts

Dear Chairman Nava:

On behalf of the San Diego County Water Authority, I would like to share our perspective on Water Authority property tax revenue, fund equity, and reserve balances to dispel the inaccurate information provided by a panelist at your August 25, 2016 hearing regarding California special districts.

The Water Authority is a public agency serving the San Diego region as a wholesale supplier of water from the Colorado River, Northern California, and through locally-developed sources. The Water Authority works through its 24 member agencies to provide a safe, reliable water supply to support the region's $222 billion economy and the quality of life of 3.3 million residents.

While we were disappointed that the information provided to the Commission during its August 25 hearing by one of the panelists was not helpful in advancing the dialogue regarding California special districts, and was actually detrimental to a transparent and fact-based understanding of special district financial matters, we welcome this opportunity to provide some background regarding the Water Authority's fiscal practices.

Specifically, one of your panelists presented the following testimony to the Commission:

*In San Diego, **property tax revenues** jumped from $4 million to $12 million for the county water authority while the **fund equity** increased by over $900 million to $1.5 billion. (emph.added)*

Property Tax Revenues

The $4 million figure for property tax revenues actually appears to be an accurate figure for property tax revenue received by the Water Authority in FY2006. However, the use of the FY2006 figure is lacking in context, and is particularly misleading when compared to FY2015 tax revenues, because in 2004 there was a statewide shift of local property tax revenues to the Educational Revenue Augmentation Fund (ERAF) to backfill school funding, and that ERAF shift lasted through 2006. The 2006 shift from the Water Authority to ERAF amounted to approximately $5.8 million. Therefore, the total property tax revenue that would have been received by the Water Authority in 2006, absent the ERAF shift, was approximately $9.8 million. Comparing this more accurate 2006 property tax revenue figure to the $11.5 million

amount received in FY2015 results in a $1.6 million, or 17 percent, increase. The August 25th panelist had implied that the Water Authority's property tax revenue collection had increased more than 180 percent, based on the use of misleading 2006 data that failed to acknowledge or disclose the nearly $6 million ERAF shift that year. Additionally, it should be noted that property tax revenues are based on assessed value of property, so property tax revenue can increase or decrease depending on real estate values.

Fund Equity

It is unclear why the August 25th panelist used "fund equity" figures in his testimony. Fund equity is simply the difference between assets and liabilities of governmental funds. It is absolutely **not** a representation of "spendable" or liquid reserve assets, which is apparently the implication the panelist appears to advance in his testimony.

While it is correct that the Water Authority's fund equity grew from $935 million to $1.5 billion over a period of 10 years, not all of fund equity is "spendable" or "liquid" as was implied. The following chart represents the breakdown of the Water Authority's fund equity in FY 2015 compared with FY 2006:

	Fund Equity		
	FY2015	FY2006	Actual $ Change (over 10 years)
Net Investment in Capital Assets	$ 1,102,128,000	$ 540,181,000	$ 561,947,000
Restricted for Construction Projects	143,366,000	289,267,000	(145,901,000)
Restricted for Debt Service	114,000	69,195,000	(69,081,000)
Unrestricted	250,965,000	36,134,000	214,831,000
Total	$ 1,496,573,000	$ 934,777,000	$ 561,796,000

Fund Equity is comprised of several different categories of funds, including:

- **Net Investment in Capital Assets:** This category represents the undepreciated balance of all capital assets owned and used by the Water Authority to conduct its operations.

- **Restricted for Construction Projects**: This category represent monies set aside from the issuance of debt to pay for capital projects or to be maintained for the pay down of outstanding debt.

- **Restricted for Debt Service**: This category also represents monies set aside from the issuance of debt to pay for capital projects or to be maintained for the pay down of outstanding debt.

- **Unrestricted:** This category includes monies set aside and dedicated for a number of different categories, including:
  - Operating fund (3.25%)
  - Stored Water fund (38.99%)
  - Equipment Replacement fund (2.04%)
  - Rate Stabilization fund (45.98%)
  - Unreserved (9.73%)

The reserves all serve important purposes and ensure that the Water Authority is able to meet its needs into the future. Furthermore, maintaining such responsible reserve balances is important for the Water Authority's bond rating. The Water Authority enjoys a AAA bond rating[1], which helps to reduce costs on ratepayers by ensuring that debt issued by the Water Authority is attractive to investors.

Thank you for the opportunity to correct the erroneous and misleading testimony presented to the Commission during your August 25, 2016 hearing. Please call me if you have any questions.

Sincerely,

Maureen A. Stapleton,
General Manager

[1] Standard & Poor's Financial Services rating. Additional bond credit ratings include: Aa2 by Moody's Investors Service, and AA+ by Fitch Ratings