



**SPECIAL**

**BOARD OF DIRECTORS MEETING**

**September 6, 2018**

**2:00 p.m.**

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**City of Ontario – Council Chambers  
303 E. “B” Street, Ontario, CA**

**SPECIAL BOARD MEETING OF  
THE BOARD OF DIRECTORS  
CHINO BASIN DESALTER AUTHORITY**

September 6, 2018

**2:00 p.m.**

Council Chambers, of the City of Ontario  
303 E. "B" Street, Ontario, CA

*All documents available for public review are on file with the Authority's secretary located at  
2151 S. Haven Avenue, Suite 202, Ontario, CA 91761.*

## AGENDA

### **Call to Order**

### **Flag Salute**

**Public Comment:** Members of the public may address the Board at this time on any non-agenda matter. *Please complete a Comment Card and give it to the Secretary. Comments are limited to three (3) minutes per individual. State your name and address for the record before making your presentation. This request is optional, but very helpful for the follow-up process.*

*Under the provisions of the Brown Act, the CDA Board is prohibited from taking action on oral requests. However, Board Members may respond briefly or refer the communication to staff. The CDA Board may also request the Secretary to calendar an item related to your communication at a future CDA Board meeting.*

### **ACTION ITEMS**

*Prior to action of the CDA Board, any member of the audience will have the opportunity to address the CDA Board on any item listed on the agenda, including those on any consent calendar. Please submit a comment card to the secretary with the agenda item number noted.*

**1. MINUTES OF AUGUST 16, 2018 SPECIAL BOARD MEETING**

**2. PURCHASE OF REVERSE OSMOSIS (RO) MEMBRANE ELEMENTS**

Report by: Todd Minten, CDA Operations Manager

**Staff Recommendation:**

1. Approve a purchase order with Dow Water & Process Solutions for the supply and installation of RO membrane elements in the amount of \$401,625.00.

**3. ADOPTION OF CHINO BASIN DESALTER AUTHORITY'S REVISED RESERVE POLICY**

Report by: Michael Chung, CFO/Treasurer

**Staff Recommendation:**

1. Approve the Chino Basin Desalter Authority's Reserve Policy as submitted; and
2. Adopt Resolution 2019-01 approving the CDA's Revised Reserve Policy.

**Staff Comments:**

- (i) Deputy CDA General Counsel, Allison Burns
- (ii) CDA CFO/Treasurer, Michael Chung
- (iii) CDA General Manager/CEO, Curtis Paxton

**CLOSED SESSION**

*The Authority may adjourn to a Closed Session to consider litigation matters, personnel matters, or other matters as provided for in the Ralph M. Brown Act (Section 54950 et seq., of the Government Code).*

- 4. **CONFERENCE WITH REAL PROPERTY NEGOTIATORS**  
**Property: APN 0218-231-13, 15, City of Ontario**  
**CDA Negotiators: Curtis Paxton, Allison Burns**  
**Negotiating parties: SC Ontario Development Company**  
**Under negotiation: Price and terms of payment**
  
- 5. **CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION:**  
**CONSIDERATION OF INITIATION OF LITIGATION PURSUANT TO GOVERNMENT**  
**CODE SECTION 54956.9(D)(4)**  
**(TWO POTENTIAL CASES)**
  
- 6. **CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION:**  
**SIGNIFICANT EXPOSURE TO LITIGATION PURSUANT TO GOVERNMENT**  
**CODE SECTION 54956.9(D)(2)**  
**(ONE POTENTIAL CASE)**
  
- 7. **Pursuant to Government Code section 54957:**  
**PUBLIC EMPLOYEE APPOINTMENT**  
**Title: General Manager**

**Directors Comments:**

**ADJOURNMENT – To the Regular Meeting on October 4, 2018**

***Declaration of Posting***

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I, Casey Costa, Executive Assistant to the Chino Basin Desalter Authority, hereby certify that a copy of this agenda has been posted by 2:00 p.m. at the Chino Basin Desalter Authority's main office, 2151 S. Haven Ave., Ontario, CA on Monday, September 3, 2018.

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Casey Costa, Executive Assistant



# Board of Directors Meeting

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## Agenda Item

**No. 1**

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SPECIAL MEETING OF THE  
BOARD OF DIRECTORS OF THE  
CHINO BASIN DESALTER AUTHORITY

MINUTES

August 16, 2018

The Special Meeting of the Board of Directors of the Chino Basin Desalter Authority was held at the City of Ontario, 303 E. "B" Street, Ontario, CA, on the above date. The meeting was called to order at 2:00 p.m. by Greg Newton, City of Norco.

**Directors Present:**

Greg Newton, City of Norco, Chair  
Al Lopez, Western Municipal Water District, Vice Chair  
Tom Haughey, City of Chino, Secretary  
Peter Rogers, City of Chino Hills  
Jim Bowman, City of Ontario  
Jasmin Hall, Inland Empire Utilities Agency  
Betty Anderson, Jurupa Community Services District  
J. Arnold Rodriguez, Santa Ana River Water Company

**Directors Absent:**

None

**Others Present:**

Curtis Paxton, CDA General Manager/CEO  
Michael Chung, CDA CFO/Treasurer  
Todd Minten, CDA Operations Manager  
Allison Burns, CDA Deputy General Counsel  
Jose Garcia, CDA Principal Accountant  
Casey Costa, CDA Executive Assistant  
Dave Crosley, City of Chino  
Tom O'Neill, City of Ontario  
Ben Armel, Jurupa Community Services District  
Todd Corbin, Jurupa Community Services District  
Tim Barr, Western Municipal Water District  
Derek Kawaii, Western Municipal Water District  
Cindy Miller, Hazen & Sawyer  
Tom Dodson, Tom Dodson & Associates

**FLAG SALUTEghey**

The Pledge of Allegiance was led by Director Haughey, City of Chino

**PUBLIC COMMENT ON NON-AGENDA ITEMS**

None

## **CLOSED SESSION**

*The Authority may adjourn to a Closed Session to consider litigation matters, personnel matters, or other matters as provided for in the Ralph M. Brown Act (Section 54950 et seq., of the Government Code).*

1. **CONFERENCE WITH REAL PROPERTY NEGOTIATORS**  
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**CDA Negotiators: Curtis Paxton, Allison Burns**  
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**Under negotiation: Price and terms of payment**
  
2. **CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION:  
CONSIDERATION OF INITIATION OF LITIGATION PURSUANT TO GOVERNMENT  
CODE SECTION 54956.9(D)(4)**  
**(ONE POTENTIAL CASE)**
  
3. **CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION:  
SIGNIFICANT EXPOSURE TO LITIGATION PURSUANT TO GOVERNMENT  
CODE SECTION 54956.9(D)(2)**  
**(ONE POTENTIAL CASE)**

The Board recessed into Closed Session at 2:02 p.m. and reconvened at 2:32 p.m.

Deputy General Counsel reported that the Board took up items 1, 2 and 3 and gave direction to staff and legal counsel. There was no reportable action.

## **ACTION ITEMS**

### **4. MINUTES OF JULY 12, 2018 SPECIAL BOARD MEETING**

***Motion:*** *It was moved by Director Anderson/JCSD and seconded by Director Rogers/Chino Hills to approve Action Item 1.*

### **5. ADDENDUM NO. 3 TO THE INITIAL STUDY FOR THE PHASE 3 EXPANSION PROJECT**

Report by: Cindy Miller, Phase 3 Project Program Manager

#### **Staff Recommendation:**

1. Adopt Addendum No. 3 to the Chino Desalter Phase 3 Expansion Initial Study/Mitigated Negative Declaration for the Product Water Pipeline Santa Ana River Crossing.
2. Authorize the General Manager/CEO to execute necessary documents associated with the approve approval.

Program Manager Miller reviewed the recommendation to adopt Addendum No. 3 to the Phase 3 Expansion Initial Study/Mitigated Negative Declaration for the Santa Ana River Crossing, prepared by Tom Dodson & Associates. The addendum was prepared pursuant to CEQA guidelines to identify the changes in the final alignment and construction method of the pipeline. There are no new impacts resulting from the

changes in the project, with no new mitigation measures. There were no questions or comments.

**Motion:** *It was moved by Director Haughey/Chino and seconded by Director Lopez/WMWD to approve Action Item 5.*

**6. PHASE 3 EXPANSION PROJECT: AMENDMENT NO. 2 TO DUDEK'S CONTRACT FOR DESIGN OF DUAL PRODUCT WATER PIPELINES USING HORIZONTAL DIRECTIONAL DRILLING**

Report by: Cindy Miller, Phase 3 Project Program Manager

**Staff Recommendation:**

1. Approve Amendment No. 2 in the amount of \$45,740 to Dudek's contract for Design of Dual Product Water Pipelines Using Horizontal Directional Drilling, for a total contract amount of \$632,966.
2. Authorize the General Manager to execute Amendment No. 2 and approve authorized expenditures up to a not-to-exceed total of \$662,612.

Program Manager Miller reviewed the recommendation to approve Amendment No. 2 to Dudek's contract for Design of Dual Product Water Pipelines Using Horizontal Directional Drilling. Upon final design, some components were added, such as the abandonment and destruction of dewatering wells and inspection and possible repairs to the existing Arlington Pipeline segment which our project will connect to. This additional scope requires additional inspection and construction management services. The Amendment will include language to withhold 20% of the hours allocated for the Construction Management Inspector, which may only be authorized by the General Manager. There were no questions or comments.

**Motion:** *It was moved by Director Lopez/WMWD and seconded by Director Rogers/Chino Hills to approve Action Item 6.*

**7. PHASE 3 EXPANSION PROJECT: CONSTRUCTION CONTRACT AWARD FOR THE PRODUCT WATER PIPELINE, SANTA ANA RIVER HDD CROSSING (SPEC NO. CDA EXP16-12)**

Report by: Cindy Miller, Phase 3 Project Program Manager

**Staff Recommendation:**

1. Approve a construction contract award to DDH Apple Valley Construction, Inc. for construction of the Product Water Pipeline, Santa Ana River HDD Crossing (Spec No. CDA EXP16-12) in the not-to-exceed amount of \$2,225,593.
2. Authorize the General Manager/CEO to execute the contract and approve authorized expenditures up to a not-to-exceed total of \$2,450,000.

Program Manager Miller reviewed the recommendation to approve a construction contract award to DDH Apple Valley Construction, Inc. for construction of the Product Water Pipeline, Santa Ana River HDD Crossing. CDA received three bids, and DDH Apple Valley Construction was identified as the lowest responsive and responsible

bidder. This item was reviewed by the Technical Advisory Committee and the Finance Committee.

CDA Deputy General Counsel Burns reported that a Bid Protest was submitted by Golden State Boring and Jacking. One question before the Board when awarding a bid is whether a bid was responsive, by promising to do what the instructions demand, whether it is complete, timely, provides a complete list of subcontractors and other elements set forth in the Notice Inviting Bids. The second question before the Board is whether the bidder is responsible; are they trustworthy, do they have a reputation for quality, fitness, capacity, and whether they have the requisite experience. Golden State's Protest argues that Apple Valley Construction is not responsive because Apple Valley Construction relied on its subcontractor for its experience with Horizontal Directional Drilling. In this case, the challenge to experience is a responsibility challenge, rather than a responsiveness challenge. Nonetheless, the definition of Bidder as used in the Bid Specifications is left in the CDA Board's discretion to determine whether the subcontractor's experience can be relied upon. Bid Specifications do not define who must have the requisite experience. There is no evidence before this Board that Apple Valley Construction is a non-responsible bidder. In fact, there is evidence that they are trustworthy, fit and have experience and a reputation for quality and capacity. They have submitted the requisite documentation and their decision to hire an experienced specialty subcontractor to provide the HDD work shows fitness to perform the work, and the recommendation is that the bid be awarded to them.

**Motion:** *It was moved by Director Lopez/WMWD and seconded by Director Anderson/JCSD to approve Action Item 7.*

**8. PHASE 3 EXPANSION PROJECT: AMENDMENT NO. 2 TO AGREEMENT WITH HAZEN AND SAWYER FOR PROGRAM MANAGEMENT SERVICES**

Report by: Curtis D. Paxton, General Manager/CEO

**Staff Recommendation:**

1. Approve Amendment No. 2 to the Professional Services Agreement with Hazen and Sawyer for program management services in the not-to-exceed amount of \$148,080; and
2. Authorize the General Manager/CEO to finalize and execute the amendment and approve authorized expenditures up to a not-to-exceed total of \$570,834.

General Manager Paxton reviewed the recommendation to approve Amendment No. 2 to the Professional Services Agreement with Hazen and Sawyer to provide the remaining program management services for the Phase 3 Expansion Project. There were no questions or comments.

**Motion:** *It was moved by Director Haughey/Chino and seconded by Director Rogers/Chino Hills to approve Action Item 8.*



**STAFF COMMENTS**

- (i) CDA Deputy General Counsel Allison Burns had no comments.
- (ii) CDA CFO/Treasurer, Michael Chung had no comments.
- (iii) CDA General Manager/CEO, Curtis Paxton had no comments.

**DIRECTOR COMMENTS**

A moment of silence was observed for Phil Anthony, who passed away in July 2018, and who dedicated his life to serving the water community.

**ADJOURNMENT** – There being no further business to come before the Board, the meeting was adjourned at 2:46 p.m.

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Secretary of the Board of Directors/cc



# Board of Directors Meeting

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## Agenda Item

**No. 2**

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**SUBJECT: PURCHASE OF REVERSE OSMOSIS (RO) MEMBRANES ELEMENTS**

**RECOMMENDATION:**

Staff recommends that the Board:

1. Approve a purchase order with Dow Water & Process Solutions for the supply and installation of 945 RO membrane elements in the amount of \$401,625.00.

**BACKGROUND:**

A portion of the RO membrane elements at Chino I and Chino II Desalters have reached the end of their useful life and require replacement. Based upon direction from the TAC, a Request for Proposal (RFP) for purchase of RO membranes was sent to the two membrane manufacturers that had successfully operated membranes at Chino I and Chino II Desalters, Dow Water & Process Solutions and Toray Membrane USA. Both manufacturers submitted proposals that complied with the requirements of the RFP.

Projected performance shows that Dow membranes operate an average of 5% lower pressure than Toray membranes. Dow overall purchase price is higher than Toray Membrane by \$23,398.20, however the cost will be recovered through lower energy cost by the end of year one. Total net evaluated cost savings assuming a 5-year membrane life is \$59,856.30. After the first 5 years of operation, the Dow and Toray elements have equal energy costs.

Dow membrane performance at Chino I and II show long term stable operation for eight years. Toray membranes have not been operated for the same length of time. Toray membranes have performed well but experienced a more rapid initial productivity loss greater than experienced by the Dow membrane, which will likely impact membrane life.

Based upon consideration of multiple criteria including price, expected permeate quality and membrane life, purchase of the Dow BW30XRF-400/34 membranes are recommended.

The table below shows the total evaluated costs at 5 years of operation.

Supplier (945 Units)	Unit Price	Total Bid Price	Energy Differential	Total Evaluated Cost
Dow Water & Process Solutions	\$425.00	\$401,625.00	\$0.00	\$401,625.00
Toray Membrane USA	\$400.24	\$378,226.80	\$83,254.50	\$461,481.30
Difference	\$24.76	\$23,398.20		\$59,856.30

Prepared by: Todd Minten, CDA Operations Manager

Board of Directors:     Approved         Continued         Denied

CDA GM/CEO Acknowledgement: \_\_\_\_\_ Date: \_\_\_\_\_

The item was reviewed/approved by the Technical Advisory Committee (TAC) on August 14, 2018 and Finance Committee on August 21, 2018.

**IMPACT ON BUDGET:**

Purchase order costs are expected to be incurred in CDA's FY 2018/19 budget.

**ATTACHMENT:**

- 1) Separation Processes, Inc. evaluation memorandum dated June 21, 2018

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**Prepared by:** Todd Minten, CDA Operations Manager

Page 2 of 2

**Board of Directors:**     Approved         Continued         Denied

**CDA GM/CEO Acknowledgement:** \_\_\_\_\_ **Date:** \_\_\_\_\_



Separation Processes, Inc.  
 3156 Lionshead Ave., Suite #2  
 Carlsbad, CA 92010  
 Tel: 760-400-3660  
 Fax: 760-400-3661  
 www.spi-engineering.com

Date: June 21, 2018  
 To: Chino Basin Desalter Authority  
 From: John Perlman and Gabriela Handley - SPI  
 Subject: Recommendation for Award

Background

Chino Basin Desalter Authority (CDA) operates two reverse osmosis (RO) systems, Chino I and Chino II, to treat brackish groundwater sourced from multiple wells. A portion of the reverse osmosis membrane elements in both systems are being replaced because they have reached the end of their useful life. A Request for Proposal (RFP) for purchase of the Reverse Osmosis Membrane Elements was prepared by CDA and Separation Processes, Inc. (SPI) and issued to prospective suppliers on March 15, 2018. The RFP was sent to the following suppliers:

- Dow (Filmtec)
- Toray

Bid Responses

Responses to the RFP for the purchase including membranes, all spare parts, freight, and services were due on May 18, 2018. Responses were received from both suppliers and the results are tabulated below.

Supplier	Total Purchase Price for 1246 elements including listed spare parts, shipping and taxes	Total purchase price per element
Dow	\$529,550.00	\$425.00
Toray	\$494,699.35	\$397.03

- Toray indicated that their bid included installation of the new membrane elements at no additional cost. This does not include unloading of the existing elements. Unloading and/or loading of elements was not a requirement in RFP.
- Toray bid separate pricing for the 945 elements requested in the base bid and the 1246 elements on the price sheet.
- Dow provided the bid sheet with pricing for 1246 elements and stated the same unit price is valid for 945 elements.
- Toray provided projections for Chino I, years 0, 3 and 5 and projections for Chino II for years 0 and 3 (with different fouling allowances).
- Dow provided projections for Chino I and II for years 0, 3 and 5.
- Toray and Dow signed the Bid Sheet acknowledging agreement with the terms of the RFP.



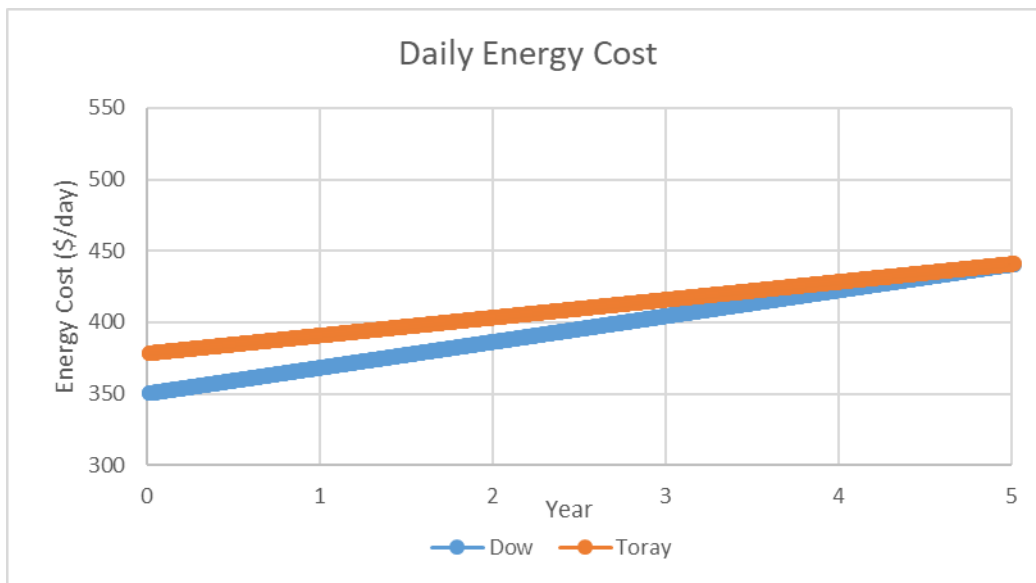
June 21, 2018  
Subject: CDA RO Membrane Procurement

Bid Evaluation

Per the RFP: CDA will make their selection based on multiple criteria including price per element, expected permeate quality, and membrane life.

Both suppliers submitted bids that were responsive to the RFP requirements on most items. While Dow did not provide separate pricing for the smaller quantity of membranes, the RFP reserves the right to negotiate with a selected bidder. Toray included proprietary bidirectional brine seals in their bid which allows the elements to be loaded from either end of the pressure vessel. When installed properly, both the standard brine seals and bidirectional seals perform identically. Historically at both Chino I and Chino II, membrane loading and unloading is extremely rare and reverse flow cleaning is not recommended. Therefore, the bidirectional seal does not provide an advantage over properly loaded standard brine seals as those are the instances where bidirectional seals are advantageous.

Projected permeate TDS for both is better than the project requirements. Note that the Dow program historically gives very conservative permeate TDS projections while the Toray projections are more “optimistic”. A review of the Toray nitrate projections vs. the actual performance at Chino 1 train 5 indicate that the Toray permeate nitrate projection is not accurate. Projected performance for the Dow membranes shows operation at an average of 5% lower pressure than the Toray membranes. In the figure below, the daily energy cost for one train is shown over a 5-year period.



At approximately 5 years in operation, the Dow and Toray elements have equal energy costs. Since the Dow membranes start at a lower pressure than the Toray membranes, the calculated energy cost is significantly lower to begin and gradually increases. In the first 5 years of operation, Dow membranes would offer a cost savings of approximately \$25,901 per train over the Toray



June 21, 2018  
 Subject: CDA RO Membrane Procurement

membranes. The table below summarizes total energy costs after 3 and 5 years in operation for each vendor for one representative train.

Cumulative RO Pumping Energy Cost (one train)				Additional Cost (Toray)
Year	Dow	Toray	Difference	
3	\$ 415,229	\$ 436,839	\$ 21,609	\$ 73.50
5	\$ 725,032	\$ 750,933	\$ 25,901	\$ 88.10

Dow membrane performance at Chino I and II show long term stable operation for eight years. Toray membranes have not been operated for the same length of time. Toray membranes have performed well but experienced a more rapid initial productivity loss greater than experienced by the Dow membrane, which will likely impact membrane life.

Assuming a 5-year membrane life, the additional energy cost listed in the previous table was added to the Toray subtotal. The table below provides a summary of the total evaluated cost for 1,246 elements including energy costs and spare parts.

Company	Membrane Model	Membrane Qty	Unit Purchase Price	Spare Parts	Shipping Cost	Tax	Subtotal	Energy Differential	Total Evaluated Cost	Comments
Dow	FILMTEC BW30XFR-400/34	1,246	\$ 425.00	\$0.00	\$0.00	\$0.00	\$529,550.00	\$0.00	\$529,550.00	Unit purchase price includes spare parts, shipping and taxes
Toray	TM720D-400	1,246	\$ 366.00	\$297.50	\$3,000.00	\$35,365.85	\$494,699.35	\$109,772.60	\$604,471.95	

The following table summarizes the relative strength of the products proposed by the suppliers:

Company	Scale	Toray	Dow
Total evaluated cost (including differential energy cost & spare parts)	0-50	44	50
Expected Permeate Quality	0-50	50	50
Membrane Life	0-50	50	50
<b>Total</b>	<b>150</b>	<b>144</b>	<b>150</b>

Recommended Selection

Based upon a review of the proposals, SPI recommends the purchase of the Dow BW30XRF-400/34 membrane. We believe that these membranes will be a suitable replacement for the membranes currently installed. We are confident these membranes will meet the District's water production and quality goals.



# Board of Directors Meeting

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## Agenda Item

### No. 3

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**SUBJECT: ADOPTION OF CHINO BASIN DESALTER AUTHORITY’S REVISED RESERVE POLICY**

**RECOMMENDATION:**

1. Approve the Chino Basin Desalter Authority’s Reserve Policy as submitted; and
2. Adopt Resolution 2019-01 approving the CDA’s Revised Reserve Policy.

**BACKGROUND:**

The current reserve policy was adopted by the Board on July 10, 2013. According to the policy, staff is to review annually each reserve item to determine if any modification is necessary.

**ISSUES AND ANALYSIS**

There have been significant changes in CDA’s operating conditions, primarily due to the Phase 3 Expansion Project. The current policy’s reserve for Operating Contingency is based on three months of Operating Revenue. The proposed Operating Contingency reserve has been calculated based on two months of Operating Revenue using the current adopted budget. Additionally, Rate Stabilization was incorporated into the annual budget and has been removed from the policy.

Based on the adopted budget for FY 2018/19, the level of reserves should be modified accordingly. The following table denotes the proposed modification of each reserve addressed in the policy. The overall summary reveals a small decrease of \$20,000 to the total reserve amount.

(\$ in millions)

Reserve	Current Level	Proposed Level	Change
Infrastructure Maint/Replacement	\$2.09	\$2.38	\$.29
Operating Contingency	\$3.5	\$3.82	\$.32
Rate Stabilization	\$0.54	-	\$ (.54)
Membrane Reserve	\$0.5	\$.41	\$ (.09)
Capital Construction	Per Project	Per Project	-
Total	\$6.63	\$6.61	\$ (.02)

The proposed revisions have been forwarded and reviewed by the members’ Finance Directors. This agenda item was reviewed/approved by the Technical Advisory Committee on August 14, 2018 and Finance Committee on August 21, 2018.

**Prepared by:** Michael Chung, CDA CFO/Treasurer

Page 1 of 2

**Board of Directors:**     Approved         Continued         Denied

**CDA GM/CEO Acknowledgement:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**IMPACT ON BUDGET**

There is no impact on current fiscal year's budget.

**ATTACHMENTS:**

- Resolution 2019-01
- Proposed Reserve Policy

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**Prepared by:** Michael Chung, CDA CFO/Treasurer

Page 2 of 2

**Board of Directors:**     Approved         Continued         Denied

**CDA GM/CEO Acknowledgement:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**RESOLUTION NO. 2019-01**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE CHINO BASIN DESALTER AUTHORITY,  
ESTABLISHING THE ATTACHED RESERVE  
POLICY**

**WHEREAS,** the Board of Directors of the Chino Basin Desalter Authority is authorized to adopt a reserve policy; and

**WHEREAS,** the existing policy has been reviewed in order to provide for operational flexibility without sacrificing internal controls or increasing financial risk to the Authority.

**NOW, THEREFORE, BE IT RESOLVED,** that the CDA Board of Directors, assembled this 6<sup>th</sup> day of September 2018, does hereby adopt Resolution No. 2019-01, establishing the "Reserve Policy" as set forth in the Attachment.

**BE IT FURTHER RESOLVED,** that the effective date of this Resolution No. 2019-01 is September 10, 2018.

**ADOPTED AND APPROVED** this 6<sup>th</sup> day of September 2018.

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Greg Newton  
Chairperson

ATTEST:

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Tom Haughey  
Secretary

STATE OF CALIFORNIA            )  
  )SS  
COUNTY OF SAN BERNARDINO )

I, Tom Haughey, Secretary of the Chino Basin Desalter Authority, DO  
HEREBY CERTIFY that the foregoing Resolution No. 2019-01 was duly adopted by  
the Board of Directors on the 6<sup>th</sup> day of September 2018, by the following vote:

AYES:

NOYES:

ABSTAIN:

ABSENT:

By:

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Tom Haughey  
Secretary



## RESERVE POLICY

Unforeseen events, emergencies, accelerated growth, supplemental budget requirements, are among the factors that can result in unplanned expenses. In addition to unplanned activities, the Authority has extensive investments in public infrastructure, operating plants, and other related facilities and equipment that require ongoing repair, maintenance, replacement, refurbishment, and expansion. The Authority must also be prepared for planning and implementation of new facilities if the need arises. The Authority is moving forward with formalizing past practice with establishment of appropriate reserves and associated target levels.

The establishment of the following reserves will prudently position the Authority to address current and future risks, as well as stabilize its rates. The reserves are categorized according to one of the following:

### Reserved and Designated Fund Balances:

*Reserved fund balance:* Reserves that are maintained based on externally-imposed restrictions from federal and state regulatory requirements, or conditions imposed by third parties (e.g., bondholders) through bond indentures or other legal documents.

*Designated fund balance:* Board imposed restrictions on funds for certain Authority purposes, such as infrastructure replacement or rate stabilization.

### Unreserved and Undesignated Fund Balances:

Funds available for spending with no legal, regulatory, or Board imposed restrictions.

For each of the reserves the Authority has identified a purpose, target levels, conditions under which they are to be used, and review dates for determining continued need for the reserve and appropriate levels.

**RESERVED AND DESIGNATED FUND BALANCES****Infrastructure Maintenance/Replacement Reserves \$2.38m**

Purpose: Maintaining infrastructure at an adequate level and in an acceptable condition requires that funds be continually and readily available to support replacement, refurbishment, and construction. The service provided by the Authority is critically important to the health and welfare of the citizens within the Authority's service area. No service is more basic than meeting the need for clean water. Given the nature of the service, very few options exist, if any, for service reduction levels in the event of revenue shortfalls or other funding deficiencies.

Recognizing these realities, and consistent with best practices, the Authority has prudently established reserves to ensure that ongoing capital infrastructure needs will not be neglected.

Usage Requirements: The reserve will be accessed, as needed, to fund infrastructure replacement requirements based on the Authority's Capital Improvement Program. Replacement is defined as an expense which will extend, as opposed to maintain, an asset's useful life.

Target Balance: When needed, the Infrastructure Capital Maintenance and Replacement costs will be funded annually by CDA membership.

Review Date: The Infrastructure Maintenance/Replacement Reserve will be reviewed and adjusted, if needed, annually as part of the budget process.

**Operating Contingency Reserve \$3.82m**

Purpose: Unexpected expenditures typically occur in the dynamic environment in which the Authority operates. To accommodate unanticipated expenses, while maintaining reasonable budgetary restraint, a budgetary contingency reserve will be established.

Usage Requirements: This contingency is available to the Board to approve unexpected operating expenses which arise in the course of business during the final year. It can only be accessed with Board approval and is subject to replenishment during the annual budget approval process. This serves as a guiding budgetary constraint, but does not prohibit the Board from approving capital projects which exceed the available contingency budget.

Target Level: The Contingency Reserve will be set at a level equal to two months of operating revenues of the most recently adopted budget

Review Date: Annually during the budget development and review process.

**Membrane and Resin Reserve**

**\$ .41m**

Purpose: To ensure adequate reserves in case of failure of 25% of trains in Desalter facilities.

Usage Requirements: The reserve is used to ensure periodic membrane replacement to sustain optimum operations of the desalters.

Target Level: The designated amount is set for 25% replacement.

Review Date: The target level will be set and reviewed annually as part of the budget process.

**Capital Construction Reserve**

**Per Project Award**

Purpose: This reserve essentially is the encumbrance for all outstanding capital commitments, particularly for major engineering and construction projects.

Usage Requirements: The reserve is depleted as capital projects are completed.

Target Level: The target level will vary from year to year, based on capital project needs as identified in the Authority's Fiscal Budget and annual capital plan.

Review Date: The target level will be set and reviewed annually subsequent to the adoption of the annual budget or as needed based on Board actions.

Funding: Any positive/negative changes of less than \$1.0m of the proposed total reserve will not be distributed/assessed to the members. In case of a need for funding of a deficiency in excess of \$1.0m, it will be incorporated in the next budget cycle.



## RESERVE POLICY

Unforeseen events, emergencies, accelerated growth, supplemental budget requirements, are among the factors that can result in unplanned expenses. In addition to unplanned activities, the Authority has extensive investments in public infrastructure, operating plants, and other related facilities and equipment that require ongoing repair, maintenance, replacement, refurbishment, and expansion. The Authority must also be prepared for planning and implementation of new facilities if the need arises. The Authority is moving forward with formalizing past practice with establishment of appropriate reserves and associated target levels.

The establishment of the following reserves will prudently position the Authority to address current and future risks, as well as stabilize its rates. The reserves are categorized according to one of the following:

### Reserved and Designated Fund Balances:

*Reserved fund balance:* Reserves that are maintained based on externally-imposed restrictions from federal and state regulatory requirements, or conditions imposed by third parties (e.g., bondholders) through bond indentures or other legal documents.

*Designated fund balance:* Board imposed restrictions on funds for certain Authority purposes, such as infrastructure replacement or rate stabilization.

### Unreserved and Undesignated Fund Balances:

Funds available for spending with no legal, regulatory, or Board imposed restrictions.



For each of the reserves the Authority has identified a purpose, target levels, conditions under which they are to be used, and review dates for determining continued need for the reserve and appropriate levels.

## **RESERVED AND DESIGNATED FUND BALANCES**

### **Infrastructure Maintenance/Replacement Reserves **\$2.092.38m****

Purpose: Maintaining infrastructure at an adequate level and in an acceptable condition requires that funds be continually and readily available to support replacement, refurbishment, and construction. The service provided by the Authority is critically important to the health and welfare of the citizens within the Authority's service area. No service is more basic than meeting the need for clean water. Given the nature of the service, very few options exist, if any, for service reduction levels in the event of revenue shortfalls or other funding deficiencies.

Recognizing these realities, and consistent with best practices, the Authority has prudently established reserves to ensure that ongoing capital infrastructure needs will not be neglected.

Usage Requirements: The reserve will be accessed, as needed, to fund infrastructure replacement requirements based on the Authority's Capital Improvement Program. Replacement is defined as an expense which will extend, as opposed to maintain, an asset's useful life.

Target Balance: When needed, the Infrastructure Capital Maintenance and Replacement costs will be funded annually by CDA membership.

Review Date: The Infrastructure Maintenance/Replacement Reserve will be reviewed and adjusted, if needed, annually as part of the budget process.

### **Operating Contingency Reserve **\$3.53.82m****

Purpose: Unexpected expenditures typically occur in the dynamic environment in which the Authority operates. To accommodate unanticipated expenses, while maintaining reasonable budgetary restraint, a budgetary contingency reserve will be established.

Usage Requirements: This contingency is available to the Board to approve unexpected operating expenses which arise in the course of business during the

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final year. It can only be accessed with Board approval and is subject to replenishment during the annual budget approval process. This serves as a guiding budgetary constraint, but does not prohibit the Board from approving capital projects which exceed the available contingency budget.

Target Level: The Contingency Reserve will be set at a level equal to ~~three~~two months of operating revenues of the most recently adopted budget.

Review Date: Annually during the budget development and review process.

**~~Rate Stabilization Reserve~~ ~~—————~~ \$0.54m**

~~Purpose: The Authority is committed to providing a clean and reliable source of water, recognizing this service as a necessary and basic need of its constituencies. The Authority strives to provide and maintain this service with a rate structure which is reasonable, affordable, and stable. However, rising costs and/or decreased revenues requires that the Authority periodically adjust its service charges.~~

~~This reserve will maintain rates stable and minimize the need for large rate increases due to unfavorable economic conditions or other factors beyond the control of the Authority.~~

~~Usage Requirements: This reserve can be used to transition expense growth to match slower revenue growth during the first 24 months of a recession or other economically constraining event. This will serve to avoid any immediate increase to the wastewater rates.~~

~~Target Level: The amount of the reserve will be initially established at \$540,000, using \$20/af for 25,000 af annual production.~~

~~Review Date: Annually during the budget development and review process.~~

**~~Debt Service Reserves~~ ~~—————~~ \$6.4m**

~~Purpose: Required by relevant bond indentures as a set aside for payment of principal and interest on outstanding bonds.~~

~~Usage Requirements: This reserve will only be used to pay debt service when pledged net revenues (as defined in the relevant bond indentures) are insufficient.~~

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~~Target Level: As required pursuant to the relevant bond indentures.~~

~~Review Date: Sufficiency of market value of invested debt service reserve funds must be examined semi-annually on the interest and principal payment dates (as defined in the bond indentures) to ensure enough funds are available for any debt amounts due and payable.~~

**Membrane and Resin Reserve**

**\$5.41m**

Purpose: To ensure adequate reserves in case of ~~a complete~~ failure of 25% of all trains in ~~a~~ Desalter facilities.

Usage Requirements: The reserve is used to ensure periodic membrane replacement to sustain optimum operations of the desalters.

Target Level: The designated amount is set ~~for total~~ 25% replacement ~~of all four~~ trains.

Review Date: The target level will be set and reviewed annually as part of the budget process.

**Capital Construction Reserve**

**Per Project Award**

Purpose: This reserve essentially is the encumbrance for all outstanding capital commitments, particularly for major engineering and construction projects.

Usage Requirements: The reserve is depleted as capital projects are completed.

Target Level: The target level will vary from year to year, based on capital project needs as identified in the Authority's Fiscal Budget and annual capital plan.

Review Date: The target level will be set and reviewed annually subsequent to the adoption of the annual budget as part of the budget process or as needed based on Board actions.

Funding: Any positive/negative changes of less than \$1.0m of the proposed total reserve will not be distributed/assessed to the members. In case of a need for funding of a deficiency in excess of \$1.0m, it will be incorporated in the next budget cycle.

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