

Minutes



HUMBOLDT BAY MUNICIPAL WATER DISTRICT
828 7th Street, Eureka



Minutes for Meeting of Board of Directors

February 11, 2016

A. **ROLL CALL**

Director Sopoci-Belknap conducted the roll call. Directors Hecathorn, Sopoci-Belknap and Woo were present. Directors Laird and Rupp were absent. General Manager Paul Helliker, Superintendent Dale Davidsen, Business Manager John Friedenbach, Board Secretary Sherrie Sobol and Operations and Maintenance Technician Jasson Klingonsmsith were also present. John Winzler and Pat Kaspari of GHD were present for a portion of the meeting.

B. **FLAG SALUTE**

President Hecathorn led the flag salute.

C. **ACCEPT AGENDA**

Mr. Helliker stated the Safety Item time set for 9:15 am needs to be moved to 9:30 am due to scheduling conflicts. On motion by Director Sopoci-Belknap, seconded by Director Woo, the Board voted 3-0 to accept the agenda with the amended time set item.

D. **MINUTES**

On motion by Director Woo, seconded by Director Sopoci-Belknap, the Board voted 3-0 to approve the minutes of the January 14th meeting.

E. **PUBLIC COMMENT**

Mr. Neal Latt introduced himself and stated he applied for the Division 1 vacancy.

A member of the public stated he would like to request more time before for the Board decides on the proposed retail rates. He requested the Board not make a decision today. Director Sopoci-Belknap stated the public rate hearing is scheduled for next month on March 9. Since it is not on the agenda, they cannot discuss it. Mr. Friedenbach added the District held an informational meeting on February 9 and will hold another one in Samoa Fire Hall on February 17 from 4-7 pm.

F. **CONSENT AGENDA**

On motion by Director Woo, seconded by Director Sopoci-Belknap, the Board voted 3-0 to accept the Consent Agenda.

G. **CORRESPONDENCE**

1. **Letter to municipal customers re: domestic water use**

Mr. Helliker shared the annual letter to the Municipal Customers. The letter transmits information about domestic water use per the requirements of the Ordinance 16 contracts. Included with the letter were three reports: the Domestic Water Use, Moving Five-Year Average Water Use and the Peak Rate Allocation (PRA) by Municipality for calendar year 2015. Mr. Helliker noted the Peak Rate Allocation for each municipality occurs every five years. The last review was in 2014 so the next review would be in 2019.

The City of Blue Lake and Manila CSD both have larger industrial customers that use a higher percentage of water. The contracts for these two Municipal Customers state that in the event they experience a reduction of 25% or more of their current Average Daily Water Use caused by reducing water to, or loss of these customers, the Moving Five Year



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Average and the PRA will be adjusted in the fiscal year following the reduction. Mr. Helliker stated he spoke with the General Manager of Manila CSD since they will lose a larger retail customer next month when Sierra Pacific closes. Sierra Pacific uses approximately 15% of overall water provided by Manila CSD so this clause would not apply for Manila CSD.

2. Letter to Felicia Marcus re: Proposed Drought Emergency Conservation Regulations
Mr. Helliker discussed the letter he and the Municipal Customers sent to the State Water Resources Control Board (SWRCB) regarding the proposed extension of emergency conservation regulations. The letter noted the lack of drought conditions on the Mad River and that conservation regulations do not make sense for the District and its Municipal Customers given that Ruth Lake is full and has ample water supply for a few years. The SWRCB went ahead and extended the regulations.

H. CONTINUING BUSINESS

1. Appointing New Director
Mr. Helliker stated the District received three applications for the Division 1 Director position. They are all strong candidates and he recommended conducting interviews with all three. The Board concurred and will conduct interviews at a Special Meeting on February 29th.
2. Update on Cannabis activities
Senator McGuire introduced SB 987, the Marijuana Value Tax Act, to the legislature. This bill would place a 15% sales tax on medical marijuana with an estimated tax revenue of \$100 million annually. The bill proposes that 30% of the revenue be distributed in grants to city and county agencies overseeing the cultivation, processing, manufacturing and sale of medical marijuana and 30% would go to the state's general fund. The California Department of Parks and Recreation would receive 20% with 10% going to the California Natural Resource Agency for restoration and remediation of private lands and watersheds damaged by cultivation and 10% to counties for drug and alcohol treatment programs. Mr. Helliker inquired if the Board was interested in supporting the bill. They requested he bring back an analysis of the bill to the March meeting.

Last month Mr. Helliker stated the Mad River Alliance with the help of other agencies, organized five compliance workshops "Grow Green Grow Legal". A sixth workshop was added and it is expected the workshops will be well attended. The workshop at the Ruth Lake Community Center is scheduled for April 24th.

3. Water Resource Planning (WRP)

Local Sales

Mr. Helliker stated a meeting will take place on March 23 with our partners between Rio Dell and Trinidad to organize a project for the State Revolving Loan Funds to conduct the next level of planning and design for the expansion of the transmission system north and south.



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Transport

Mr. Helliker stated he received an unsolicited call from Jason Heywood regarding bulk water transport to China via tankers. He informed Mr. Heywood the option would be discussed with the Board. The Board concurred that the policy is to transport to another Municipality, preferably local, so this is not an option.

Instream Flow

Mr. Helliker stated the Wildlife Conservation Board informed the District that its grant proposal was not selected. He will try to get more information as to why and report back at the next meeting. Director Woo suggested applying for grant with the Coastal Conservancy.

Advisory Committee (AC)

The WRP AC met on February 3rd. Director Sopoci-Belknap stated it was a good meeting. In regards to transport, they understand the District has looked at numerous options on the North Coast with no takers. The AC agreed that transport to the North Coast would be best, however, should let all municipalities in California know that we have water available to transport. They also agreed not to spend a lot of funding on this. The AC is supportive of pursuing the Instream Flow option and keep moving it forward. She noted that it was not known at that time that we did not get the grant.

Director Sopoci-Belknap stated the members are still very engaged and are appreciative of the updates. The AC suggested filling “vacancies” since two people on the committee were not in attendance at the last few meetings. They stated they would like to meet at least twice a year, perhaps in the spring and fall. Mr. Helliker stated he would send the AC the monthly WRP Board Reports to help keep them apprised.

The Board thanked Director Sopoci-Belknap for the report. Director Woo summarized it sounds like the AC is supportive of the overall policy and would like the District to stay the course. Ms. Lincoln, a reporter in attendance at the Board meeting, suggested the Humboldt County Board of Supervisors also receive updates on the WRP process on semi-regular basis given her recent conversations with a Supervisor. The Board briefly discussed options going forward.

Mr. Helliker discussed documentation of the WRP process. He stated he provided the AC questionnaires to get their perspective and help document the process. He will meet with Access Humboldt to discuss other options to document the WRP process.

I. NEW BUSINESS

1. District Safety Program

Mr. Helliker provided an overview of the District’s Safety Program. Achieving employee and public safety is a top priority for the District. The District provides personal protective equipment required to help ensure employee safety and is supportive of training to enhance this. The District and employees commitment to safety is evidenced by the low



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workers comp ratio and the awards from JPIA. As part of the District's Safety Program, a safety recognition program is in place. Eligible full time employees with at least six months of service, receive \$200. Of those eligible, one name is randomly drawn as the grand prize winner of \$500. This year's winner is Jasson Klingonsmith. Mr. Klingonsmith accepted the award presented by President Hecathorn. He thanked the Board for supporting a great safety program. Mr. Davidsen stated Mr. Klingonsmith is doing a great job. He has taken the lead on several larger construction projects and has been safe and successful. The Board congratulated Mr. Klingonsmith. President Hecathorn added that she read the minutes from the Safety Committee Meeting and was impressed with how safety conscious the staff really is. The employees are very proactive when it comes to safety.

Mr. Helliker concurred and stated the District also participates in the ACWA Commitment to Excellence Program. Part of the program includes implementation of best practices to reduce the potential and frequency of ergonomic (musculoskeletal) and fall injuries.

2. North Coast Resources Partnership (NCRP)

Mr. Helliker reported out on his attendance at the NCRP meeting. They received a presentation on the Proposition 1 IRWM Program Guidelines. Funds should be available in 2017. The next quarterly meeting will be on April 21st and will also be a 10 year celebration of the NCRP.

J. REPORTS (from Staff)

1. Engineering

a) Ranney Collector 1 Lateral Replacement Project (partially funded by Prop 84 NCIRWMP grant)

Mr. Kaspari stated the Notice of Award was issued and the Notice to Proceed along with Change Order 1 (as approved last month) will be sent very soon. The contractor stated there will be a delay in the start date and will likely begin in July.

b) Blue Lake-FG CSD Water Line Replacement over Mad River (funded by Prop 84 NCIRWMP grant and FEMA Hazard Mitigation Grant)

Mr. Kaspari received the Trenchless Feasibility Report from Bennett Trenchless Engineers. The costs came in a bit lower than expected, however, does not include connection to the District pipeline. GHD will incorporate the report into their final feasibility analysis for the two options. This final analysis should be ready by the April meeting.

c) Matthews Dam Survey Results

The District established on-going monitoring of three general areas of the Matthews Dam. The areas are: 1) a Settlement Survey that has been conducted since 1962 and measures the amount of settlement of 17 points located along the crest of the dam; 2) a West Abutment Landslide Survey begun in 1998 that measures the change in horizontal and vertical positions of eight points along the toe of the superficial landslide upslope of the west abutment of the dam; and 3)



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the Spillway Wingwall Survey begun in 2010 that measures the change in horizontal position of fourteen points located along the top of the spillway walls and fourteen other points along the spillway floor. Mr. Kaspari stated these surveys are done every other year around the same time to monitor stability of the dam. The most recent survey was done in September 2015. The full report provides detailed information. The surveys show there are no noticeable changes in any of these points that are of concern.

d) Essex Septic System Design

Mr. Kaspari stated he received a permit for the project. Mr. Davidsen noted that in regards to budget, this project may carry over into the next year.

e) 1 MG Reservoir

Mr. Kaspari stated the inspection of the reservoir is completed. Painting and welding is an option that will extend the life of the tank about 10 years. Painting and replacing the roof is the second option. With this option, the paint should last 20 years and the roof 50 years. Option two is preferred but will cost about \$500,000 which is \$250,000 more than Option 1. Mr. Davidsen will prepare a memo for the meeting next month to assist the Board in their decision as to which option.

f) FEMA Hazard Mitigation Grant Notice of Intent (NOI) submittals

Mr. Friedenbach stated the District is always looking at opportunities to fund projects via grants. The District submitted an NOI for the Surge Tower, 12 kv Relocation, and Spillway Wall reinforcement project. The NOI for the Surge Tower was deemed eligible and the next step is to apply for a grant for the Surge Tower.

g) FERC Part 12

Mr. Friedenbach stated the FERC Part 12 report is required every five years and is in process. The FERC approved consultant, Charles Ahlgren, will be here in May for a site inspection of the dam and has already started working on the report.

2. Financial

a) Financial Report

Director Sopoci-Belknap provided the January 2016 financial statement & vendor detail report. Director Woo reviewed the bills and stated all was good. On motion by Director Sopoci-Belknap, seconded by Director Woo, the Board voted 3-0 to approve the January 2016 financial statement and the vendor detail report in the amount of \$105,520.02.

b) US Bank line of credit for emergencies

Mr. Friedenbach reported that Ms. Marquez of US Bank previously informed the Board of three options available if the District needed to seek emergency funding: 1) Line of Credit 2) Traditional Loan and 3) Guidance Line. The Guidance Line appeared to be best option and the Board requested more information about it. The District received a letter from Mr. Kidd of US Bank providing the additional



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information. New regulations require the guidance line be collateralized and the transaction needs to be documented through Bond Counsel. Additionally, US Bank would need to charge an unused fee for the line. Mr. Kidd stated that since the District is a long-time customer, he believes the bank could move quickly on analysis of a credit transaction should the need arise.

c) FEMA Audit of Techite Pipeline HMGP grant

Mr. Friedenbach stated the District received a draft of an audit compliance report from CalOES on the engineering contract with GHD for the Techite project. The report is based on the review period of June 1-September 30, 2012. The report contains two findings. The contract with GHD did not contain 13 sections required by federal procurement regulations, such as the 1965 equal employment opportunity executive order, the Copeland Anti-kickback Act and the Davis –Bacon Act, etc. The second finding is the contract file did not include a history of the procurement with GHD, including demonstration that qualifications were adequate and that reasonable prices were paid. Prior to completing the report, Cal OES is giving the District an opportunity to supply the missing documentation on the procurement process. The District is proposing remedies for both findings and will work with CalOES on the documentation.

3. Operations

Mr. Davidsen provided the January operational report. He and his supervisors have spent a lot of time this past month developing and prioritizing budget items for the FY16/17 budget process. They also conducted interviews for the Assistant Maintenance Supervisor position. Several staff attended training on Drinking Water Sampling: A Comprehensive Approach. The training was in Crescent City so they did not have to travel too far. Some clean up and repairs were required after a storm in mid-January downed a tree, which in turn crushed a fence. Topics at the January Safety Meeting included the Workplace Illness and Injury Prevention Plan, EAP Dam Safety, responsibilities regarding the AQMD generator permits.

Mr. Davidsen recommended several items be declared surplus. These items have been replaced or are no longer needed. The items are Unit 9, 1990 Ford F-350 with utility bed and lumber rack; Unit 13, 1999 Ford F-150 short bed with lumber rack and aluminum cross bed box; two metal desks with 5 drawers and 1 file drawer; wooden drafting table with 2 drawers; card file style filing cabinet; fire proof locking file cabinet (needs the combination reset since the combination is unknown); and a laminated wood computer station with pull out keyboard tray.

On motion by Director Sopoci-Belknap, seconded by Director Woo, the Board voted 3-0 to declare the items surplus.

K. DIRECTOR REPORTS & DISCUSSION

1. ACWA

Director Woo reported out on the Region 1 Board meeting. She participated via phone



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and was voted the alternate Vice-Chair and selected to serve on the Aquatic Resources Committee. She stated she expressed some concern about travelling to out of area meetings. Dennis Mayo of McKinleyville CSD is the Vice Chair and assured her he would be attending most if not all the meetings and the Aquatic Resources Committee only meets during the ACWA conferences. She shared that Director Rupp was selected to report out on the Finance Committee at the ACWA conference.

Director Woo stated she plans on attended the upcoming conference if approved to do so. On motion by Director Sopoci-Belknap, seconded by Director Woo, the Board voted 3-0 to approve attendance for Board members/staff that want to attend the ACWA 2016 Spring Conference and Training.

4. Organizations on which HBMWD Serves: RCEA, RREDC, LAFCo

Director Woo reported out on the RCEA meeting. The highlight of the meeting was Community Choice Aggregation (CCA) topic. The RCEA Board passed a resolution Authorizing the Implementation of a Community Choice Aggregation Program by RCEA as the Community Choice Aggregator. Mr. Helliker shared that he has been part of a panel interviewing various companies wanting to be the energy provider for RCEA as the Community Choice Aggregator. They will report out at the next RCEA meeting. He noted they will recommend not rushing into a decision and allowing time to do proper reference checks. This will likely result in a CCA going into effect in early 2017.

ADJOURNMENT

The meeting adjourned at 11:30 a.m.

Attest:

Barbara Hecathorn, President

J. Bruce Rupp, Secretary/Treasurer

Consent

H.B.M.W.D. FEB 29 2016

STATE OF CALIFORNIA - NATURAL RESOURCES AGENCY

ON PAGE

NO. 076

EDWARD G. BROWN JR., GOVERNOR

CALIFORNIA COASTAL COMMISSION

SECTION Fl, PAGE NO. 1

NORTH COAST DISTRICT OFFICE
1385 EIGHTH STREET, SUITE 130
ARCATA, CA 95521
(707) 826-8950 FAX (707) 826-8960
www.coastal.ca.gov



February 26, 2016

H.B.M.W.D. FEB 29 2016

**IMPORTANT PUBLIC HEARING NOTICE
LOCAL COASTAL PROGRAM**

LCP AMENDMENT NO. LCP-1-HUM-15-0004-1

Samoa Town Master Plan development phasing changes

AMENDMENT DESCRIPTION:

Request by County of Humboldt to amend certified Land Use Plan and Implementation Plan to change numerous planning and development phasing policies pertaining to the town of Samoa to allow earlier development of the sewage treatment plant and an affordable housing project.

HEARING DATE AND LOCATION:

DATE 3/9/2016

TIME 9:00 a.m.

ITEM NO: W15a

PLACE Santa Monica Civic Auditorium – East Wing
1855 Main Street, Santa Monica, CA 90401

PHONE (415) 407-3211

HEARING PROCEDURES:

This item has been scheduled for a public hearing and vote. People wishing to testify on this matter may appear at the hearing or may present their concerns by letter to the Commission on or before the hearing date. The Coastal Commission is not equipped to receive comments on any official business by electronic mail. Any information relating to official business should be sent to the appropriate Commission office using U.S. Mail or courier service.

AVAILABILITY OF STAFF REPORT:

A copy of the staff report on this matter will be available no later than 10 days before the hearing on the Coastal Commission's website. Alternatively, you may request a paper copy of the report from Melissa Kraemer, Supervising Planner at the North Coast District Office.

SUBMISSION OF WRITTEN MATERIALS:

If you wish to submit written materials for review by the Commission, please observe the following suggestions:

IMPORTANT PUBLIC HEARING NOTICE LOCAL COASTAL PROGRAM

- We request that you submit your materials to the Commission staff no later than three working days before the hearing (staff will then distribute your materials to the Commission).
- Mark the agenda number of your item, the application number, your name and your position in favor or opposition to the project on the upper right hand corner of the first page of your submission. If you do not know the agenda number, contact the Commission staff person listed.
- If you wish, you may obtain a current list of Commissioners' names and addresses from any of the Commission's offices and mail the materials directly to the Commissioners. If you wish to submit materials directly to Commissioners, we request that you mail the materials so that the Commissioners receive the materials no later than Thursday of the week before the Commission meeting. Please mail the same materials to all Commissioners, alternates for Commissioners, and four non-voting members on the Commission with a copy to the Commission staff person listed.
- You are requested to summarize the reasons for your position in no more than two or three pages, if possible. You may attach as many exhibits as you feel are necessary.

Please note: While you are not prohibited from doing so, you are discouraged from submitting written materials to the Commission on the day of the hearing, unless they are visual aids, as it is more difficult for the Commission to carefully consider late materials. The Commission requests that if you submit written copies of comments to the Commission on the day of the hearing, that you provide 20 copies.

ALLOTTED TIME FOR TESTIMONY:

Oral testimony may be limited to 5 minutes or less for each speaker depending on the number of persons wishing to be heard.

Questions regarding the report or hearing should be directed to Melissa Kraemer, Supervising Planner at the North Coast District Office.

❖ WEDNESDAY, MARCH 2, 2016 ❖ EST. 2013 ❖ \$1

New sea level alert

Humboldt Bay has highest rate in state

Paul Mann

MAD RIVER UNION

ARCATA — Global sea levels are climbing at a rate faster than at any time in nearly 3,000 years, fueled primarily by human generation of greenhouse gases, according to a

new report published by the National Academy of Sciences.

The breakthrough reinforces research here showing that Humboldt Bay has the highest rate of sea level rise in all of California, 18.6 inches per century (*Union*, March 4, 2015).

The latest findings derive from the creation of an unprecedented global data base by international scientists. It combines regional sea level reconstructions from 24 localities to provide the first worldwide statistical picture of ocean warming.

It is "extremely likely" that 20th
SEA LEVELS ❖ A4

century sea level rise moved faster "than during any of the previous 27 previous centuries," the National Academy of Sciences report states.

Based upon an advanced statistical synthesis, the findings derive, for example, from tide gauge data and from radiocarbon dating of marine mollusks in South America.

Participating scientists are from Harvard's Department of Earth and Planetary Sciences, Germany's Potsdam Institute for Climate Impact Research, Nanyang Technological University in Singapore, Rutgers and Tufts Universities in the U.S., York University in England and the Woods Hole Oceanographic Institution on Cape Cod in Massachusetts.

Aldaron Laird, the North Coast's leading sea level research specialist, says the latest findings reinforce the fact that the climb is "not going to slow down or stop by 2100. Sea level rise will likely continue for centuries and rise tens of feet.

"We will not recognize our coastal landscape in another century" from coastal flooding and land subsidence, Laird said in an email after reviewing the new synthesis.

Research, mapping and data collection by his company here, Trinity Associates, confirmed that Humboldt Bay has the highest rate of sea level rise in the state.

Relative sea level is projected to climb seven inches alone in the next 15 years, across a range spanning five to 11 inches, Laird projects.

Woods Hole Oceanographic says 44 percent of the world's human population (which is 7.3 billion people and climbing) lives within 100 miles of coastlines. It further states that 90 percent of the heat from global warming has been absorbed by the oceans.

Laird warns that global warming has set in motion profound and determinative changes and that humans lack the distant time horizons needed to understand, and prepare for, what they are doing to themselves and the planet.

"As an environmental planner I am used to considering a 20 year planning horizon for land use, which is the standard for General Plans," he said. "But with sea level rise, we are now faced with planning for our responses to changes that may occur by 2050 and even 2100. We are not used to such long-range planning; people are skeptical of the value of such planning. But the facts are that sea level rise has been happening [and] it will continue to happen."

Unchecked, global emissions are likely to continue as human population, consumption and travel rates surge, scientists warn.

The co-authors of the National Academy of Sciences report acknowledged that the regional data they synthesized are incomplete and regional variability affects the figures from coastlines along the Gulf of Mexico, the South Pacific and Australasia.

Moreover, high resolution records are "notably lacking from Asia, most of South America and most of Africa," they said.

Nevertheless, despite the incomplete coverage and regional variability, "sensitivity analyses of different data subsets indicate that key features of the global sea level curve" show a rise until A.D. 700, a fall from A.D. 1000 to 1400 and a renewed and enduring rise in the late 19th century, corresponding with the acceleration of the West's Industrial Revolution.

Correspondence



State Water Resources Control Board

NOTICE TO WATER RIGHT PERMITTEE

February 19, 2016

H.B.M.W.D. FEB 23 2016

Designated Contact or Agent:
HUMBOLDT BAY MUNICIPAL WATER DISTRICT
PO BOX 95
EUREKA, CA 95502

Primary Owner: HUMBOLDT BAY MUNICIPAL WATER DISTRICT
Application ID: A026657 **Permit No.** 018347

First three sources listed:

Counties:

MAD RIVER	Trinity

Direct Diversion Rate: 1000.000 Cubic Feet per Second **Collection to Storage Amount:**
120000.000 AC-FT

PERMITTEE REPORTING FOR 2015

As indicated in the California Code of Regulations title 23, section 847, the State Water Resources Control Board (State Water Board) requires annual reporting of water diversion and use under permits. California Water Code chapter 2.7 section 348 authorizes the State Water Board to require online reporting of water diversions. Consistent with these requirements, the State Water Board, Division of Water Rights (Division) developed a new online Report Management System (RMS) as a component of the enhanced Water Right Information Management System (eWRIMS). RMS allows electronic submittal of water diversion and use reports, saving both paper and resources. **All reports must be completed online through RMS; paper copies are not available.** To report online, go to www.waterboards.ca.gov/rms and login with your user ID and password. The information required to login and access your online Progress Report by Permittee is:

User ID (Water Right ID):
Password (Reporting Identifier):

*****IMPORTANT: PLEASE NOTE BELOW*****

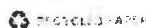
Effective immediately the Division of Water Rights will **NO LONGER** notify you via mail in the future when reporting is due. If you would like to be notified when reporting is due and other reporting related material, please subscribe to our Lyris list (Water Rights Reporting Notification) at:

http://www.waterboards.ca.gov/resources/email_subscriptions/swrcb_subscribe.shtml.

You are required to complete the online report for 2015 no later than **June 30, 2016**. If you do not have a computer or internet access, you should use a friend's computer, a computer in a public library, or a Division computer to fill out the form. Unfortunately, Division staff cannot fill the form out on your behalf. However, if you wish to seek assistance with the form, you may contact the Division to request a listing of attorneys and consulting firms with water rights experience. You can also

FRANCES MARSHALL, CHAIR | THOMAS HOWARD, EXECUTIVE DIRECTOR

1500 I Street, Sacramento, CA 95814 | Mailing Address: P.O. Box 100, Sacramento, Ca 95812-0100 | www.waterboards.ca.gov



If you have multiple water rights, you must report water use separately for each right. Do not list total combined diversions under multiple rights on the form. To document compliance with the conditions of your water right(s), you may use RMS to submit photos (such as staff gages, measuring devices, etc.), documents (California Department of Fish and Wildlife agreements, other agency approvals, etc.), graphs, and spreadsheets.

REQUIRED NOTIFICATION OF CHANGE IN OWNERSHIP

You are required to notify the Division directly of any water right ownership change. Your county assessor's office or title company does not notify the Division of ownership changes. Failure to notify the Division of an ownership change prior to assessment of annual water right fees will result in your liability to pay the annual water right fee even if you transferred the property associated with the water right. Notification to the Division should be made using the Change of Name/Address or Ownership form by clicking on the Water Rights Forms link located at www.waterboards.ca.gov/waterrights/publications_forms/forms/index.shtml.

CHANGES FOR REPORTING AND MEASUREMENT OF DIVERSIONS MADE IN 2016, AND THEREAFTER

- See attached "Fact Sheet" for updates.

LICENSING OF PERMITTED PROJECTS

Due to limited resources, the Division is unable to promptly inspect all projects with expired "complete use" dates or otherwise reported ready for licensing. To expedite the licensing process, for any permits that authorize diversion of water to a reservoir, you may retain a licensed land surveyor or civil engineer to: (1) survey the reservoir and submit the certified survey to the Division with your request for a license inspection; and (2) submit any records of diversion or calculations of beneficial use of water under the permit. Whenever possible, the Division will prioritize inspections for license based on the date that the survey and diversion/use information is submitted to the Division.

The permittee is responsible for maintaining records showing that all permit conditions have been complied with. To facilitate licensing, this information should be submitted to the Division with items (1) and (2) above. For example, if a staff gage is required you should submit photographic documentation that the gage was installed and document that it was calibrated.

CONTACT INFORMATION

Frequently asked questions pertaining to filling out online reports are posted at the RMS website and we encourage you to read these first. However, if you still have any questions or need assistance completing the report, please contact the Division at (916) 323-9393 or send an email to: ewrims@waterboards.ca.gov.

Sincerely,



Amanda Montgomery, Manager
Permitting and Licensing Section
Division of Water Rights



State Water Resources Control Board

NOTICE TO WATER RIGHT PERMITTEE

February 19, 2016

Designated Contact or Agent:
HUMBOLDT BAY MUNICIPAL WATER DISTRICT
PO BOX 95
EUREKA, CA 95502

H.B.M.W.D. FEB 23 2016

Primary Owner: HUMBOLDT BAY MUNICIPAL WATER DISTRICT
Application ID: A017291 **Permit No.** 011715
First three sources listed:

First three sources listed:	Counties:
MAD RIVER	Trinity

Direct Diversion Rate: 116.000 Cubic Feet per Second **Collection to Storage Amount:**
20000.000 AC-FT

PERMITTEE REPORTING FOR 2015

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User ID (Water Right ID):
Password (Reporting Identifier):

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FELISA MARRASO, CHAIR | THOMAS HOWARD, EXECUTIVE DIRECTOR

1001 I Street, Sacramento, CA 95814 | Mailing Address: P.O. Box 100, Sacramento, Ca 95812-0100 | www.waterboards.ca.gov





State Water Resources Control Board

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February 19, 2016

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PO BOX 95
EUREKA, CA 95502

H.B.M.W.D. FEB 23 2016

Primary Owner: HUMBOLDT BAY MUNICIPAL WATER DISTRICT
Application ID: A016454 **Permit No.** 011714

First three sources listed:

Counties:

MAD RIVER	Trinity

Direct Diversion Rate: 0.000 Gallons per Day **Collection to Storage Amount:** 48030.000 AC-FT

PERMITTEE REPORTING FOR 2015

As indicated in the California Code of Regulations title 23, section 847, the State Water Resources Control Board (State Water Board) requires annual reporting of water diversion and use under permits. California Water Code chapter 2.7 section 348 authorizes the State Water Board to require online reporting of water diversions. Consistent with these requirements, the State Water Board, Division of Water Rights (Division) developed a new online Report Management System (RMS) as a component of the enhanced Water Right Information Management System (eWRIMS). RMS allows electronic submittal of water diversion and use reports, saving both paper and resources. **All reports must be completed online through RMS; paper copies are not available.** To report online, go to www.waterboards.ca.gov/rms and login with your user ID and password. The information required to login and access your online Progress Report by Permittee is:

User ID (Water Right ID):

Password (Reporting Identifier):

*****IMPORTANT: PLEASE NOTE BELOW*****

Effective immediately the Division of Water Rights will **NO LONGER** notify you via mail in the future when reporting is due. If you would like to be notified when reporting is due and other reporting related material, please subscribe to our Lyris list (Water Rights Reporting Notification) at:

http://www.waterboards.ca.gov/resources/email_subscriptions/swrcb_subscribe.shtml.

You are required to complete the online report for 2015 no later than **June 30, 2016**. If you do not have a computer or internet access, you should use a friend's computer, a computer in a public library, or a Division computer to fill out the form. Unfortunately, Division staff cannot fill the form out on your behalf. However, if you wish to seek assistance with the form, you may contact the Division to request a listing of attorneys and consulting firms with water rights experience. You can also review the listing on the Division's Business Information Contacts webpage at: www.waterboards.ca.gov/waterrights/board_info/contacts.shtml.

FELICIA MAHER, CHAIR | THOMAS HOWARD, EXECUTIVE DIRECTOR



Updated February 9, 2016



Fact Sheet

EMERGENCY REGULATION FOR MEASURING AND REPORTING ON THE DIVERSION OF WATER

Governor Edmund G. Brown Jr. signed Senate Bill (SB) 88 on June 24, 2015. Sections 15 through 18 of SB 88 add measurement and reporting requirements for a substantial number of diverters. The State Water Resources Control Board (State Water Board) adopted a regulation to implement the new law at its January 19, 2016 Board Meeting. The regulation will go into effect upon approval by the Office of Administrative Law, which is anticipated to occur in February 2016.

The measurement requirements of the regulation apply to all water right holders who divert 10 acre-feet of water or more per year. The annual reporting requirements in the regulation apply to all statement holders as well as persons authorized to appropriate water under a permit, license, registration (small domestic, small irrigation, or livestock stockpond), or certificate for livestock stockpond use.

Information on the regulation, SB 88, and related documents are available at:

http://www.waterboards.ca.gov/waterrights/water_issues/programs/measurement_regulation/

If you have any questions or concerns, please contact the Division of Water Rights (Division) at:

Email Address: dwr-measurement@waterboards.ca.gov
Phone Number: (916) 341-5300

Key Provisions of Regulation

Annual Water Use Reporting Requirements for Water Right Holders

All water right holders shall report on their diversion and use of water annually, beginning with reports for the 2016 diversion season. Annual water use reports for permits, licenses, registrations and stock pond certificates must be filed by April 1 of each year starting April 1, 2017 for diversions made in 2016. The annual use reports for statements shall be filed prior to July 1 of each year. All reports will continue to document diversions during the prior calendar year. The filing dates are for the annual water use reports are summarized below:

DIVERSION/STORAGE PERIOD	WATER USE REPORT DEADLINES				
	PERMITS	LICENSES	STATEMENTS	REGISTRATIONS	CERTIFICATES
2015	JULY 1, 2016	JULY 1, 2016	JULY 1, 2016	VARIES	NOT REQUIRED
2016	APRIL 1, 2017	APRIL 1, 2017	JULY 1, 2017	APRIL 1, 2017	APRIL 1, 2017

Reporting Requirements for Water Right Holders During Times of Insufficient Supply

When the amount of water available in a surface water source is not sufficient to support the needs of existing water right holders and in-stream uses, the State Water Board may require monthly or more frequent reporting in the affected areas to provide the most accurate assessment of water demand. The State Water Board will notify diverters in affected areas when additional reporting is required.



Deadline for Complying with Measurement and Reporting Requirements

The regulation provides for a phased approach to compliance. The compliance deadlines, by volume of water diverted, are shown in the table below.

Required Accuracy for Measurement and Frequency for Monitoring

SB 88 set expectations for both the accuracy of measurement devices as well as the monitoring frequency of the device. The regulation links both device accuracy and monitoring frequency to the volume categories in the table above. Larger diversions and larger reservoirs or ponds have more stringent measurement and monitoring requirements and more stringent requirements for the installation and certification of measurement devices as described in the table below.

Type of Diversion	Installation Deadline	Required Accuracy	Required Monitoring	Qualifications For Installation And Certification
Direct Diversion \geq 1,000 afa/ Storage \geq 1000 af	January 1, 2017	10%	Hourly	Engineer/Contractor/Professional
Direct Diversion \geq 100 afa/ Storage \geq 200 af	July 1, 2017	10%	Daily	Engineer/Contractor/Professional
Direct Diversion $>$ 10 afa/ Storage \geq 50 af	January 1, 2018	15%	Weekly	Individual experienced with measurement and monitoring
Storage $>$ 10 af	January 1, 2018	15%	Monthly	Individual experienced with measurement and monitoring

Measurement Methods

Diversers may propose a measurement method, in lieu of a measuring device, to comply with measurement and accuracy requirements under the regulation. Examples of measurement methods include:

- Multiple water right holders on a single surface supply can propose a collaborative measurement approach.
- A single water right holder with multiple points of diversion can propose a measurement method that may preclude the need to install a measurement device at each point of diversion.

Alternative Compliance

A water right holder may request an alternative compliance approach when strict compliance is not feasible, would be unreasonable expensive, would unreasonable affect public trust resources, or would result in the waste or unreasonable use of water.

The Division is preparing the forms to request alternative measurement or alternative compliance. All requests must be submitted on the Division's forms. Please note; persons subject to the regulation are not allowed to claim "not locally cost effective".

Certification of Water Measurement Device

The regulation requires that the accuracy of the water measurement device be certified every five years, in accordance with the table above. The regulation calls for an initial certification with the first water use report filed after the device has been installed.

Continuing Business

HUMBOLDT BAY MUNICIPAL WATER DISTRICT

To: Board of Directors

From: Paul Helliker

Date: March 3, 2016

Subject: ReMAT electricity generation contract – SGIA Contract

.....

At the October, 2015 Board meeting, the Board authorized staff to establish a contract with JTN to negotiate an interconnection agreement with PG&E, for a maximum cost not to exceed \$5,000. At the January, 2016 meeting, the Board approved the full contract with JTN to complete the interconnection agreement and negotiate a ReMAT contract with PG&E.

JTN has succeeded in negotiating a Small Generator Interconnection Agreement that requires no payments of additional fees (these were paid when we started selling power to PG&E in 1983). The agreement is a standard CA Public Utilities Commission- approved contract that does not have many provisions that can be modified. As described in the attached email from Mark Henwood, he believes that contract meets our requirements and has a number of provisions that are advantageous to HBMWD. An interconnection agreement is required even for our current Standard Offer contract, as well as for a ReMAT contract or a contract with a Humboldt CCA. We currently have an interconnection agreement related to our power sale contract, and this agreement would supercede the existing agreement.

The only issue that arose in Russ Gan's review of this agreement was whether or not the "Entire Agreement" clause in Section 12.5 would nullify our Standard Offer contract with PG&E under which we currently sell power. We sought PG&E's opinion on this, and they have confirmed that the provisions in the Standard Offer contract are not addressed as subject matter in the interconnection agreement, and thus not affected by Section 12.5. See the confirmation email from Nancy Breckenridge, the manager of contracts and reporting for PG&E. This position is consistent with the structure of the current power sale contract and interconnection agreement that we have in place.

Staff recommends that the Board authorize approval by HBMWD of the interconnection agreement.

Paul Helliker

From: markhenwood@henwoodassociates.com
Sent: Wednesday, February 17, 2016 10:21 AM
To: Paul Helliker; Todd Thorner
Subject: Fw: Final SGIA: QF Conversion: Gosselin Hydroelectric Project (PG&E's Log Number 19H051) (Action Requested)
Attachments: Gosselin Hydroelectric Project_SGIA_WDT_Final_021616.pdf

Paul/Todd,

Attached is the final version of the SGIA ready for execution. Larry's email explains the procedure.

In summary:

1. The agreement is a standard document that PG&E uses for this purpose.
2. The agreement recognizes that HBMWD paid the one time O&M fee and as a result there is no ongoing charge.
3. The agreement is evergreen in HBMWD's favor.
4. No additional requirements are place on HBMWD by the agreement at this time. Changes in laws or regulations could affect the agreement in the future.
5. We have received verification from PG&E that the existing PPA's power purchase provisions will remain intact after the SGIA is executed. Paul you have a copy of Nancy Brekenridge's email to the effect.

As a result I believe it is in HBMWD's interest to execute the agreement at this time thereby locking in the interconnection mechanism to market power under any other arrangement than the SO1. Of course, HBMWD needs to perform it's own review prior to execution.

Also, Todd please double check the agreement and provide feedback to Paul.

Regards,

Mark

On Tuesday, February 16, 2016 3:30 PM, "Doleman, Larry (ET)" <LXD6@pge.com> wrote:

Hey Mark,

Attached is the Final SGIA and QF Conversion for your **Gosselin Hydroelectric Project (PG&E's Log Number 19H051)**. This document is submitted for your signature.

Please read these changes over carefully. If you could, please sign 2 single-sided copies and send entire original documents in overnight mail to:

Pacific Gas and Electric Company
Attention: Electric Generation Interconnection – Larry Doleman
245 Market Street
Mail Code N7L
San Francisco, California 94105-1702

SECTION HI, PAGE NO. 3

Please **sign and date pages 20 and 27 only** leaving everything else blank. Please provide original wet copies to me no later than **COB Tuesday, March 1, 2016**. Thank you for your continued support and assistance.

Thank you for your continued support and assistance. Feel free to call me with any questions.

Larry Doleman, MBA | [Interconnection Manager](#)

Pacific Gas & Electric Company | Electric Generation Interconnection | www.pge.com/gen

245 Market Street Office 797B, San Francisco, CA 94105

Phone: 415-972-5423 | Internal: 222-5423 | Mobile: 415-716-3424 | Email: lx6@pge.com

Paul Helliker

From: Breckenridge, Nancy <NJB6@pge.com>
Sent: Wednesday, February 10, 2016 9:26 AM
To: Paul Helliker; 'markhenwood@henwoodassociates.com'
Subject: 19H051 Humboldt Bay MWD - Interconnection Question

Paul / Mark –

I wanted to get back to you regarding your interconnection question.

I have checked in with colleagues here and can confirm that executing an SGIA that will supersede the existing interconnection agreement will not impact the power purchase provisions of the SO1, which will continue in force until that agreement is terminated. An interconnection agreement must be in place throughout the life of your SO1 contract (i.e., smooth transition from one agreement to the other, no gap) – Mark, sounds like you experienced this type of transition already with Salmon Creek.

Upon completion, please supply a copy of your executed SGIA for our records.

Thank you.
Nancy

From: Breckenridge, Nancy
Sent: Friday, February 05, 2016 5:09 PM
To: 'Paul Helliker'; markhenwood@henwoodassociates.com
Subject: RE: Contact manager for one of the old QF projects

Paul / Mark –

Thank you both for the information. I will be sure to update our database to reflect Paul Helliker as our contact at Humboldt Bay MWD and include a note that we have received authority to speak with Mark Henwood and Todd Thorner regarding this contract.

As I mentioned to Mark, I will be out of the office Monday, but back on Tuesday.
I already sent the question on to a couple of my colleagues just to check in and will loop back with you early next week.

Thanks.

Nancy Breckenridge
Manager | Contracts and Reporting
Energy Procurement | Pacific Gas and Electric Co.
415.973.4092 | NJB6@pge.com

From: Paul Helliker [<mailto:helliiker@hbmwd.com>]
Sent: Friday, February 05, 2016 4:51 PM
To: markhenwood@henwoodassociates.com; Breckenridge, Nancy
Subject: RE: Contact manager for one of the old QF projects

Alert: This message originated outside of PG&E. Use caution when opening attachments, clicking links or responding to requests for information.

Hi, Nancy – Mark Henwood and Todd Thorner are working with us to help get an interconnection agreement and ReMAT contract drafted, for my Board of Directors to consider approving. I am glad to know that you are our contract manager for PG&E, and I look forward to working with you in this process.

Mark has described well one of the concerns we have about how the SGIA would relate to our SO1 contract. I look forward to your comments on the query.

Thanks,

Paul Helliker
General Manager
Humboldt Bay Municipal Water District
828 7th Street
Eureka, CA 95501
(707) 443-5018

From: markhenwood@henwoodassociates.com [<mailto:markhenwood@henwoodassociates.com>]

Sent: Friday, February 05, 2016 4:38 PM

To: Breckenridge, Nancy

Cc: Curran, Chad; Lopez, Norman; Paul Helliker

Subject: Re: Contact manager for one of the old QF projects

Hi Nancy,

Nice to make contact with you. This email just follows up our call. I'm am copying this email to Paul Helliker who is the General Manager of Humboldt Bay Municipal Water District. I trust that an email from Mr. Helliker would be adequate to allow us to discuss the details of the PPA / SGIA matter.

By way of background, Larry Doleman of PG&E's interconnection group is in the process of preparing an execution copy of a new SGIA for the project. One of the provisions in the SGIA states:

Section 12.5 Entire Agreement. This Agreement, including all Attachments, constitutes the entire agreement between the Parties with reference to the subject matter hereof, and supersedes all prior and contemporaneous understandings or agreements, oral or written, between the Parties with respect to the subject matter of this Agreement.

With this provision the old interconnection and SFA provisions in HBMWD's SO1 would be superseded by the new SGIA. What we are looking for is confirmation that the power purchase provisions of the SO1 will continue in force until that agreement is terminated. This is the exact same scenario that our affiliate Salmon Creek Hydroelectric Company LLC went through at the end of it's SO4 contract. We executed a SGIA prior to the end of the SO4 contract which remained in effect until its termination. This allowed us to work through all the transition activities and have a "seamless" transition to our new ReMAT contract.

Until next week,

SMALL GENERATOR INTERCONNECTION AGREEMENT (SGIA)

(For Generating Facilities No Larger Than 20 MW)

BETWEEN

PACIFIC GAS AND ELECTRIC COMPANY

AND

HUMBOLDT BAY MUNICIPAL WATER DISTRICT

For Project:

Gosselin Hydroelectric Project

**(PG&E's Log Number 19H051)
Trinity County, CA**

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[Attachment 1](#) – Glossary of Terms

[Attachment 2](#) – Description and Costs of the Small Generating Facility, Interconnection Facilities, and Metering Equipment

[Attachment 3](#) – One-line Diagram Depicting the Small Generating Facility, Interconnection Facilities, Metering Equipment, and Upgrades

[Attachment 4](#) – Milestones

[Attachment 5](#) – Additional Operating Requirements for the Distribution Provider’s Distribution and Transmission Systems and Affected Systems Needed to Support the Interconnection Customer’s Needs

[Attachment 6](#) – Distribution Provider’s Description of its Upgrades and Best Estimate of Upgrade Costs

This Interconnection Agreement ("Agreement") is made and entered into this _____ day of _____, 20__ by **PACIFIC GAS AND ELECTRIC COMPANY** ("Distribution Provider"), and **HUMBOLDT BAY MUNICIPAL WATER DISTRICT** ("Interconnection Customer"), each hereinafter sometimes referred to individually as "Party" or both referred to collectively as the "Parties."

Distribution Provider Information

Pacific Gas and Electric Company
Attention: Electric Generation Interconnection - Contract Management
245 Market Street
Mail Code N7L
San Francisco, California 94105-1702
Phone: (415) 972-5394
Email: EGContractMgmt@pge.com

Interconnection Customer Information

Humboldt Bay Municipal Water District
Attention: John Friedenbach
828 Seventh St.
Eureka, CA 95501
Phone: (707) 443-5018
Email: friedenbach@hbmwd.com

Interconnection Customer Application No: **PG&E Project ID# N/A, Queue# N/A**. In consideration of the mutual covenants set forth herein, the Parties agree as follows:

Article 1. Scope and Limitations of Agreement

- 1.1 This Agreement shall be used for all Small Generating Facility Interconnection Requests submitted under the Small Generator Interconnection Procedures (SGIP) or Generator Interconnection Procedures (GIP) except for those submitted under the 10 kW Inverter Process contained in SGIP Attachment 5.
- 1.2 This Agreement governs the terms and conditions under which the Interconnection Customer's Small Generating Facility will interconnect with, and operate in parallel with, the Distribution Provider's Distribution System.
- 1.3 This Agreement does not constitute an agreement to purchase or deliver the Interconnection Customer's power. The purchase or delivery of power and other services that the Interconnection Customer may require will be covered under separate agreements. The Interconnection Customer will be responsible for separately making all necessary arrangements (including scheduling) for delivery of electricity.
- 1.4 Nothing in this Agreement is intended to affect any other agreement between the Distribution Provider and the Interconnection Customer.
- 1.5 Responsibilities of the Parties

- 1.5.1 The Parties shall perform all obligations of this Agreement in accordance with all Applicable Laws and Regulations, Operating Requirements, and Good Utility Practice.
 - 1.5.2 The Interconnection Customer shall construct, interconnect, operate and maintain its Small Generating Facility and construct, operate, and maintain its Interconnection Facilities in accordance with the applicable manufacturer's recommended maintenance schedule, in accordance with this Agreement, and with Good Utility Practice.
 - 1.5.3 The Distribution Provider shall construct, operate, and maintain its Distribution System, Transmission System and Interconnection Facilities in accordance with this Agreement, and with Good Utility Practice.
 - 1.5.4 The Interconnection Customer agrees to construct its facilities or systems in accordance with applicable specifications that meet or exceed those provided by the National Electrical Safety Code, the American National Standards Institute, IEEE, Underwriter's Laboratory, and Operating Requirements in effect at the time of construction and other applicable national and state codes and standards. The Interconnection Customer agrees to design, install, maintain, and operate its Small Generating Facility so as to reasonably minimize the likelihood of a disturbance adversely affecting or impairing the system or equipment of the Distribution Provider or Affected Systems. The Interconnection Customer shall comply with the Distribution Provider's Interconnection Handbook. In the event of a conflict between the terms of this SGIA and the terms of the Distribution Provider's Interconnection Handbook, the terms in this SGIA shall govern.
 - 1.5.5 Each Party shall operate, maintain, repair, and inspect, and shall be fully responsible for the facilities that it now or subsequently may own unless otherwise specified in the Attachments to this Agreement. Each Party shall be responsible for the safe installation, maintenance, repair and condition of their respective lines and appurtenances on their respective sides of the point of change of ownership. The Distribution Provider and the Interconnection Customer, as appropriate, shall provide Interconnection Facilities that adequately protect the Distribution Provider's Distribution and Transmission Systems, personnel, and other persons from damage and injury. The allocation of responsibility for the design, installation, operation, maintenance and ownership of Interconnection Facilities shall be delineated in the Attachments to this Agreement.
 - 1.5.6 The Distribution Provider shall coordinate with all Affected Systems to support the interconnection.
- 1.6 Parallel Operation Obligations
Once the Small Generating Facility has been authorized by the Distribution Provider to commence parallel operation, the Interconnection Customer shall abide by all rules and procedures pertaining to the parallel operation of the Small Generating Facility in the applicable control area, including, but not limited to; 1) the rules and procedures concerning the operation of generation set forth in the Tariff or by the applicable system operator(s) for the Distribution Provider's Distribution and Transmission Systems and; 2) the Operating Requirements set forth in Attachment 5 of this Agreement.

1.7 Metering

The Interconnection Customer shall be responsible for the Distribution Provider's reasonable and necessary cost for the purchase, installation, operation, maintenance, testing, repair, and replacement of metering and data acquisition equipment specified in Attachments 2 and 3 of this Agreement. The Interconnection Customer's metering (and data acquisition, as required) equipment shall conform to applicable industry rules and Operating Requirements.

1.8 Reactive Power

The Interconnection Customer shall design its Small Generating Facility to maintain a composite power delivery at continuous rated power output at the Point of Interconnection at a power factor within the range of 0.95 leading to 0.95 lagging, unless the Distribution Provider has established different requirements that apply to all similarly situated generators in the control area on a comparable basis. The requirements of this paragraph shall not apply to wind generators.

1.9 Capitalized terms used herein shall have the meanings specified in the Glossary of Terms in Attachment 1 or the body of this Agreement.

Article 2. Inspection, Testing, Authorization, and Right of Access

2.1 Equipment Testing and Inspection

2.1.1 The Interconnection Customer shall test and inspect its Small Generating Facility and Interconnection Facilities prior to interconnection. The Interconnection Customer shall notify the Distribution Provider of such activities no fewer than five Business Days (or as may be agreed to by the Parties) prior to such testing and inspection. Testing and inspection shall occur on a Business Day. The Distribution Provider may, at its own expense, send qualified personnel to the Small Generating Facility site to inspect the interconnection and observe the testing. The Interconnection Customer shall provide the Distribution Provider a written test report when such testing and inspection is completed.

2.1.2 The Distribution Provider shall provide the Interconnection Customer written acknowledgment that it has received the Interconnection Customer's written test report. Such written acknowledgment shall not be deemed to be or construed as any representation, assurance, guarantee, or warranty by the Distribution Provider of the safety, durability, suitability, or reliability of the Small Generating Facility or any associated control, protective, and safety devices owned or controlled by the Interconnection Customer or the quality of power produced by the Small Generating Facility.

2.2 Authorization Required Prior to Parallel Operation

2.2.1 The Distribution Provider shall use Reasonable Efforts to list applicable parallel operation requirements in Attachment 5 of this Agreement. Additionally, the Distribution Provider shall notify the Interconnection Customer of any changes to these requirements as soon as they are known. The Distribution Provider shall

make Reasonable Efforts to cooperate with the Interconnection Customer in meeting requirements necessary for the Interconnection Customer to commence parallel operations by the in-service date.

- 2.2.2 The Interconnection Customer shall not operate its Small Generating Facility in parallel with the Distribution Provider's Distribution System without prior written authorization of the Distribution Provider. The Distribution Provider will provide such authorization once the Distribution Provider receives notification that the Interconnection Customer has complied with all applicable parallel operation requirements. Such authorization shall not be unreasonably withheld, conditioned, or delayed.

2.3 Right of Access

- 2.3.1 Upon reasonable notice, the Distribution Provider may send a qualified person to the premises of the Interconnection Customer at or immediately before the time the Small Generating Facility first produces energy to inspect the interconnection, and observe the commissioning of the Small Generating Facility (including any required testing), startup, and operation for a period of up to three Business Days after initial start-up of the unit. In addition, the Interconnection Customer shall notify the Distribution Provider at least five Business Days prior to conducting any on-site verification testing of the Small Generating Facility.
- 2.3.2 Following the initial inspection process described above, at reasonable hours, and upon reasonable notice, or at any time without notice in the event of an emergency or hazardous condition, the Distribution Provider shall have access to the Interconnection Customer's premises for any reasonable purpose in connection with the performance of the obligations imposed on it by this Agreement or if necessary to meet its legal obligation to provide service to its customers.
- 2.3.3 Each Party shall be responsible for its own costs associated with following this article.

Article 3. Effective Date, Term, Termination, and Disconnection

3.1 Effective Date

This Agreement shall become effective upon execution by the Parties subject to acceptance by FERC (if applicable), or if filed unexecuted, upon the date specified by the FERC. The Distribution Provider shall promptly file this Agreement with the FERC upon execution, if required.

3.2 Term of Agreement

This Agreement shall become effective on the Effective Date and shall remain in effect for a period of ten years from the Effective Date or such other longer period as the Interconnection Customer may request and shall be automatically renewed for each successive one-year period thereafter, unless terminated earlier in accordance with article 3.3 of this Agreement.

3.3 Termination

No termination shall become effective until the Parties have complied with all Applicable Laws and Regulations applicable to such termination, including the filing with FERC of a notice of termination of this Agreement (if required), which notice has been accepted for filing by FERC.

- 3.3.1 The Interconnection Customer may terminate this Agreement at any time by giving the Distribution Provider 20 Business Days written notice.
- 3.3.2 Either Party may terminate this Agreement after Default pursuant to article 7.6.
- 3.3.3 Upon termination of this Agreement, the Small Generating Facility will be disconnected from the Distribution Provider's Distribution System. The termination of this Agreement shall not relieve either Party of its liabilities and obligations, owed or continuing at the time of the termination.
- 3.3.4 The provisions of this article shall survive termination or expiration of this Agreement.

3.4 Temporary Disconnection

Temporary disconnection shall continue only for so long as reasonably necessary under Good Utility Practice.

- 3.4.1 Emergency Conditions -- "Emergency Condition" shall mean a condition or situation: (1) that in the judgment of the Party making the claim is imminently likely to endanger life or property; or (2) that, in the case of the Distribution Provider, is imminently likely (as determined in a non-discriminatory manner) to cause a material adverse effect on the security of, or damage to the Distribution System, the Distribution Provider's Interconnection Facilities any Affected Systems; or (3) that, in the case of the Interconnection Customer, is imminently likely (as determined in a non-discriminatory manner) to cause a material adverse effect on the security of, or damage to, the Small Generating Facility or the Interconnection Customer's Interconnection Facilities. Under Emergency Conditions, the Distribution Provider may immediately suspend interconnection service and temporarily disconnect the Small Generating Facility. The Distribution Provider shall notify the Interconnection Customer promptly when it becomes aware of an Emergency Condition that may reasonably be expected to affect the Interconnection Customer's operation of the Small Generating Facility. The Interconnection Customer shall notify the Distribution Provider promptly when it becomes aware of an Emergency Condition that may reasonably be expected to affect the Distribution Provider's Distribution System or other Affected Systems. To the extent information is known, the notification shall describe the Emergency Condition, the extent of the damage or deficiency, the expected effect on the operation of both Parties' facilities and operations, its anticipated duration, and the necessary corrective action.

3.4.2 Routine Maintenance, Construction, and Repair

The Distribution Provider may interrupt interconnection service or curtail the output of the Small Generating Facility and temporarily disconnect the Small Generating Facility from the Distribution Provider's Distribution System when necessary for routine maintenance, construction, and repairs on the Distribution Provider's Distribution System and/or Transmission System. The Distribution

Provider shall provide the Interconnection Customer with five Business Days notice prior to such interruption. The Distribution Provider shall use Reasonable Efforts to coordinate such reduction or temporary disconnection with the Interconnection Customer.

3.4.3 Forced Outages

During any forced outage, the Distribution Provider may suspend interconnection service to effect immediate repairs on the Distribution Provider's Distribution System and/or Transmission System. The Distribution Provider shall use Reasonable Efforts to provide the Interconnection Customer with prior notice. If prior notice is not given, the Distribution Provider shall, upon request, provide the Interconnection Customer written documentation after the fact explaining the circumstances of the disconnection.

3.4.4 Adverse Operating Effects

The Distribution Provider shall notify the Interconnection Customer as soon as practicable if, based on Good Utility Practice, operation of the Small Generating Facility may cause disruption or deterioration of service to other customers served from the same electric system, or if operating the Small Generating Facility could cause damage to the Distribution Provider's Distribution System or Affected Systems. Supporting documentation used to reach the decision to disconnect shall be provided to the Interconnection Customer upon request. If, after notice, the Interconnection Customer fails to remedy the adverse operating effect within a reasonable time, the Distribution Provider may disconnect the Small Generating Facility. The Distribution Provider shall provide the Interconnection Customer with five Business Day notice of such disconnection, unless the provisions of article 3.4.1 apply.

3.4.5 Modification of the Small Generating Facility

The Interconnection Customer must receive written authorization from the Distribution Provider before making any change to the Small Generating Facility that may have a material impact on the safety or reliability of the Distribution System and/or Transmission System. Such authorization shall not be unreasonably withheld. Modifications shall be done in accordance with Good Utility Practice. If the Interconnection Customer makes such modification without the Distribution Provider's prior written authorization, the latter shall have the right to temporarily disconnect the Small Generating Facility.

3.4.6 Reconnection

The Parties shall cooperate with each other to restore the Small Generating Facility, Interconnection Facilities, and/or the Distribution Provider's Distribution System or Transmission System to their normal operating state as soon as reasonably practicable following a temporary disconnection.

Article 4. Cost Responsibility for Interconnection Facilities and Distribution Upgrades

4.1 Interconnection Facilities

4.1.1 The Interconnection Customer shall pay for the cost of the Interconnection Facilities itemized in Attachment 2 of this Agreement. The Distribution Provider

shall provide a best estimate cost, including overheads, for the purchase and construction of its Interconnection Facilities and provide a detailed itemization of such costs. Costs associated with Interconnection Facilities may be shared with other entities that may benefit from such facilities by agreement of the Interconnection Customer, such other entities, and the Distribution Provider.

- 4.1.2 The Interconnection Customer shall be responsible for its share of all reasonable expenses, including overheads, associated with (1) owning, operating, maintaining, repairing, and replacing its own Interconnection Facilities, and (2) operating, maintaining, repairing, and replacing the Distribution Provider's Interconnection Facilities.
- 4.2 Distribution Upgrades
The Distribution Provider shall design, procure, construct, install, and own the Distribution Upgrades described in Attachment 6 of this Agreement. If the Distribution Provider and the Interconnection Customer agree, the Interconnection Customer may construct Distribution Upgrades that are located on land owned by the Interconnection Customer. The actual cost of the Distribution Upgrades, including overheads, shall be directly assigned to the Interconnection Customer.

Article 5. Cost Responsibility for Network Upgrades

- 5.1 Applicability
No portion of this article 5 shall apply unless the interconnection of the Small Generating Facility requires Network Upgrades.
- 5.2 Network Upgrades
The Distribution Provider or the Transmission Owner shall design, procure, construct, install, and own the Network Upgrades described in Attachment 6 of this Agreement. If the Distribution Provider and the Interconnection Customer agree, the Interconnection Customer may construct Network Upgrades that are located on land owned by the Interconnection Customer. Unless the Distribution Provider elects to pay for Network Upgrades, the actual cost of the Network Upgrades, including overheads, shall be borne by the Interconnection Customer unless Section 5.2.1 directs otherwise.
- 5.2.1 Repayment of Amounts Advanced for Network Upgrades
To the extent the CAISO Tariff, currently Section 12.3.2 of Appendix Y, provides for cash repayment to the Interconnection Customer for contribution to the cost of Network Upgrades, the Interconnection Customer shall be entitled to a cash repayment, equal to the total amount paid to the Distribution Provider and Affected System operator, if any, for Network Upgrades, including any tax gross-up or other tax-related payments associated with the Network Upgrades, and not otherwise refunded to the Interconnection Customer, to be paid to the Interconnection Customer on a dollar-for-dollar basis for the non-usage sensitive portion of transmission charges, as payments are made under the Distribution Provider's Tariff and Affected System's Tariff for transmission services with respect to the Small Generating Facility. Any repayment shall include interest calculated in accordance with the methodology set forth in FERC's regulations at 18 C.F.R. '35.19a(a)(2)(iii) from the date of any payment for Network Upgrades through the date on which the Interconnection Customer receives a repayment of

such payment pursuant to this subparagraph. The Interconnection Customer may assign such repayment rights to any person.

5.2.1.1 If the Interconnection Customer is entitled to a cash repayment pursuant to Article 5.2.1, the Interconnection Customer, the Distribution Provider, and Affected System operator may adopt any alternative payment schedule that is mutually agreeable so long as the Distribution Provider and Affected System operator take one of the following actions no later than five years from the Commercial Operation Date: (1) return to the Interconnection Customer any amounts advanced for Network Upgrades not previously repaid, or (2) declare in writing that the Distribution Provider or Affected System operator(s) will continue to provide payments to the Interconnection Customer on a dollar-for-dollar basis for the non-usage sensitive portion of transmission charges, or develop an alternative schedule that is mutually agreeable and provides for the return of all amounts advanced for Network Upgrades not previously repaid; however, full reimbursement shall not extend beyond twenty (20) years from the commercial operation date.

5.2.1.2 If the Small Generating Facility fails to achieve commercial operation, but it or another generating facility is later constructed and requires use of the Network Upgrades, the Distribution Provider and Affected System operator shall at that time reimburse the Interconnection Customer for the amounts advanced for the Network Upgrades if the Interconnection Customer is entitled to a cash repayment pursuant to Article 5.2.1. Before any such reimbursement can occur, the Interconnection Customer, or the entity that ultimately constructs the generating facility, if different, is responsible for identifying the entity to which reimbursement must be made.

5.3 Special Provisions for Affected Systems

Unless the Distribution Provider provides, under this Agreement, for the repayment of amounts advanced to Affected System operator(s) for Network Upgrades, the Interconnection Customer and Affected System operator shall enter into an agreement that provides for such repayment. The agreement shall specify the terms governing payments to be made by the Interconnection Customer to Affected System operator as well as the repayment by Affected System operator.

5.4 Rights Under Other Agreements

Notwithstanding any other provision of this Agreement, nothing herein shall be construed as relinquishing or foreclosing any rights, including but not limited to firm transmission rights, capacity rights, transmission congestion rights, or transmission credits, that the Interconnection Customer shall be entitled to, now or in the future, under any other agreement or tariff as a result of, or otherwise associated with, the transmission capacity, if any, created by the Network Upgrades, including the right to obtain cash reimbursements or transmission credits for transmission service that is not associated with the Small Generating Facility.

Article 6. Billing, Payment, Milestones, and Financial Security

6.1 Billing and Payment Procedures and Final Accounting

- 6.1.1 The Distribution Provider shall bill the Interconnection Customer for the design, engineering, construction, and procurement costs of Interconnection Facilities and Upgrades contemplated by this Agreement on a monthly basis, or as otherwise agreed by the Parties. The Interconnection Customer shall pay each bill within 30 calendar days of receipt, or as otherwise agreed to by the Parties.
- 6.1.2 Within three months of completing the construction and installation of the Distribution Provider's Interconnection Facilities and/or Upgrades described in the Attachments to this Agreement, the Distribution Provider shall provide the Interconnection Customer with a final accounting report of any difference between (1) the Interconnection Customer's cost responsibility for the actual cost of such facilities or Upgrades, and (2) the Interconnection Customer's previous aggregate payments to the Distribution Provider for such facilities or Upgrades. If the Interconnection Customer's cost responsibility exceeds its previous aggregate payments, the Distribution Provider shall invoice the Interconnection Customer for the amount due and the Interconnection Customer shall make payment to the Distribution Provider within 30 calendar days. If the Interconnection Customer's previous aggregate payments exceed its cost responsibility under this Agreement, the Distribution Provider shall refund to the Interconnection Customer an amount equal to the difference within 30 calendar days of the final accounting report.

6.2 Milestones

The Parties shall agree on milestones for which each Party is responsible and list them in Attachment 4 of this Agreement. A Party's obligations under this provision may be extended by agreement. If a Party anticipates that it will be unable to meet a milestone for any reason other than an Uncontrollable Force Event, it shall immediately notify the other Party of the reason(s) for not meeting the milestone and (1) propose the earliest reasonable alternate date by which it can attain this and future milestones, and (2) requesting appropriate amendments to Attachment 4. The Party affected by the failure to meet a milestone shall not unreasonably withhold agreement to such an amendment unless it will suffer significant uncompensated economic or operational harm from the delay, (2) attainment of the same milestone has previously been delayed, or (3) it has reason to believe that the delay in meeting the milestone is intentional or unwarranted notwithstanding the circumstances explained by the Party proposing the amendment.

6.3 Financial Security Arrangements

At least 20 Business Days prior to the commencement of the design, procurement, installation, or construction of a discrete portion of the Distribution Provider's Interconnection Facilities and Upgrades, the Interconnection Customer shall provide the Distribution Provider, at the Interconnection Customer's option, a guarantee, , letter of credit or other form of security that is reasonably acceptable to the Distribution Provider and is consistent with the Uniform Commercial Code of the jurisdiction where the Point of Interconnection is located. Such security for payment shall be in an amount sufficient to cover the costs for constructing, designing, procuring, and installing the applicable portion of the Distribution Provider's Interconnection Facilities and Upgrades and shall be reduced on a dollar-for-dollar basis for payments made to the Distribution Provider under this Agreement during its term. In addition:

- 6.3.1 The guarantee must be made by an entity that meets the creditworthiness requirements of the Distribution Provider, and contain terms and conditions that guarantee payment of any amount that may be due from the Interconnection Customer, up to an agreed-to maximum amount.
- 6.3.2 The letter of credit must be issued by a financial institution or insured reasonably acceptable to the Distribution Provider and must specify a reasonable expiration date.

Article 7. Assignment, Liability, Indemnity, Uncontrollable Force, Consequential Damages, and Default

7.1 Assignment

This Agreement may be assigned by either Party upon fifteen (15) Business Days prior written notice and opportunity to object by the other Party; provided that:

- 7.1.1 Either Party may assign this Agreement without the consent of the other Party to any affiliate of the assigning Party with an equal or greater credit rating and with the legal authority and operational ability to satisfy the obligations of the assigning Party under this Agreement;
- 7.1.2 The Interconnection Customer shall have the right to assign this Agreement, without the consent of the Distribution Provider, for collateral security purposes to aid in providing financing for the Small Generating Facility, provided that the Interconnection Customer will promptly notify the Distribution Provider of any such assignment.
- 7.1.3 Any attempted assignment that violates this article is void and ineffective. Assignment shall not relieve a Party of its obligations, nor shall a Party's obligations be enlarged, in whole or in part, by reason thereof. An assignee is responsible for meeting the same financial, credit, and insurance obligations as the Interconnection Customer. Where required, consent to assignment will not be unreasonably withheld, conditioned or delayed.

7.2 Limitation of Liability

Each Party's liability to the other Party for any loss, cost, claim, injury, liability, or expense, including reasonable attorney's fees, relating to or arising from any act or omission in its performance of this Agreement, shall be limited to the amount of direct damage actually incurred. In no event shall either Party be liable to the other Party for any indirect, special, consequential, or punitive damages, except as authorized by this Agreement.

7.3 Indemnity

- 7.3.1 This provision protects each Party from liability incurred to third parties as a result of carrying out the provisions of this Agreement. Liability under this provision is exempt from the general limitations on liability found in article 7.2.
- 7.3.2 The Parties shall at all times indemnify, defend, and hold the other Party harmless from, any and all damages, losses, claims, including claims and actions

relating to injury to or death of any person or damage to property, demand, suits, recoveries, costs and expenses, court costs, attorney fees, and all other obligations by or to third parties, arising out of or resulting from the other Party's action or failure to meet its obligations under this Agreement on behalf of the indemnifying Party, except in cases of gross negligence or intentional wrongdoing by the indemnified Party.

7.3.3 If an indemnified person is entitled to indemnification under this article as a result of a claim by a third party, and the indemnifying Party fails, after notice and reasonable opportunity to proceed under this article, to assume the defense of such claim, such indemnified person may at the expense of the indemnifying Party contest, settle or consent to the entry of any judgment with respect to, or pay in full, such claim.

7.3.4 If an indemnifying party is obligated to indemnify and hold any indemnified person harmless under this article, the amount owing to the indemnified person shall be the amount of such indemnified person's actual loss, net of any insurance or other recovery.

7.3.5 Promptly after receipt by an indemnified person of any claim or notice of the commencement of any action or administrative or legal proceeding or investigation as to which the indemnity provided for in this article may apply, the indemnified person shall notify the indemnifying party of such fact. Any failure of or delay in such notification shall not affect a Party's indemnification obligation unless such failure or delay is materially prejudicial to the indemnifying party.

7.4 Consequential Damages

Other than as expressly provided for in this Agreement, neither Party shall be liable under any provision of this Agreement for any losses, damages, costs or expenses for any special, indirect, incidental, consequential, or punitive damages, including but not limited to loss of profit or revenue, loss of the use of equipment, cost of capital, cost of temporary equipment or services, whether based in whole or in part in contract, in tort, including negligence, strict liability, or any other theory of liability; provided, however, that damages for which a Party may be liable to the other Party under another agreement will not be considered to be special, indirect, incidental, or consequential damages hereunder.

7.5 Uncontrollable Force

7.5.1 As used in this article, an Uncontrollable Force shall mean "any act of God, labor disturbance, act of the public enemy, war, insurrection, riot, fire, storm, flood, earthquake, explosion, breakage or accident to machinery or equipment, any curtailment, order, regulation or restriction imposed by governmental, military or lawfully established civilian authorities, or any other cause beyond the reasonable control of the Distribution Provider or Interconnection Customer which could not be avoided through the exercise of Good Utility Practice. An Uncontrollable Force Event does not include an act of negligence or intentional wrongdoing by the Party claiming Uncontrollable Force."

7.5.2 If an Uncontrollable Force Event prevents a Party from fulfilling any obligations under this Agreement, the Party affected by the Uncontrollable Force Event

(Affected Party) shall promptly notify the other Party, either in writing or via the telephone, of the existence of the Uncontrollable Force Event. The notification must specify in reasonable detail the circumstances of the Uncontrollable Force Event, its expected duration, and the steps that the Affected Party is taking to mitigate the effects of the event on its performance. The Affected Party shall keep the other Party informed on a continuing basis of developments relating to the Uncontrollable Force Event until the event ends. The Affected Party will be entitled to suspend or modify its performance of obligations under this Agreement (other than the obligation to make payments) only to the extent that the effect of the Uncontrollable Force Event cannot be mitigated by the use of Reasonable Efforts. The Affected Party will use Reasonable Efforts to resume its performance as soon as possible.

7.6 Default

- 7.6.1 No Default shall exist where such failure to discharge an obligation (other than the payment of money) is the result of an Uncontrollable Force Event as defined in this Agreement or the result of an act or omission of the other Party. Upon a Default, the non-defaulting Party shall give written notice of such Default to the defaulting Party. Except as provided in article 7.6.2, the defaulting Party shall have 60 calendar days from receipt of the Default notice within which to cure such Default; provided however, if such Default is not capable of cure within 60 calendar days, the defaulting Party shall commence such cure within 20 calendar days after notice and continuously and diligently complete such cure within six months from receipt of the Default notice; and, if cured within such time, the Default specified in such notice shall cease to exist.
- 7.6.2 If a Default is not cured as provided in this article, or if a Default is not capable of being cured within the period provided for herein, the non-defaulting Party shall have the right to terminate this Agreement by written notice at any time until cure occurs, and be relieved of any further obligation hereunder and, whether or not that Party terminates this Agreement, to recover from the defaulting Party all amounts due hereunder, plus all other damages and remedies to which it is entitled at law or in equity. The provisions of this article will survive termination of this Agreement.

Article 8. Insurance

- 8.1 The Interconnection Customer shall, at its own expense, maintain in force general liability insurance without any exclusion for liabilities related to the interconnection undertaken pursuant to this Agreement. The amount of such insurance shall be sufficient to insure against all reasonably foreseeable direct liabilities given the size and nature of the generating equipment being interconnected, the interconnection itself, and the characteristics of the system to which the interconnection is made. The Interconnection Customer shall obtain additional insurance only if necessary as a function of owning and operating a generating facility. Such insurance shall be obtained from an insurance provider authorized to do business in the State where the interconnection is located. Certification that such insurance is in effect shall be provided upon request of the Distribution Provider, except that the Interconnection Customer shall show proof of insurance to the Distribution Provider no later than ten Business Days prior to the

- anticipated commercial operation date. An Interconnection Customer of sufficient credit-worthiness may propose to self-insure for such liabilities, and such a proposal shall not be unreasonably rejected.
- 8.2 The Distribution Provider agrees to maintain general liability insurance or self-insurance consistent with the Distribution Provider's commercial practice. Such insurance or self-insurance shall not exclude coverage for the Distribution Provider's liabilities undertaken pursuant to this Agreement.
- 8.3 The Parties further agree to notify each other whenever an accident or incident occurs resulting in any injuries or damages that are included within the scope of coverage of such insurance, whether or not such coverage is sought.

Article 9. Confidentiality

- 9.1 Confidential Information shall mean any confidential and/or proprietary information provided by one Party to the other Party that is clearly marked or otherwise designated "Confidential." For purposes of this Agreement all design, operating specifications, and metering data provided by the Interconnection Customer shall be deemed Confidential Information regardless of whether it is clearly marked or otherwise designated as such.
- 9.2 Confidential Information does not include information previously in the public domain, required to be publicly submitted or divulged by Governmental Authorities (after notice to the other Party and after exhausting any opportunity to oppose such publication or release), or necessary to be divulged in an action to enforce this Agreement. Each Party receiving Confidential Information shall hold such information in confidence and shall not disclose it to any third party nor to the public without the prior written authorization from the Party providing that information, except to fulfill obligations under this Agreement, or to fulfill legal or regulatory requirements.
- 9.2.1 Each Party shall employ at least the same standard of care to protect Confidential Information obtained from the other Party as it employs to protect its own Confidential Information.
- 9.2.2 Each Party is entitled to equitable relief, by injunction or otherwise, to enforce its rights under this provision to prevent the release of Confidential Information without bond or proof of damages, and may seek other remedies available at law or in equity for breach of this provision.
- 9.3 Notwithstanding anything in this article to the contrary, and pursuant to 18 CFR § 1 b.20, if FERC, during the course of an investigation or otherwise, requests information from one of the Parties that is otherwise required to be maintained in confidence pursuant to this Agreement, the Party shall provide the requested information to FERC, within the time provided for in the request for information. In providing the information to FERC, the Party may, consistent with 18 CFR § 388.112, request that the information be treated as confidential and non-public by FERC and that the information be withheld from public disclosure. Parties are prohibited from notifying the other Party to this Agreement prior to the release of the Confidential Information to FERC. The Party shall notify the other Party to this Agreement when it is notified by FERC that a request to release Confidential Information has been received by FERC, at which time either of the Parties

may respond before such information would be made public, pursuant to 18 CFR § 388.112. Requests from a state regulatory body conducting a confidential investigation shall be treated in a similar manner if consistent with the applicable state rules and regulations.

Article 10. Disputes

- 10.1 The Parties agree to attempt to resolve all disputes arising out of the interconnection process according to the provisions of this article.
- 10.2 In the event of a dispute, either Party shall provide the other Party with a written Notice of Dispute. Such Notice shall describe in detail the nature of the dispute.
- 10.3 If the dispute has not been resolved within two Business Days after receipt of the Notice, either Party may contact FERC's Dispute Resolution Service (DRS) for assistance in resolving the dispute.
- 10.4 The DRS will assist the Parties in either resolving their dispute or in selecting an appropriate dispute resolution venue (e.g., mediation, settlement judge, early neutral evaluation, or technical expert) to assist the Parties in resolving their dispute. DRS can be reached at 1-877-337-2237 or via the internet at <http://www.ferc.gov/legal/adr.asp>.
- 10.5 Each Party agrees to conduct all negotiations in good faith and will be responsible for one-half of any costs paid to neutral third-parties.
- 10.6 If neither Party elects to seek assistance from the DRS, or if the attempted dispute resolution fails, then either Party may exercise whatever rights and remedies it may have in equity or law consistent with the terms of this Agreement.

Article 11. Taxes

- 11.1 The Parties agree to follow all applicable tax laws and regulations, consistent with FERC policy and Internal Revenue Service requirements.
- 11.2 Each Party shall cooperate with the other to maintain the other Party's tax status. Nothing in this Agreement is intended to adversely affect the Distribution Provider's tax exempt status with respect to the issuance of bonds including, but not limited to, local furnishing bonds.

Article 12. Miscellaneous

- 12.1 Governing Law, Regulatory Authority, and Rules
The validity, interpretation and enforcement of this Agreement and each of its provisions shall be governed by the laws of the state of (where the Point of Interconnection is located), without regard to its conflicts of law principles. This Agreement is subject to all Applicable Laws and Regulations. Each Party expressly reserves the right to seek changes in, appeal, or otherwise contest any laws, orders, or regulations of a Governmental Authority.

12.2 Amendment

The Parties may amend this Agreement by a written instrument duly executed by both Parties.

12.3 No Third-Party Beneficiaries

This Agreement is not intended to and does not create rights, remedies, or benefits of any character whatsoever in favor of any persons, corporations, associations, or entities other than the Parties, and the obligations herein assumed are solely for the use and benefit of the Parties, their successors in interest and where permitted, their assigns.

12.4 Waiver

12.4.1 The failure of a Party to this Agreement to insist, on any occasion, upon strict performance of any provision of this Agreement will not be considered a waiver of any obligation, right, or duty of, or imposed upon, such Party.

12.4.2 Any waiver at any time by either Party of its rights with respect to this Agreement shall not be deemed a continuing waiver or a waiver with respect to any other failure to comply with any other obligation, right, duty of this Agreement. Termination or default of this Agreement for any reason by Interconnection Customer shall not constitute a waiver of the Interconnection Customer's legal rights to obtain an interconnection from the Distribution Provider. Any waiver of this Agreement shall, if requested, be provided in writing.

12.5 Entire Agreement

This Agreement, including all Attachments, constitutes the entire agreement between the Parties with reference to the subject matter hereof, and supersedes all prior and contemporaneous understandings or agreements, oral or written, between the Parties with respect to the subject matter of this Agreement. There are no other agreements, representations, warranties, or covenants which constitute any part of the consideration for, or any condition to, either Party's compliance with its obligations under this Agreement.

12.6 Multiple Counterparts

This Agreement may be executed in two or more counterparts, each of which is deemed an original but all constitute one and the same instrument.

12.7 No Partnership

This Agreement shall not be interpreted or construed to create an association, joint venture, agency relationship, or partnership between the Parties or to impose any partnership obligation or partnership liability upon either Party. Neither Party shall have any right, power or authority to enter into any agreement or undertaking for, or act on behalf of, or to act as or be an agent or representative of, or to otherwise bind, the other Party.

12.8 Severability

If any provision or portion of this Agreement shall for any reason be held or adjudged to be invalid or illegal or unenforceable by any court of competent jurisdiction or other Governmental Authority, (1) such portion or provision shall be deemed separate and independent, (2) the Parties shall negotiate in good faith to restore insofar as practicable

the benefits to each Party that were affected by such ruling, and (3) the remainder of this Agreement shall remain in full force and effect.

12.9 Security Arrangements

Infrastructure security of electric system equipment and operations and control hardware and software is essential to ensure day-to-day reliability and operational security. FERC expects all transmission providers, market participants, and interconnection customers interconnected to electric systems to comply with the recommendations offered by the President's Critical Infrastructure Protection Board and, eventually, best practice recommendations from the electric reliability authority. All public utilities are expected to meet basic standards for system infrastructure and operational security, including physical, operational, and cyber-security practices.

12.10 Environmental Releases

Each Party shall notify the other Party, first orally and then in writing, of the release of any hazardous substances, any asbestos or lead abatement activities, or any type of remediation activities related to the Small Generating Facility or the Interconnection Facilities, each of which may reasonably be expected to affect the other Party. The notifying Party shall (1) provide the notice as soon as practicable, provided such Party makes a good faith effort to provide the notice no later than 24 hours after such Party becomes aware of the occurrence, and (2) promptly furnish to the other Party copies of any publicly available reports filed with any governmental authorities addressing such events.

12.11 Subcontractors

Nothing in this Agreement shall prevent a Party from utilizing the services of any subcontractor as it deems appropriate to perform its obligations under this Agreement; provided, however, that each Party shall require its subcontractors to comply with all applicable terms and conditions of this Agreement in providing such services and each Party shall remain primarily liable to the other Party for the performance of such subcontractor.

12.11.1 The creation of any subcontract relationship shall not relieve the hiring Party of any of its obligations under this Agreement. The hiring Party shall be fully responsible to the other Party for the acts or omissions of any subcontractor the hiring Party hires as if no subcontract had been made; provided, however, that in no event shall the Distribution Provider be liable for the actions or inactions of the Interconnection Customer or its subcontractors with respect to obligations of the Interconnection Customer under this Agreement. Any applicable obligation imposed by this Agreement upon the hiring Party shall be equally binding upon, and shall be construed as having application to, any subcontractor of such Party.

12.11.2 The obligations under this article will not be limited in any way by any limitation of subcontractor's insurance.

12.12 Reservation of Rights

The Distribution Provider shall have the right to make a unilateral filing with FERC to modify this Agreement with respect to any rates, terms and conditions, charges, classifications of service, rule or regulation under section 205 or any other applicable provision of the Federal Power Act and FERC's rules and regulations thereunder, and the Interconnection Customer shall have the right to make a unilateral filing with FERC

to modify this Agreement under any applicable provision of the Federal Power Act and FERC's rules and regulations; provided that each Party shall have the right to protest any such filing by the other Party and to participate fully in any proceeding before FERC in which such modifications may be considered. Nothing in this Agreement shall limit the rights of the Parties or of FERC under sections 205 or 206 of the Federal Power Act and FERC's rules and regulations, except to the extent that the Parties otherwise agree as provided herein.

Article 13. Notices

13.1 General

Unless otherwise provided in this Agreement, any written notice, demand, or request required or authorized in connection with this Agreement ("Notice") shall be deemed properly given if delivered in person, delivered by recognized national courier service, or sent by first class mail, postage prepaid, to the person specified below:

If to the Interconnection Customer:

Humboldt Bay Municipal Water District
Attention: John Friedenbach
828 Seventh St.
Eureka, CA 95501
Phone: (707) 443-5018
Email: friedenbach@hbmwd.com

If to the Distribution Provider:

Pacific Gas and Electric Company
Attention: Electric Generation Interconnection - Contract Management
245 Market Street
Mail Code N7L
San Francisco, California 94105-1702
Phone: (415) 972-5394
Email: EGIContractMgmt@pge.com

13.2 Billing and Payment

Billings and payments shall be sent to the addresses below:

Interconnection Customer:

Humboldt Bay Municipal Water District
Attention: John Friedenbach
828 Seventh St.
Eureka, CA 95501
Phone: (707) 443-5018
Email: friedenbach@hbmwd.com

Distribution Provider:

Pacific Gas and Electric Company
Attention: Electric Generation Interconnection - Contract Management
245 Market Street
Mail Code N7L
San Francisco, California 94105-1702
Phone: (415) 972-5394
Email: EGContractMgmt@pge.com

13.3 Alternative Forms of Notice

Any notice or request required or permitted to be given by either Party to the other and not required by this Agreement to be given in writing may be so given by telephone, facsimile or e-mail to the telephone numbers and e-mail addresses set out below:

If to the Interconnection Customer:

Humboldt Bay Municipal Water District
Attention: John Friedenbach
828 Seventh St.
Eureka, CA 95501
Phone: (707) 443-5018

Email: friedenbach@hbmwd.com

If to the Distribution Provider:

Pacific Gas and Electric Company
Attention: Electric Generation Interconnection - Contract Management
245 Market Street
Mail Code N7L
San Francisco, California 94105-1702
Phone: (415) 972-5394
Email: EGContractMgmt@pge.com

13.4 Designated Operating Representative

The Parties may also designate operating representatives to conduct the communications which may be necessary or convenient for the administration of this Agreement. This person will also serve as the point of contact with respect to operations and maintenance of the Party's facilities.

Interconnection Customer's Operating Representative:

Humboldt Bay Municipal Water District
Attention: John Friedenbach
828 Seventh St.
Eureka, CA 95501
Phone: (707) 443-5018
Email: friedenbach@hbmwd.com

Distribution Provider's Operating Representative:

Pacific Gas and Electric Company
Humboldt – Electric Control Center Operations
2211 Mitchell Heights Rd, Eureka, CA 95503
Attention: Humboldt Desk - Distribution Operator
Phone: (707) 455-5638

13.5 Changes to the Notice Information

Either Party may change this information by giving five Business Days written notice prior to the effective date of the change.

Article 14. Signatures

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized representatives.

For the Distribution Provider: **Pacific Gas and Electric Company**

Signature: _____

Name: John Galloway

Title: Supervisor, Electric Generation Interconnection

Date: _____

For the Interconnection Customer: **Humboldt Bay Municipal Water District**

Signature: _____

Name: Paul Helliker

Title: General Manager

Date: _____

Attachment 1

Glossary of Terms

Affected System – An electric system other than the Distribution Provider's Distribution System that may be affected by the proposed interconnection, including but not limited to the Transmission System.

Applicable Laws and Regulations – All duly promulgated applicable federal, state and local laws, regulations, rules, ordinances, codes, decrees, judgments, directives, or judicial or administrative orders, permits and other duly authorized actions of any Governmental Authority.

Business Day – Monday through Friday, excluding Federal Holidays.

Default – The failure of a breaching Party to cure its Breach under the Small Generator Interconnection Agreement.

Distribution Owner – The entity that owns, leases or otherwise possesses an interest in the portion of the Distribution System at the Point of Interconnection and may be a Party to the Small Generator Interconnection Agreement to the extent necessary.

Distribution Provider – The public utility (or its designated agent) that owns, controls, or operates transmission or distribution facilities used for the transmission of electricity in interstate commerce and provides transmission or wholesale distribution service under the Tariff. The term Distribution Provider should be read to include the Distribution Owner when the Distribution Owner is separate from the Distribution Provider.

Distribution System – Those non-ISO transmission and distribution facilities owned, controlled and operated by the Distribution Provider that are used to provide distribution service under the Tariff, which facilities and equipment are used to transmit electricity to ultimate usage points such as homes and industries directly from nearby generators or from interchanges with higher voltage transmission networks which transport bulk power over longer distances. The voltage levels at which Distribution Systems operate differ among areas.

Distribution Upgrades – The additions, modifications, and upgrades to the Distribution Provider's Distribution System at or beyond the Point of Interconnection to facilitate interconnection of the Small Generating Facility and render the service necessary to effect the Interconnection Customer's wholesale sale of electricity in interstate commerce. Distribution Upgrades do not include Interconnection Facilities.

Good Utility Practice – Any of the practices, methods and acts engaged in or approved by a significant portion of the electric industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in the region.

Governmental Authority – Any federal, state, local or other governmental regulatory or administrative agency, court, commission, department, board, or other governmental subdivision, legislature, rulemaking board, tribunal, or other governmental authority having jurisdiction over the Parties, their respective facilities, or the respective services they provide, and exercising or entitled to exercise any administrative, executive, police, or taxing authority or power; provided, however, that such term does not include the Interconnection Customer, the Interconnection Provider, or any Affiliate thereof.

Interconnection Customer – Any entity, including the Distribution Provider, the Distribution Owner, the Transmission Owner or any of the affiliates or subsidiaries of either, that proposes to interconnect its Small Generating Facility with the Distribution Provider's Distribution System.

Interconnection Facilities – The Distribution Provider's Interconnection Facilities and the Interconnection Customer's Interconnection Facilities. Collectively, Interconnection Facilities include all facilities and equipment between the Small Generating Facility and the Point of Interconnection, including any modification, additions or upgrades that are necessary to physically and electrically interconnect the Small Generating Facility to the Distribution Provider's Distribution System. Interconnection Facilities are sole use facilities and shall not include Distribution Upgrades or Network Upgrades.

Interconnection Handbook - A handbook, developed by the Distribution Provider and posted on the Distribution Provider's website or otherwise made available by the Distribution Provider, describing the technical and operational requirements for wholesale generators and loads connected to the Distribution System, as such handbook may be modified or superseded from time to time. In the event of a conflict between the terms of this SGIA and the terms of the Distribution Provider's Interconnection Handbook, the terms in this SGIA shall govern.

Interconnection Request – The Interconnection Customer's request, in accordance with the Tariff, to interconnect a new Small Generating Facility, or to increase the capacity of, or make a Material Modification to the operating characteristics of, an existing Small Generating Facility that is interconnected with the Distribution Provider's Distribution System.

ISO Tariff – The California Independent System Operator Agreement and Tariff, dated March 31, 1997, as it may be modified from time to time, and accepted by the Commission.

Material Modification – A modification that has a material impact on the cost or timing of any Interconnection Request or any other valid interconnection request to the Distribution Provider or the ISO with a later queue priority date.

Network Upgrades – Additions, modifications, and upgrades to the Distribution Provider's Transmission System required at or beyond the point at which the Distribution System connects to the Distribution Provider's Transmission System to accommodate the interconnection of the Small Generating Facility to the Distribution Provider's Distribution System. Network Upgrades do not include Distribution Upgrades.

Operating Requirements – Any operating and technical requirements that may be applicable due to Regional Transmission Organization, California Independent System Operator, control area, or the Distribution Provider's requirements, including those set forth in the Small Generator Interconnection Agreement.

Party or Parties – The Distribution Provider, Distribution Owner, Transmission Owner, Interconnection Customer or any combination of the above.

Point of Interconnection – The point where the Interconnection Facilities connect with the Distribution Provider's Distribution System.

Reasonable Efforts – With respect to an action required to be attempted or taken by a Party under the Small Generator Interconnection Agreement, efforts that are timely and consistent with Good Utility Practice and are otherwise substantially equivalent to those a Party would use to protect its own interests.

Small Generating Facility – The Interconnection Customer's device for the production and/or storage for later injection of electricity identified in the Interconnection Request, but shall not include the Interconnection Customer's Interconnection Facilities.

Tariff – The Distribution Provider's Wholesale Distribution Tariff through which open access distribution service and Interconnection Service are offered, as filed with the FERC, and as amended or supplemented from time to time, or any successor tariff.

Transmission System – Those facilities owned by the Distribution Provider that have been placed under the ISO's operational control and are part of the ISO Grid.

Upgrades – The required additions and modifications to the Distribution Provider's Distribution System, at or beyond the Point of Interconnection. Upgrades may be Network Upgrades or Distribution Upgrades. Upgrades do not include Interconnection Facilities.

Attachment 2

**Description and Costs of the Small Generating Facility,
Interconnection Facilities and Metering Equipment**

Gosselin Hydroelectric Facility is a Hydroelectric Generating Facility located at the base of R. W. Matthews Dam, Trinity County, CA 95552 with a nameplate rating of 2.0 MW. It has been operating in parallel with the PG&E Distribution System while connected to PG&E's (Substation) (Circuit) - 12kV distribution circuit. This circuit is supplied by the 12 kV (Bank Number) at PG&E's (Substation) Substation since May, 1987.

Equipment, including the Small Generating Facility, Interconnection Facilities, and metering equipment shall be itemized and identified as being owned by the Interconnection Customer, the Distribution Provider, Distribution Owner or the Transmission Owner. The Distribution Provider will provide a best estimate itemized cost, including overheads, of its Interconnection Facilities and metering equipment, and a best estimate itemized cost of the annual operation and maintenance expenses associated with its Interconnection Facilities and metering equipment.

Project Information

Project Name:	Gosselin Hydroelectric Facility Project
Number of Generators:	2
Manufacturer Model Name & Number:	Ideal Electric (SN 320036 and SN 320037)
Number of Inverters:	N/A
Manufacturer Model Name & Number:	N/A
Total Output:	2.0 MW
Transformer Data:	Westinghouse 2000 KVA 12470/4160 SN SBT2013-0101
PG&E Grid Voltage at Interconnection:	12 kV

Interconnection Facilities

The following Interconnection Facility Net Cost is used to determine final Monthly Cost of Ownership or Equivalent One Time Charge. The Interconnection Facility Charges identified below (\$64,825) are not billable but merely used as historical reference in order to determine Operation and Maintenance cost relevant to this Interconnection Agreement.

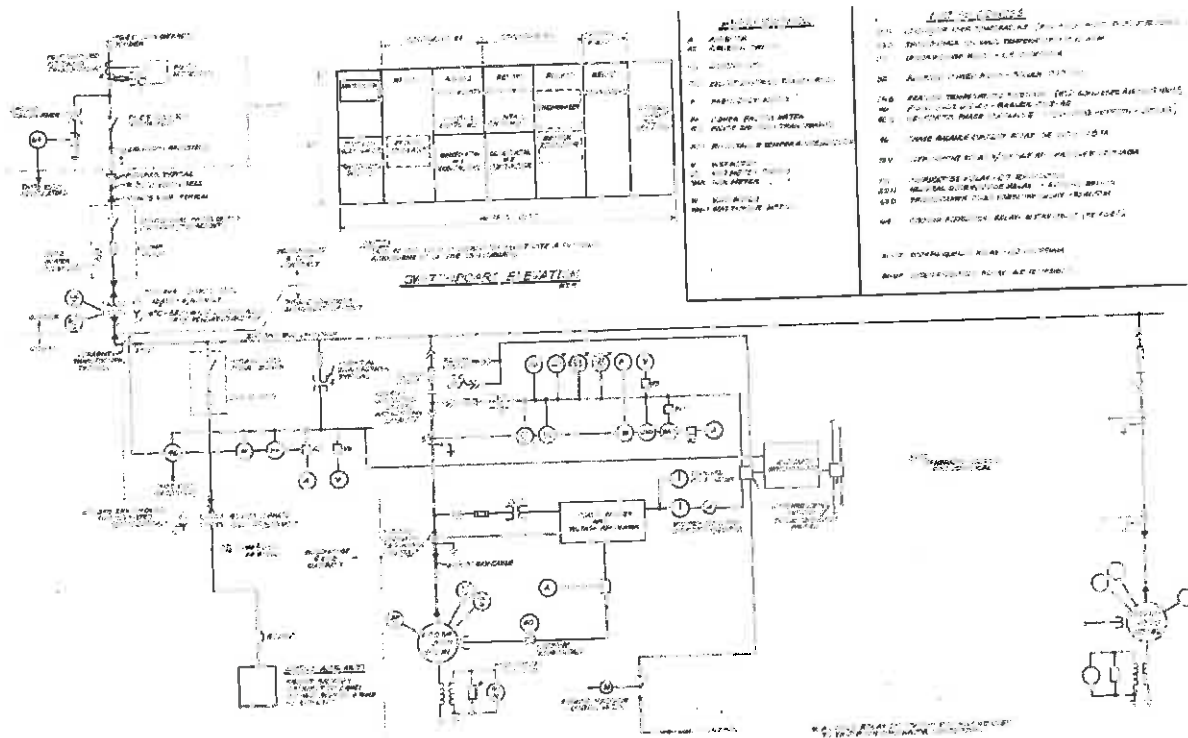
Interconnection Facilities (Subject to Cost-of-Ownership)	Costs
Reclose blocking at Low Gap Substation at Reclosure #4160	
50 amp closed delta regulator	
Revenue Metering	
350 feet of 12 kV conductor	
Miscellaneous	
Total -- Interconnection Facility Costs (Subject to Cost-of-Ownership)	\$ 64,825
ITCC Tax ¹	

¹ Not subject to ITCC (Income Tax Calculation Component) on contribution. ITCC is exempt for wholesale generators that meet the IRS Safe Harbor Provisions. PG&E currently does not require the Interconnection Customer to provide security to cover the potential tax liability on the Interconnection Facilities, Distribution Upgrades, and Network Upgrades per the IRS Safe Harbor Provisions (IRS Notice 88-129). PG&E reserves the right to require, on a nondiscriminatory basis, the Interconnection Customer to

Attachment 3

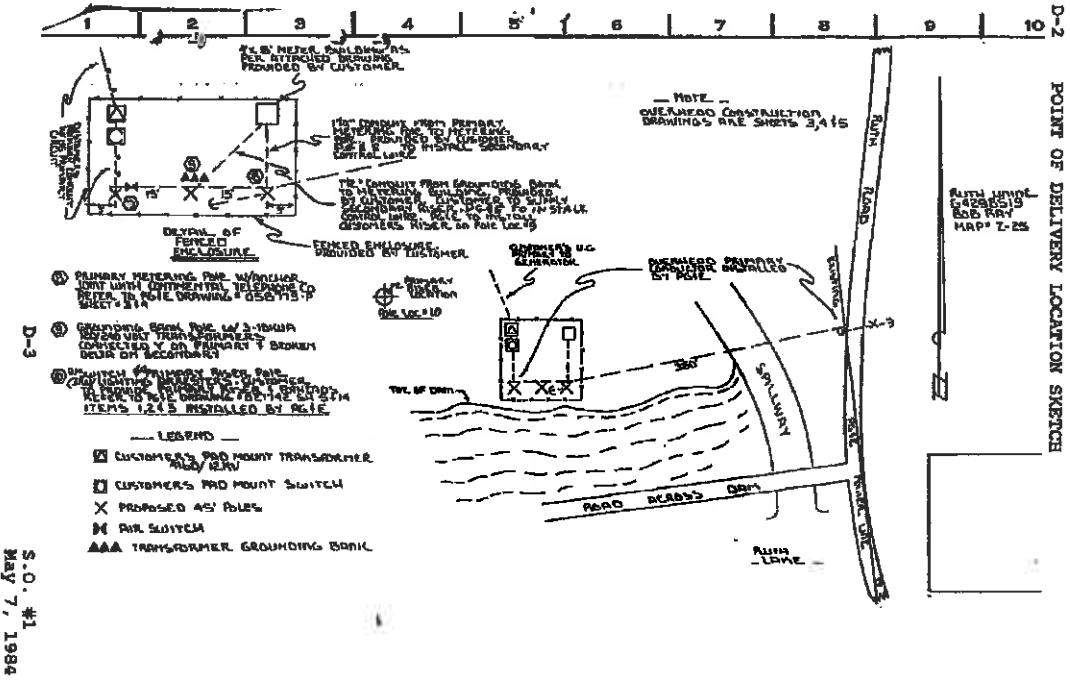
One-line Diagram Depicting the Small Generating Facility, Interconnection Facilities, Metering Equipment, and Upgrades

One-Line Conceptual Diagram of Gosselin Hydroelectric Facility



provide such security, in a form reasonably acceptable to PG&E as indicated in Article 11 of the SGIA, an amount up to the cost consequences of any current tax liability. Upon request and within sixty (60) Calendar Days' notice, the Interconnection Customer shall provide PG&E such ITCC security or ITCC payment in the event that Safe Harbor Provisions have not been met, in the form requested by PG&E.

Vicinity Map of Gosselin Hydroelectric Facility



Attachment 4

Milestones

In-Service Date: January 13, 1983

Critical milestones and responsibility as agreed to by the Parties:

	Milestone	Date	Responsible Party
1	Financial Security Posting Due Date	Unknown	Interconnection Customer
2	Completion of the Interconnection Facilities, Distribution Upgrades, and Network Upgrade facilities	Unknown	Distribution Provider & Interconnection Customer
3	In-Service Date (back-feed power)	January 13, 1983	Distribution Provider & Interconnection Customer
4	Pre-parallel Inspection and Testing	Unknown	Distribution Provider & Interconnection Customer
5	Initial Synchronization	Unknown	Interconnection Customer
6	Provide written approval to Interconnection Customer for the operation of the facilities (PTO) and Commercial Operation Date (COD)	January 13, 1983	Distribution Provider

Note: Supplemental Billing and Payment Provisions:

If financial security postings are required to fulfill this Small Generator Interconnection Agreement (SGIA) or its amendment, the Interconnection Customer will receive instructions for posting those financial securities from PG&E no later than 30 calendar days after PG&E has executed this document.

In accordance with Article 6.3 of this project's SGIA, the financial security posting(s) must be completed by the Interconnection Customer before the Distribution Provider may begin any capital work. The Interconnection Customer may negotiate a milestone date to post the financial security(-ies) up to 180 Calendar Days (CD) after the execution of this SGIA. This negotiated date is shown in the milestones table above. If the financial security posting(s) is/are not completed by the date shown in the table above, a notice of default will be issued to the Interconnection Customer in accordance with Article 7.6 of this SGIA.

Billing Procedures for Actual Costs:

Per Section 6.1.1 of this project's SGIA, PG&E will bill the Interconnection Customer on a monthly basis for actual labor and/or material costs incurred during the prior month.

Agreed to by:

For the Distribution Provider _____ Date: _____

For the Interconnection Customer _____ Date: _____

Attachment 5

**Additional Operating Requirements for the Distribution Provider's Distribution System,
Transmission System and Affected Systems Needed to Support
the Interconnection Customer's Needs**

5.1 General Operating Requirements

The Distribution Provider shall also provide requirements that must be met by the Interconnection Customer prior to initiating parallel operation with the Distribution Provider's Distribution System.

The Interconnection Customer must comply with all applicable rules and tariffs including but not limited to the Distribution Interconnection Handbook and the Wholesale Distribution Tariff.

5.2 Deliverability Status

The Interconnection Customer has elected for this Small Generating Facility to have Energy Only Deliverability Status, as defined in the CAISO Tariff. As a result, this Small Generating Facility was studied for Energy Only Deliverability Status by the Distribution Provider. Per the results of those studies, the Interconnection Customer and the Distribution Provider acknowledge and understand that the Participating Small **Generating** Facility will have Energy Only Deliverability Status.

Attachment 6

**Distribution Provider's Description of its Upgrades
and Best Estimate of Upgrade Costs**

The Distribution Provider shall describe Upgrades and provide an itemized best estimate of the cost, including overheads, of the Upgrades and annual operation and maintenance expenses associated with such Upgrades. The Distribution Provider shall functionalize Upgrade costs and annual expenses as either transmission or distribution related.

Distribution Upgrades

The estimated costs associated with the system upgrades required to interconnect the project to the Distribution Provider's Distribution System.

Distribution Upgrades

Distribution Upgrades (Subject to Cost-of-Ownership)	
None	\$0
Total – Distribution Upgrade Costs (Subject to Cost-of-Ownership)	\$0
ITCC Tax ²	

Network Upgrades: None

² Not subject to ITCC (Income Tax Calculation Component) on contribution. ITCC is exempt for wholesale generators that meet the IRS Safe Harbor Provisions. PG&E currently does not require the Interconnection Customer to provide security to cover the potential tax liability on the Interconnection Facilities, Distribution Upgrades, and Network Upgrades per the IRS Safe Harbor Provisions (IRS Notice 88-129). PG&E reserves the right to require, on a nondiscriminatory basis, the Interconnection Customer to provide such security, in a form reasonably acceptable to PG&E as indicated in Article 11 of the SGIA, an amount up to the cost consequences of any current tax liability. Upon request and within sixty (60) Calendar Days' notice, the Interconnection Customer shall provide PG&E such ITCC security or ITCC payment in the event that Safe Harbor Provisions have not been met, in the form requested by PG&E.

Total Project Costs

Cost Category	Amount Subject to COO (\$)	Amount NOT Subject to COO (\$)	Total Cost Category Amount (\$)
Interconnection Facilities Costs (Attachment 2)	\$ 64,825	N/A	\$ 64,825
Distribution Upgrade Costs (Attachment 6)	\$ 0	N/A	\$ 0
Network Upgrade Costs (Attachment 6)	N/A	\$ 0	\$ 0
Total Project Costs (\$)	\$ 64,825**	\$ 0	\$ 64,825

Total Cost-of-Ownership Charges for Project:

The Interconnection Customer has elected the following by placing a check mark against it for Cost-of-Ownership for the applicable Interconnection Facilities and/or Distribution Upgrades. The Cost-of-Ownership will commence upon the In-Service Date per Section 4.1.2.

A. **Monthly Cost-of-Ownership Charge**

$$\$ 64,825 \times 1.55\%^3 \text{ (monthly percentage rate in 1983)} = \$ 246.33$$

Total Monthly Cost-of-Ownership Charge	\$ 246.33/ month
---	-------------------------

B. **Equivalent One-Time Charge** (in lieu of recurring Monthly Cost-of-Ownership Charge)

$$\$ 64,825 \times 18.6\% \text{ (annual percentage rate in 1983)} \times 8.2 \text{ (worth factor}^4 \text{ in 1983)} = \$ 98,871^*$$

Total Equivalent One-Time Charge	\$ 98,871
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* This amount is not billable to the Interconnection Customer as the Equivalent One-Time Charge was paid by the Interconnection Customer under the superseded Special Facilities Agreement, dated January 13, 1983.

³ The COST-OF-OWNERSHIP Charge for Interconnections provided under this Agreement is determined in accordance with PG&E's applicable percentage rates calculated using PG&E's most recent distribution owner revenue requirement on file with and accepted by FERC. PG&E currently charges the following COST-OF-OWNERSHIP rates for distribution facilities: Customer financed, Distribution-level Rate of 0.48% monthly.

⁴ The Present Worth Factor (PWF), which is also known as the perpetuity factor, is used under this agreement to determine the equivalent One-Time Payment. This financial factor is the reciprocal of the after-tax Rate of Return on Rate Base (ROR). The after-tax ROR is calculated by the Economic and Project Analysis Department and is based on CPUC decisions, which establish the Return on Rate Base.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT

To: Board of Directors

From: Paul Helliker

Date: March 3, 2016

Subject: Water Conservation Regulations

.....

I will be discussing with State Water Board staff on Tuesday, March 8 the extension of the water conservation regulations adopted by the State Water Board on February 2, and potential changes to them in late April or early May. Also on the call will be Chris DeGabriele from North Marin Water District, Jennifer Burke from the City of Santa Rosa and Stephanie Locke from the Monterey Peninsula Water Management District. We submitted comments on January 28 recommending that the State Water Board rescind the conservation regulations in areas where no drought conditions exist, including ours, due to the fact that precipitation was 150% of normal and Ruth Reservoir began spilling on December 21 and had continued doing so through then. Precipitation in Eureka is currently 127% of normal, and Ruth has continued to spill since December 21.

Del Norte County agencies have requested to join us in our effort to rescind these regulations on the north coast, and Marin and Sonoma agencies have also requested significant reductions in the requirements. I joined the Del Norte agencies for a conference call with Senator McGuire on February 19, and he has offered to organize a meeting with State Water Board members prior to the April/May meeting, to advocate our position. I have briefed Assemblymember Wood's staff on the issue, and have requested that he send a letter supporting our position in advance of the State Water Board meeting. We will also be seeking similar letters of support (as we did last spring) from the Boards of Supervisors in Del Norte and Humboldt Counties, from Chambers of Commerce and others.

We already have a number of conservation requirements that we must meet, including SB X7-7 20 by 2020 requirements, the water efficient landscaper ordinance, SB 407 plumbing fixture retrofit requirements and AB 1420 demand management measure compliance requirements (on which we must report in our Urban Water Management Plans). We will be reminding the State Water Board that these measures will continue, even if there is no ongoing drought emergency.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT

To: Board of Directors
From: Paul Helliker
Date: March 2, 2016
Subject: Cannabis Activities

On the state legislation front, two bills have been introduced by our local legislators, and will be discussed with the Board in a later item on today's agenda.

Compliance workshops have been being organized by the Mad River Alliance and EPIC, consisting of presentations by the Regional Board, CDFW, CalFIRE and industry specialists, all of whom present information about regulatory requirements, compliance mechanisms, best management practices and more. HBMWD provided financial assistance for these workshops, paying for the preparation of the workbooks that are provided to each attendee.

The compliance workshops are scheduled as follows:

Mad River Grange (Bue Lake)	February 28
Mateel Community Center	March 13
Willow Creek	March 19
Mattole	April 3
Eureka (Redwood Acres)	April 17
Ruth Lake Community Center	April 24

The first workshop was quite successful, attracting 70 participants.

To: Board of Directors
From: Paul Helliker
Date: March 2, 2016
Subject: Water Resource Planning (WRP) – Status Report

.....

The purpose of this memo is to summarize recent activities and introduce next steps for discussion.

1) Top-Tier Water Use Options

a) Local Sales

The Harbor District is working with the County to update the Local Coastal Plan and to adopt an ordinance that would establish guidelines and criteria for interim leases on Coastal Dependent Industrial-designated parcels (such as the former pulp mill sites). This ordinance would allow the Harbor District to move quickly to lease facilities to tenants who do not qualify as “coastal dependent,” until such time as tenants who do qualify show up and ask for space.

George Wheeler, the chair of the McKinleyville Community Services District Board of Directors, called to alert me to the fiber optic data link project that it being proposed for the CA 299 corridor. Associated with that proposal is a possible data center, which would require significant cooling and could be a customer for water supply. He recommended that we contact Inyo Networks, the project proponent, to discuss potential partnership.

We have a meeting scheduled for March 23 with our partners between Rio Dell and Trinidad to organize a project proposal for State Revolving Loan funds to conduct the next level of planning and design for expansion of the transmission system northwards and southwards.

b) Transport

Bob Simpson came to meet with me recently, and said that he has potential partners who would like to discuss with us the possibility of establishing a water shipment terminal. Bob’s suggestion would be to run a line through the outfall to a riser at an appropriate distance offshore, where ships could connect to load water for delivery to other destinations. I told him I would need to research the water rights requirements associated with place of use for water that is transferred elsewhere (particularly if it were to another state or nation). And, of course, discuss whatever proposal he puts forward with the Board of Directors.

c) Instream Flow Dedication

Neither our application to the Wildlife Conservation Board nor our application to the Fisheries Restoration Grant Program were selected for funding in 2016. We will be meeting with the WCB grant program manager in March to review our proposal and discuss the reason(s) it was not selected.

We received the FRGP review document, which stated that our proposal did not receive approval because we failed to note that we have a water conservation and education program. There were additional comments that we did not rate well because the project description **was** not clear, the flow regimes proposed were not well-defined, and

subcontractor budgets did not include adequate detail. There was also a question about which assessment protocols we are proposing to use.

Because the deadline for submitting proposals for FRGP funding in 2016/17 is March 11, it does not appear that we will be able to consult with CDFW and collect the information necessary to revise the proposal to be successful. We do, however, plan to submit a proposal to the Coastal Conservancy in the fall, during the general solicitation cycle for Proposition 1-funded projects (which can include streamflow enhancement planning projects such as ours.)



State of California – Natural Resources Agency
 DEPARTMENT OF FISH AND WILDLIFE
 Fisheries Branch
 830 "S" Street
 Sacramento, CA 95811
 (916) 327-8840
www.wildlife.ca.gov

EDMUND G. BROWN JR., Governor
 CHARLTON H. BONHAM, Director



February 10, 2016

Mr./Ms. Carol Rische
 828 Seventh Street
 Eureka, CA 95502

H.B.M.W.D. FEB 12 2016

Subject: FRGP Proposal Not Funded

Dear Carol Rische:

We regret to inform you that your fisheries restoration proposal, as listed below, has not been approved for funding.

Proposal #	Project Title
205	Mad River Estuary Physical and Biological Habitat Assessment

In February 2015, the Fisheries Restoration Grant Program (FRGP) advertised a Proposal Solicitation Notice (PSN) for Fiscal Year (FY) 2015/16. The FRGP received 156 proposals requesting more than \$45 million in grant money which resulted in a highly competitive selection process. Your proposal was disqualified for not indicating that your organization had a Water Conservation and Efficiency Plan. This was a requirement for all applicants per a governor mandate. The proposal was still reviewed by the technical team and that review is included with this letter. We hope this will assist you to improve your proposal should you decide to resubmit it in the future.

You may resubmit your proposal(s) under the 2016 PSN, which closes March 11, 2016. Proposals submitted under the 2016 PSN can only be submitted via the online application system. A copy of the 2016 PSN can be downloaded at:
<http://www.dfg.ca.gov/fish/Administration/Grants/FRGP/Solicitation.asp>.

If you have questions concerning the proposal process, please contact the FRGP Grant Coordinator Patty Forbes at (916) 327-8842 or by email at patty.forbes@wildlife.ca.gov.

Sincerely,

Helen R. Birss

Helen Birss, Chief
 Watershed Restoration Grants Branch

attachment

FRGP Not Funded
February 10, 2016
Page 2

cc: Kevin Shaffer, Environmental Program Manager
Fisheries Branch
Wildlife and Fisheries Division
Kevin.shaffer@wildlife.ca.gov

Patty Forbes, Senior Environmental Scientist
Fisheries Branch
Wildlife and Fisheries Division
Patty.forbes@wildlife.ca.gov

Gail Seymour, Senior Fisheries Biologist
Bay Delta Region (Region 3)
Gail.seymour@wildlife.ca.gov

Margaret Paul, Senior Environmental Scientist
Central Region (Region 4)
Margaret.paul@wildlife.ca.gov

Mary Larson, Senior Environmental Scientist
South Coast Region (Region 5)
Mary.larson@wildlife.ca.gov

Trevor Tollefson, Environmental Scientist
Northern Region (Region 1)
Trevor.tollefson@wildlife.ca.gov

FRGP Watershed Evaluation, Assessment, Planning and Restoration Project Planning (PL)

Proposal#: 205 Region: 1 Reviewer: Technical Review Team Date: 06/04/2015

Proposal Name: Mad River Estuary Physical and Biological Habitat Assessment

Scientific and Technical Review

Initial score is 5. Points are deducted when the proposed project does not correspond to or meet the intent of the PSN. Final score range: 5 (High) to 0.

	Circle one			
	Yes	Med	Low	No
1. The proposal <u>as written</u> addresses the identified Recovery Task and can accomplish the Task in part or in whole.	0			DNF
2. Proposal demonstrates that the project proponent/organization has the qualifications, experience, and capacity to perform the proposed tasks (including subcontracts). Yes = Appropriate level of expertise and/or successfully completed previously funded grants, Med = lacks some expertise, some problems with successful completion of previously funded projects, and/or named subcontractors not appropriate for work, Low = lacks a lot of expertise and/or many problems with successful completion of previously funded projects, No = unqualified, problematic subcontractors, persistent problems with completing funded grants, and/or uncooperative.	0	-0.5	-1	-5
3. Project description includes required details necessary to write a statement of work for the grant agreement. Yes = narrative clear and comprehensive, Med = some clarity needed on activities to be done, Low = Activities proposed are inadequately described and more clarity needed, No = narrative general and/or a list of activities with no detail.	0	-1	-2	-5
4. Project budget is appropriate to the work proposed, is cost effective, and sufficiently detailed to describe project costs. Yes = budget is detailed, accurate, appropriate, and cost effective, Med = some budget detail is needed, a few inaccuracies, and 1 or 2 unspecified lump sums, Low = more than 2 unspecified lump sums, lacks detail, many inaccuracies, and/or includes inappropriate costs, No = Many unspecified lump sums, insufficient detail, inaccurate, and/or not cost effective.	0	-1	-2	-5
5. Supplemental information is sufficient as described in PSN Part V & VI. Yes = all supplemental information is sufficient, Low = one or more pieces of supplemental information are insufficient, No = all supplemental information is insufficient.	0		-1	-2
6. Based on the DFW/NMFS Engineering and Geo Technical Level Review, the proposal should be considered for funding. Yes = should be considered for funding; DNF = should not be considered for funding.	0			DNF
7. Field review conducted; if no, explain in comments.	0			-5
8. Project will utilize CDFW acceptable assessment protocols.	0	-0.5	-1	-5
9. If there are significant social issues associated with successful restoration of the watershed, the proposal adequately addresses those issues, or references a prior document adequately addressing those issues.	0			-5

PL 205	Circle one			
	Yes	Med	Low	No
10. Extent to which proposed project encompasses or completes an entire watershed or sub-watershed; Yes = 80-100% of the watershed; Med = 70-80% of the watershed; Low = 60-70% of the watershed; No = <50% of the watershed.	0	-0.25	-0.5	1
11. Extent to which project will develop complete watershed plan: Yes = Complete watershed plan or NA; Med = Specific assessment based on CDFW-acceptable watershed plan; Low = CDFW-acceptable ranch implementation plan; No = Specific assessment not based on previous planning effort.	0	-0.25	-0.5	-2
12. Extent to which project will develop and maintain a database: Yes = Complete database that address FRGP needs or NA; No = not provide a complete ready to use database, does not meet FRGP needs, or appropriate QA/QC/maintenance.	0			-5
13. The proposed deliverables include plans, reports, databases, maps, and outreach efforts and will effectively convey limiting factors and prioritized solutions to landowners and other interested people.	0	-0.5	-1	-2
14. Proposal documents sufficient local landowner interest for plan implementation or a detailed description of how landowner support will be secured. Yes = Landowner support is documented by landowner access or a description is adequate to ensure landowner interest, Med = a few landowners have not been contacted, Low = landowner support is questionable, No = applicant has not demonstrated contact with landowners or has not described how landowner support will be achieved.	0	-0.5	-1	-2
15. The project proposal has been favorably reviewed by a CDFW or NOAA Fisheries Hydraulic Engineer (for project which require engineer review) and plan determined to be appropriate.	0			5
16. Level of cost share (from matrix).	-1			

Final Score (lowest score possible = 0): **DNF**

No water conservation plan.

#3. The project description needs some clarity on activities to be done. The project fails to properly describe how the conditions in the estuary are impacted by existing municipal diversion.

#4. Project budget lacked budget detail in the subcontractor expenses line items.

#6. Based on the Engineering and Technical Level Review, the proposal should be not be considered for funding.

#8. It was unclear if CDFW acceptable assessment protocols will be used.

#10. The proposed project encompasses 5% (less than 50%) of the watershed.

#11. This proposed project would develop less than a complete watershed plan.

#15. The project proposal has not been favorably reviewed by the Engineer and the plan was not determined to be appropriate.

This project would provide a model to allow the proponent to evaluate the impacts of water releases on the Mad River Estuary. Coho salmon are a relatively minor component of the salmon assemblage in the Mad River. A study and modeling of the Mad River estuary conditions to include temperature, salinity, depth, topography, and fish habitat and how they change with flow and the tidal cycle could be useful for future planning in terms of the potential for instream flow dedication. One season of sampling combined with the low coho salmon numbers make it of questionable benefit.

Engineering and GeoTechnical Level Review Fisheries Restoration Grants Program Fisheries Engineering Program Staff						
Proposal #	PL	Project Title	Mad River Estuary Physical and Biological Habitat Assessment			
Question:			YES	NO	N/A	Comments
1. Given the background information and/or data provided in the proposal, is the project described thoroughly enough, is the approach appropriate to the problem, and does the project approach/design match the stated goals?			X			<i>I checked yes because the written objectives are very general. The data collection and modeling would help evaluate the conditions of habitat under various flow conditions and sea level rise. But the stated objective was to study further augmenting low flows which was not considered a beneficial use of water in the previous feasibility study. I think physical and biological data collection in the estuary is desirable by agencies for future restoration opportunities but the data collection plan should define the existing hourly conditions of the estuary and how the data will be collected and evaluated.</i>
2. Does the Intermediate or Conceptual Plan Report describe the set of conditions, constraints, and requirements necessary for project design and are the plans >65 percent plan development for the following project categories: FP, HB, HS, WD (and some HI and HU)?				X		<i>The project fails to properly describe the constraint of the flow conditions in the estuary caused by the existing municipal diversion and from the site visit meeting the project proponent described the plan to study augmented low flow conditions as he said was identified as a need in the previously funded feasibility study. In the previous feasibility study, HBMWD said that matching low flows below Essex "Can't be done due to municipal diversion schedule" therefore must remain augmented. The agencies did not identify augmenting summer low flows as a beneficial use in the feasibility study.</i>
3. Are any refinements that need to be made to the design reasonable to make between the 65% and 100% design? Does the project proponent/designer seem willing to, capable of, and have funds for making the necessary changes?					X	
4. If the project is likely to require future consultation or evaluation of a conceptual/intermediate plan as it is being developed, is this consultation reflected in the project time line and budget or can it be accomplished within the project timeline/budget?			X			
5. Does the project team have the experience or compliment of expertise required for project success (e.g., demonstrated experience on similar projects; technical expertise appropriate to the project; communication, coordination and logistical capabilities)?			X			
6. If the project is likely to require the participation of a licensed engineer or geologist, is the licensed professional identified?					X	
7. If applicable, has the responsible party signed a letter agreeing to the operation and maintenance responsibilities identified in the PSN for the O&M 1600 for the project after the FRGP grant ends? (applies to SC projects).					X	

PL 205

<p>8. From an engineering perspective, should the proposal be considered for funding? Note: If any of the above questions were answered "NO", then the proposal should not be considered for funding at this time. If there are other engineering/feasibility reasons why the proposal should not be funded, state them here.</p>	X	<p><i>Physical and biological monitoring of the estuary is an identified data need in the Coho Recovery Plan. If funded, the consideration of extending the data collection to other times of the year is of interest to understand the habitat use throughout the year. Also, extending the physical monitoring to the HBMWD diversion should be considered to help understand the habitat availability from the estuary to the point of diversion. Consider postponing the modelling portion of the project until after physical and habitat data collection to identify the goals of the model better.</i></p> <p><i>The type of data collection proposed in the estuary is needed and would help identify existing habitat and potential habitat restoration opportunities. However, the HBMWD flow release options are not well described or understandable from the proposal. The applicant did not describe potential flow releases to be evaluated other than augmenting flow above the existing and already augmented flows in the low flow season. The previous FRGP funded feasibility eliminated augmenting flows above the already augmented level from potential 1707 beneficial flow release. During the site review the project proponent stated that the previous feasibility study <u>did</u> identify low flow augmentation as a potential beneficial use which conflicts with the written document. I remain confused about the objective of the study. If funded, the first task should be to define the hourly low flows that are necessary to meet the HBMWD municipal water supply. This existing condition would establish the baseline above which flow releases may be proposed. NMFS and CDFW have established that augmenting the hourly low flows above the already augmented low flows causing the hydrograph to vary farther from the unimpaired condition would not be considered beneficial because of the further impacts of the fall hydrograph. I cannot understand a scenario that needs to be modeled since the condition already exists in the estuary because of the limitations of the existing diversion and the established agency position that further augmented summer flows are not an option for a beneficial use of stored water.</i></p>
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FRGP Cost Share Scoring Matrix

Proposal#: 205 Project Type: PL Region: 1 Reviewer: Technical Review Team Date: 06/04/2015
 Proposal Name: Mad River Estuary Physical and Biological Habitat Assessment

$$\% \text{ Soft Cost Share} = (\text{Soft Cost Share} / \text{Total Project Cost}) \times 100$$

$$(\$0 / \$344,883) \times 100 = 0$$

$$\% \text{ Hard Cost Share} = (\text{Hard Cost Share} / \text{Total Project Cost}) \times 100$$

$$(\$24,354 / \$344,883) \times 100 = 7\%$$

Cost Share

1. Cost share not suitable: projects, personnel, or supplies and equipment previously funded by CDFW; resources expended prior to the term of the grant; salaries of permanently funded employees working for the CDFW or NOAA Fisheries; mitigation funds; cost share funds that will not be confirmed by February 1, 2016.
2. Hard cost share: All hard cost share must be Non-Federal sourced money or in-kind contributions which do not come from a Federal source. Hard cost share can be provided by the applicant and/or the applicant's partners involved in the implementation of the proposed project confirmed prior to August 15, 2015.
3. Soft cost share: All soft cost share is Federal sourced money or in-kind contributions which come from a Federal source. Soft cost share can be provided by the applicant and/or the applicant's partners involved in the implementation of the proposed project. The following in-kind contributions can only be counted as soft cost share regardless of funding source: administrative overhead or the components of administrative overhead (as described in Part IV page 30); and cost share funds that will be confirmed after August 15, 2015 up until February 1, 2016.

Cost share scoring matrix:

% Soft	% Hard										
	90-99 %	80-89 %	70-79 %	60-69 %	50-59 %	40-49 %	30-39 %	20-29 %	10-19 %	5 - 9 %	0 - 4 %
90-99 %	0	0	0	0	0	0	0	0	0	0	0
80-89 %	0	0	0	0	0	0	0	0	0	0	0
70-79 %	0	0	0	0	0	0	0	0	0	0	0
60-69 %	0	0	0	0	0	0	0	0	0	0	0
50-59 %	0	0	0	0	0	0	0	0	0	0	-0.25
40-49 %	0	0	0	0	0	0	0	0	0	-0.25	-0.25
30-39 %	0	0	0	0	0	0	0	0	-0.25		
20-29 %	0	0	0	0	0	0	0	-0.25		-0.75	-0.75
10-19 %	0	0	0	0	0	0	-0.25		-0.75	-1.0	-1.0
0 - 9 %	0	0	0	0	0	0		-0.75	-0.75		-1.0

**Resolution of the Humboldt Bay Municipal Water District
Recognizing and Honoring the Outstanding Service of
*Kaitlin Sopoci-Belknap***

WHEREAS, Kaitlin Sopoci-Belknap has served the Humboldt Bay Municipal Water District with distinction, as Director of Division One, from January 2005 to March 2016; and,

WHEREAS, her service has included President from January 2009 to January 2013; Secretary /Treasurer from January 2007 to January 2009, and Assistant Secretary/Treasurer from January 2013 to March 2016; and,

WHEREAS, she served the District in many ways beyond the normal duties of a Director including being on the Water Resources Planning Advisory Committee from October 2007 to March 2016; serving on the Committee to Advance Local Water Sales and Advance Consideration of the "Transport" Option, and the District Website Social Media Ad-Hoc Committee; and,

WHEREAS, she was the first female to serve on the Board, and to also serve as President; and

WHEREAS, she has brought valuable perspective and background to the Board, especially in regards to environmental issues that have and will continue to benefit the District; and,

WHEREAS, she exhibits tact and grace and has the ability to calmly mediate issues and bring them into perspective; and

WHEREAS, the Board wishes to acknowledge her departure from the Board to move to the State Capital to continue her work with Democracy Unlimited and does hereby wish her all the best,

NOW, THEREFORE BE IT RESOLVED, that the Board and Staff of the Humboldt Bay Municipal Water District does hereby sincerely and gratefully acknowledge Kaitlin Sopoci-Belknap's contributions and years of dedicated service.

BE IT FURTHER RESOLVED, that the Board and Staff of the Humboldt Bay Municipal Water District thank Kaitlin Sopoci-Belknap, and her family, for the years of service she contributed to the District and the Humboldt Bay Community.

PASSED, APPROVED AND ADOPTED this 9th day of March 2016, by the following roll call vote:

AYES:

NAYES:

ABSENT:

ATTEST:

Barbara Hecathorn
President of the Board of Directors

J. Bruce Rupp
Secretary/Treasurer of the Board of Directors

HUMBOLDT BAY MUNICIPAL WATER DISTRICT

To: Board of Directors

From: Paul Helliker

Date: March 3, 2016

Subject: Assembly Bill 2243 and Senate Bill 987

.....

Two bills have been introduced for the 2016 session to address funding needs associated with the regulation of medical marijuana production and distribution. Staff is recommending that HBMWD support both measures.

Assembly Bill 2243

Assemblymember Wood introduced this bill last month, to create the Medical Cannabis Tax Law. The law would impose a tax on licensed cultivators at a rate of \$9.25 per ounce of medical cannabis flowers, \$2.75 per ounce of medical cannabis leaves, and \$1.25 per immature medical cannabis plant from the sale of all medical cannabis flowers, medical cannabis leaves, immature medical cannabis plants distributed to a licensed distributor in this state. The Board of Equalization shall collect the tax and deposit it in the Cannabis Production and Environmental Mitigation Fund.

The funds will be distributed as follows:

- Thirty percent to the ____ for disbursement for local law enforcement-related activities pertaining to illegal cannabis cultivation. Funds allocated pursuant to this paragraph shall be allocated on a competitive grant application process administered by the ____.
- Thirty percent to the Natural Resources Agency to fund a competitive grant program for environmental cleanup restoration and protection of public and private lands that have been damaged by illegal cannabis cultivation
- Thirty percent to the multiagency task force, the Department of Fish and Wildlife and State Water Resources Control Board, to address the environmental impacts of cannabis cultivation on public and private lands in California and fund other state enforcement-related activities pertaining to illegal cannabis cultivation.
- Ten percent to the Bureau of Medical Marijuana Regulations, and other state agencies or departments that the bureau determines is appropriate, to conduct ongoing studies of areas that may create challenges to compliance of the Medical Marijuana Regulation Safety Act

Senate Bill 987

Senator McGuire introduced this bill last month to create the Marijuana Value Tax Act. The law would impose an excise tax on the consumption or other use in this state of medical marijuana purchased from any retailer for the consumption or other use in this state at the rate of 15 percent of the sales price of the medical marijuana. The Board of Equalization would collect the tax and deposit the funds in the Marijuana Value Tax Fund.

Moneys in the Fund shall be allocated by the Controller as follows:

- Thirty percent to the General Fund.
- Thirty percent to the Bureau of Medical Marijuana Regulation for the administration of a grant program to distribute grants to local agencies that oversee the regulation of cultivating, processing, manufacturing, distributing, and selling of medical marijuana upon appropriation by the Legislature.

- Twenty percent to the Department of Parks and Recreation for base operations of state parks, upon appropriation by the Legislature.
- Ten percent to county and city human service departments for drug and alcohol treatment programs, distributed based on population, upon appropriation by the Legislature.
- Ten percent to the Natural Resources Agency for restoration and remediation of public and private lands and watersheds damaged by medical marijuana cultivation, including lands affected by medical marijuana cultivation before the operative date of this section, upon appropriation by the Legislature.

Engineering

DEPARTMENT OF TRANSPORTATION

DIVISION OF MAINTENANCE
STRUCTURE MAINTENANCE & INVESTIGATIONS
111 Grand Avenue, Room 10-400
OAKLAND, CA 94612-3717
PHONE (510) 286-6188
FAX (510) 286-0353



*Flex your power!
Be energy efficient!*

November 05, 2015

Ms. Caröl Rische
General Manager
Humboldt Bay Municipal Water District
828 Seventh Street
Eureka, CA 95501

Dear Ms. Rische:

In accordance with Title 23 of the Code of Federal Regulations (Federal Highway Act) and the National Bridge Inspection Standards (NBIS), Caltrans Structure Maintenance and Investigations performed a Fracture Critical inspection of 1 bridge(s) under your jurisdiction. The bridges have been rated to indicate their deficiencies, structural adequacy, safe load carrying capacity and overall general condition.

Enclosed are copies of the Bridge Inspection Reports for the structures noted on the attached transmittal sheet. These reports contain descriptions of physical changes to the structures since the last inspection, recommendations for work to be done, and additional information not recorded in the previous Bridge Reports.

Your attention is directed to the requirements of Title 23, Part 650 of the Code of Federal Regulations, where newly completed structures or any modification of existing structures shall be entered in the inventory within 90 days. Please notify this office of any newly constructed bridge or culvert within your jurisdiction, more than 20 feet measured along the center of the roadway and carrying public vehicular traffic or over a public roadway, in order that it may be entered in the inventory of bridge structures in compliance with Federal requirements.

Should you have any questions regarding the enclosed Bridge Inspection Report(s), please contact Vassil Simeonov @ (916) 227-0719.

Sincerely,

A handwritten signature in blue ink, appearing to read "K. R. Brown", written over a horizontal line.

KENNETH R. BROWN
Office Chief
Structure Maintenance & Investigations - (Investigations - Toll)

Enclosures

DEPARTMENT OF TRANSPORTATION

DIVISION OF MAINTENANCE
STRUCTURE MAINTENANCE & INVESTIGATIONS
111 Grand Avenue, Room 10-400
OAKLAND, CA 94612-3717
PHONE (510) 286-6188
FAX (510) 286-0353



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WEB SITES:

The National Bridge Inspection Standards (NBIS) Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges, Element Level Inspection, Structure Maintenance and Investigations Manuals, Local Assistance Program Guidelines and other related information are posted on Division of Maintenance, Structure Maintenance and Investigations; Division of Local Assistance, Local Highway Bridge Program (HBP) and FHWA websites.

The websites can be accessed at:

1. "Caltrans Structure Maintenance and Investigations" <http://www.dot.ca.gov/hq/structur/strmaint/>
2. "Caltrans Division of Local Assistance"
<http://www.dot.ca.gov/hq/LocalPrograms/hbrr99/hbrr99a.htm>
3. "FHWA" <http://www.fhwa.dot.gov/BRIDGE/mtguide.pdf>

Inspection Type Definitions**Routine Inspection:**

Routine Inspections consist of both the initial Inventory Inspection (the first inspection of the bridge that places it in the bridge inventory or when there has been a change in the configuration of the structure) and subsequent regularly scheduled inspections. The initial inspection provides all the Structural Inventory & Appraisal (SI&A) data required by federal and state regulations, determines the baseline structural conditions, lists any existing problems, and establishes the load capacity of the structure. Subsequent inspections consist of observations, measurements needed to determine the physical and functional condition of the bridge, to identify any changes from the previously recorded conditions, and verification of its load capacity. These inspections are generally conducted from the deck, ground and/or water level, and from permanent work platforms and walkways, if present. Inspection of underwater portions of the substructure is limited to observations during low-flow periods and/or probing for signs of undermining. Special equipment should be utilized in circumstances where its use provides the only practical access to areas of the structure.

Fracture Critical, Special Feature & Underwater Inspections:

Fracture Critical, Special Feature, and Underwater Inspections are up close, hands-on inspections of one or more members above or below the water level to identify any deficiencies not readily detectable using Routine Inspection procedures. These inspections generally require special equipment such as under-bridge inspection equipment, manlifts, boats, traffic control, and railroad flagging. Personnel with special skills such as divers or structural steel inspectors trained in non-destructive testing techniques may be required.

Other Inspections:

Other Inspections are conducted on damaged structures, structures that have developed specific problems, or structures suspected of developing problems. The scope of these investigations should be sufficient to determine the need for emergency load restrictions or closure of the structure, monitor a changing condition, and to assess the level of effort necessary to effect a repair.

STATE OF CALIFORNIA - CALIFORNIA STATE TRANSPORTATION AGENCY

EDMUND G. BROWN JR., Governor

DEPARTMENT OF TRANSPORTATION

DIVISION OF MAINTENANCE
STRUCTURE MAINTENANCE & INVESTIGATIONS
111 Grand Avenue, Room 10-400
OAKLAND, CA 94612-3717
PHONE (510) 286-6188
FAX (510) 286-0353



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Bridge Report Transmittal Sheet

Batch 33221

Br. Number	Bridge Name	Inspection		Outstanding Work
		Date	Type	
05C0219	RUTH DAM	09/22/2015	Fracture Critical	N

1 Bridge(s) in this Transmittal



DEPARTMENT OF TRANSPORTATION
 Structure Maintenance & Investigations

Bridge Number : 05C0219
 Facility Carried: RUTH DAM ROAD
 Location : 100' W MAD RIVER ROAD
 City :
 Inspection Date : 05/22/2015

Bridge Inspection Report

Inspection Type
 Routine FC Underwater Special Other

STRUCTURE NAME: RUTH DAM

CONSTRUCTION INFORMATION

Year Built : 1972 Skew (degrees): 0
 Year Widened: N/A No. of Joints : 2
 Length (m) : 31.7 No. of Hinges : 0

Structure Description: Single span composite welded steel plate girders (2) with reinforced concrete (RC) deck on RC seated abutments. All are founded on spread footings.

Span Configuration : 1 @ 101.0 ft

SAFE LOAD CAPACITY AND RATINGS

Design Live Load: MS-18 OR HS-20
 Inventory Rating: 29.1 metric tons Calculation Method: LOAD FACTOR
 Operating Rating: 55.6 metric tons Calculation Method: LOAD FACTOR
 Permit Rating : XXXXX
 Posting Load : Type 3: 14 U.S. Tons Type 3S2: 18 U.S. Tons Type 3-3: 19 U.S. Tons

DESCRIPTION ON STRUCTURE

Deck X-Section: 0.30 ft br, 1.4 ft cu, 14.0 ft, 1.4 ft cu, 0.30 ft br
 Total Width: 5.1 m Net Width: 4.3 m No. of Lanes: 1 Speed: 25 mph
 Min. Vertical Clearance: Unimpaired Overlay Thickness: 0.0 Inches
 Rail Code: 0000

Rail Type	Location	Length (ft)	Rail Modifications
Misc. Steel	Right/Left	80	w. chain link fence

DESCRIPTION UNDER STRUCTURE

Channel Description: Concrete-lined rectangular channel.

INSPECTION COMMENTARY

SCOPE AND ACCESS

A fracture critical member inspection was performed on 09/22/2015 by Chaz Kussoy from the Office of Specialty Investigations.

The structure was accessed with the UBIT operated by Stephen Teesdale. Lane closures and traffic control were provided by the Humboldt Bay Municipal Water District.

The investigation was conducted in accordance with the Fracture Critical Member Inspection Plan, dated 10/11/2007.

SUPERSTRUCTURE

A hands-on visual inspection was performed on the steel girders in Span 1. No fractures or cracks were found.

The butt welds at the bottom flange transitions are of poor quality and will continue to be monitored in future inspections.

STEEL INVESTIGATIONS

This structure qualifies for an in-depth Steel investigation because it possesses the following fracture critical or fatigue prone details :

Plate Girder: FC Members

Fracture Critical: Yes Inspection Freq. : 24 Next Inspection: 09/22/2017

Team Leader : Chaz Kussoy
Report Author : Chaz Kussoy
Inspected By : C. Kussoy

 12/17/2015
Chaz Kussoy (Registered Civil Engineer) (Date)



RUTH DAM

100' W MAD RIVER ROAD

09/22/2015 [AAAN]

05C0219

108 - PHOTO-Super-Details

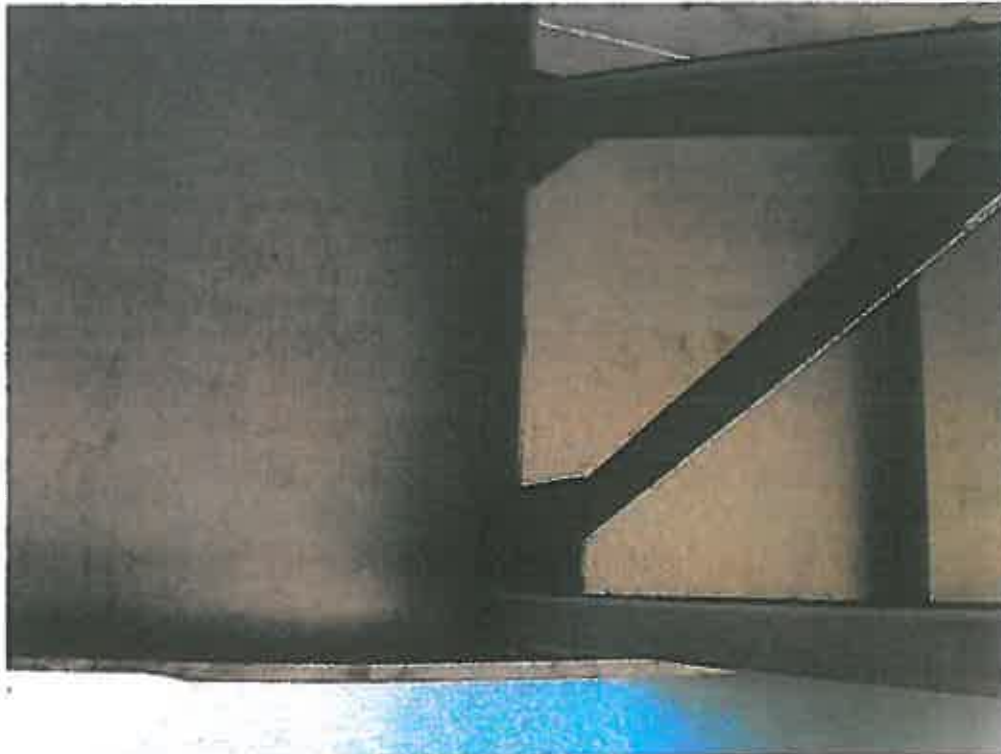


Photo No. 1
Lateral bracing between the two girders

110 - PHOTO-Super-Misc.



Photo No. 2
Butt welds at bottom flanges

Sherrie Sobol

From: John Friedenbach [friedenbach@hbmwd.com]
Sent: Friday, February 19, 2016 3:50 PM
To: Paul Helliker; Pat Kaspari; Dale Davidsen (supt@hbmwd.com)
Subject: FW: Your HMGP NOI is eligible - Control No. is 0039

Hi All,

Pat- you did it! Way to go!
Now we have to figure out how to pay for the \$1M match.

We will talk further about strategy on whether to apply for grant or not on this one.
But good job getting them to reconsider our NOI.

John Friedenbach
Business Manager
Humboldt Bay Municipal Water District
(707) 443-5018
Fax (707) 443-5731

-----Original Message-----

From: Marcia Sully [<mailto:Marcia.Sully@ops.calema.ca.gov>]
Sent: Friday, February 19, 2016 3:33 PM
To: John Friedenbach
Subject: Your HMGP NOI is eligible - Control No. is 0039

The California Governor's Office of Emergency Services (Cal OES) has received the Hazard Mitigation Grant Program (HMGP) Notice of Interest (NOI) submitted by your agency.

Project Number: DR-4240-0039.
Applicant Name: Humboldt Bay Municipal Water District Activity Title: HBMWD Matthews Dam Left Spillway Wall Retrofit.
Federal Share Request: \$3,000,000.00.
Required Application Match: \$1,000,000.00.

Your NOI was reviewed by Cal OES HMGP staff and was determined to represent an eligible HMGP activity.

This email confirms the formal invitation for the Humboldt Bay Municipal Water District to develop a full application for HMGP funding.

Applications are available at www.caloes.ca.gov. Applications must be sent to Cal OES postmarked by June 16, 2016.

Please direct any questions or concerns to HMGP@caloes.ca.gov.

This e-mail has been scanned for viruses

Sherrie Sobol

From: John Friedenbach [friedenbach@hbmwd.com]
Sent: Monday, February 01, 2016 1:30 PM
To: Paul Helliker; Pat Kaspari; Dale Davidsen (supt@hbmwd.com)
Cc: Becky Moyle
Subject: FW: Your HMGP NOI is eligible - Control No. is 0011

Importance: High

Hi All,

See below from CalOES regarding our NOI for the surge tower.
Way to go Pat!!!

Now we have to complete the application.
Pat - Let's talk about scope and fee to complete the application.

John Friedenbach
Business Manager
Humboldt Bay Municipal Water District
(707) 443-5018
Fax (707) 443-5731

-----Original Message-----

From: Marcia Sully [mailto:Marcia_Sully@ops.calema.ca.gov]
Sent: Monday, February 01, 2016 1:06 PM
To: John Friedenbach
Subject: Your HMGP NOI is eligible - Control No. is 0011

The California Governor's Office of Emergency Services (Cal OES) has received the Hazard Mitigation Grant Program (HMGP) Notice of Interest (NOI) submitted by your agency.

Project Number: DR-4240-0011.
Applicant Name: Humboldt Bay Municipal Water District Activity Title: HBMWD Surge Tower Retrofit.
Federal Share Request: \$562,500.00.
Required Applicatin Match: \$187,500.00.

Your NOI was reviewed by Cal OES HMGP staff and was determined to represent an eligible HMGP activity.

This email confirms the formal invitation for the Humboldt Bay Municipal Water District to develop a full application for HMGP funding.

Applications are available at www.caloes.ca.gov. Applications must be sent to Cal OES postmarked by June 16, 2016.

Please direct any questions or concerns to HMGP@caloes.ca.gov.

This e-mail has been scanned for viruses

Sherrie Sobol

From: Pat Kaspari [Pat.Kaspari@ghd.com]
Sent: Wednesday, March 02, 2016 4:33 PM
To: Sherrie Sobol
Cc: Paul Helliker; John Friedenbach; Dale Davidsen (supt@hbmwd.com)
Subject: FW: Your PDM NOI is eligible - Control No. is 16-0003

Sherrie,

Can you add this email to the Blue Book under Item d) as well please?

I guess we need to decide if we are doing this application as well. I would like to if we can afford it, as we are going to have to replace that switchgear some day...

Patrick Kaspari, PE
Associate Engineer

GHD
T: 707 443 8326 | F: 707 444 8330 | C: 707 599 5123 | V: 842262 | E: pat.kaspari@ghd.com
718 Third Street, Eureka, CA 95501, USA | www.ghd.com WATER | ENERGY & RESOURCES |
ENVIRONMENT | PROPERTY & BUILDINGS | TRANSPORTATION

Please consider our environment before printing this email

-----Original Message-----

From: John Friedenbach [<mailto:friedenbach@hbmwd.com>]
Sent: Wednesday, March 02, 2016 4:23 PM
To: Pat Kaspari; Paul Helliker; Dale Davidsen (supt@hbmwd.com)
Subject: FW: Your PDM NOI is eligible - Control No. is 16-0003

Hi All,

This came in last Friday when I was in Sacramento.
When it rains, it pours!

John

-----Original Message-----

From: Julie Norris [<mailto:julie.norris@caloes.ca.gov>]
Sent: Friday, February 26, 2016 10:11 AM
To: John Friedenbach
Subject: Your PDM NOI is eligible - Control No. is 16-0003

The California Governor's Office of Emergency Services (Cal OES) has received the Notice of Interest (NOI) submitted by your agency.

Your NOI has been reviewed by the Cal OES Pre-Disaster and Flood Mitigation (PDFM) Division and represents an eligible Pre-Disaster Mitigation (PDM) activity.

Pre-Disaster Mitigation Grant (PDM) Program NOI submitted by your agency is:

Project Number: 16-0003

Applicant Name: Humboldt Bay Municipal Water District
Activity Title: HBMWD 12kV Switchgear Relocation.
Federal Share Request: \$1,350,000.00.
Required Application Match: \$450,000.00.

This email confirms the formal invitation for the Humboldt Bay Municipal Water District to develop a full sub-application for PDM funding. Sub-applications will be submitted via FEMA's web-based Mitigation Electronic Grants (eGrants) Management System at <https://portal.fema.gov>. A helpful on-line training course for development of sub-grant applications via eGrants can be found at the following link:
<http://www.training.fema.gov/is/courseoverview.aspx?code=IS-30.a>

You will be contacted by a representative of the PDFM Division for further instructions and deadline for application submittal. Please direct any immediate questions or concerns to PDFM@caloes.ca.gov.

This e-mail has been scanned for viruses

CONFIDENTIALITY NOTICE: This email, including any attachments, is confidential and may be privileged. If you are not the intended recipient please notify the sender immediately, and please delete it; you should not copy it or use it for any purpose or disclose its contents to any other person. GHD and its affiliates reserve the right to monitor and modify all email communications through their networks.

90 Day Pre-PFMA Review/Inspection Conference Call

1. Purpose of call
 - a. To discuss what is expected from the Owner.
 - b. To discuss what is expected from the Part 12D Consultant.
 - c. To discuss what is expected during the PFMA review.
 - d. To discuss outstanding studies and items of special interest.
2. Responsibilities of Owner
 - a. The Owner should provide a copy of the STID, the three most recent Part 12D Reports, and any items of special interest to the IC well in advance of the inspection.
 - b. All portions of the site must be readily assessable and cleared of excessive vegetation. If a comprehensive visual inspection cannot be completed, the IC will need to re-inspect the site before the Part 12D Report is submitted.
3. Responsibilities of Part 12D Consultant
 - a. The Consultant must review the STID, including the PFMA report, as well as the past Part 12D Inspection Reports, prior to the inspection.
4. Discussion of PFMA Report
 - a. FERC will review and provide clarification regarding the PFM categories.
 - b. The discussion should include the current PFMs and the level of effort that may be expected for their review. This may range from a review of the PFMA report to a complete revision of the PFMA process, including a Facilitator and a full document review.
5. Items of special interest
 - a. Outstanding studies.
 - b. Past Part 12D recommendations that have not been fulfilled.
 - c. Schedule for inspection.
 - d. Any other items of interest.

John Friedenbach

From: John Friedenbach
Sent: Monday, February 29, 2016 8:59 AM
To: 'garrettcoonrod@yahoo.com'
Cc: Paul Helliker; Dale Davidsen (supt@hbmwd.com); Pat.Kaspari@ghd.com
Subject: Proposed Development
Attachments: Coonrod maps.pdf

Hi Garrett,

Attached are two GIS aerial view maps of your property. As you know from the recorded deeds on the property, we have a floating easement over the entire property which dates back to the early 1960's. We are willing to negotiate a fixed location to our easement with you. Attached are two aerial maps of your property. One shows our proposed fixed easements approximate locations relative to our pipelines beneath your property. The other shows our pipelines, easements, and your proposed subdivision. It appears that some of your proposed development may interfere with access to our pipelines.

We would like to set up a meeting with our District staff and you to discuss the details of our proposed modifications to our existing floating easement.

Kindly contact me at your earliest convenience to set up a meeting.

Regards,

John Friedenbach,

Business Manager

Humboldt Bay Municipal Water District

828 7th Street, Eureka CA 95501-1114

Phone: 707-443-5018 Fax: 707-443-5731





- 5 ft. Easement off 46' Easement
- 46' N. Easement
- Industrial/Raw Water Main
- Domestic Water Main
- New Parcels
- Approximate Property Boundary

All data, information, and maps are provided "as is" without warranty or any representation of accuracy, timeliness of completeness. The burden for determining accuracy, completeness, timeliness, merchantability and fitness for or the appropriateness for use rests solely on the requester. The Humboldt Bay Municipal Water District makes no warranties, express or implied, as to the use of the information obtained here. There are no implied warranties of merchantability or fitness for a particular purpose. The requester acknowledges and accepts all limitations, including the fact that the data, information, and maps are dynamic and in a constant state of maintenance, correction and update.

0 15 30 60 90 120 Feet

Author: Laythen Marines
 Coordinate System: NAD 1983 StatePlane California | FIPS 0401 Feet
 Projection: Lambert Conformal Conic
 Datum: North American 1983



- 5 ft Easement of 45" Easement
- 45" Easement
- Industrial/New Water Main
- Domestic Water Main
- Approximate Property Boundary



All data, information, and maps are provided "as is" without warranty or any representation of accuracy, timeliness of completeness. The burden for determining accuracy, completeness, timeliness, merchantability and fitness for or the appropriateness for use rests solely on the requester. The Humboldt Bay Municipal Water District makes no warranties, express or implied, as to the use of the information obtained here. There are no implied warranties or merchantability or fitness for a particular purpose. The requester acknowledges and accepts all limitations, including the fact that the data, information, and maps are dynamic and in a constant state of maintenance, correction and update.



Author: Laythen Martines
 Coordinate System: NAD 1983 StatePlane California | FIPS 0401 Feet
 Projected: Lambert Conformal Conic
 Datum: North American 1983

Financial

Humboldt Bay Municipal Water District

Memo to: Board of Directors

From: Becky Moyle, Accounting & Human Resources Specialist

Date: March 4, 2016

Subject: Financial Report for February 2016

The Financial Report for February 2016 was not completed by the BlueBook publish date. I expect to have the Financial Report completed by the end of the day on Monday and will email it to you as soon as it is completed. Please let me know if you would like a paper copy delivered to you.

Humboldt Bay Municipal Water District

To: Board of Directors
From: John Friedenbach
Date: March 4, 2016
Re: FY2016/17 Preliminary Budget Estimate

Introduction

The purpose of this agenda item is to share with you our preliminary estimate of incremental percentage change between the current year's budget and the projected FY 2016/17 budget. Staff requires additional time to finalize the budget estimate and will be providing summary information and a verbal presentation at the Board meeting.

We are still in the early stages of budget development. However, this process is being introduced now to assist our municipal customers in their budget planning needs which may include consideration of Proposition 218 requirements for any proposed rate increases.

The following is a brief background on the status of Capital Improvement Plan (CIP) -related projects.

Capital Improvement Plan Update**Background**

In November 2011, the Board approved the District's CIP to address aging infrastructure. Staff is currently in the process of updating the CIP. The first major projects to be completed were: the Ranney Collector 3 Rehabilitation, Techite Line replacement, and Prop 50 Intertie Project.

In the short term, the project sequence in our CIP calls for the following projects:

- The Ranney Collector 1 & 1A Lateral Replacement project. (in process with construction during summer and fall 2016)
- The Blue Lake/FCSD River Crossing project. (in process with construction during 2016/17 fiscal year)
- Ruth Lake Cabin replacement (construction during 2016/17 fiscal year)
- SCADA system upgrade (in process with implementation during 2016/17 fiscal year)

Financing of the initial CIP Projects

With the assistance of Bartle Wells & Associates, a District Financial Plan was developed in early 2011 to prepare and guide the District for future financing, especially for CIP projects. To finance the Ranney 3 and Techite projects it was concluded that the best option was to use bank

financing for both projects combined. In August 2011, the Board approved securing financing for both projects in the amount of \$1.4 million. US Bank was selected to provide the loan to finance the two projects at a 2.63% interest rate over 10 years. In addition, a portion of the Techite project funding was obtained through a FEMA/CalOES hazard mitigation grant and customer charges.

The Ranney Collector 1 & 1A Lateral Replacement project is partially funded through a Prop 84 IRWMP grant of \$666,000. The remainder will be financed through customer charges and use of reserves.

The Blue Lake/FCSD River Crossing project is anticipated to be 100% grant funded through a combination of FEMA/CalOES hazard mitigation grant of \$2.1M and a Prop 84 IRWMP grant of \$700,000. The project feasibility study will be completed soon which will include an updated cost estimate for the preferred project alternative – over or under the river. Adequacy of the funding for the project will be evaluated at that time.

Status of Priority Projects

The Ranney Collector 1 & 1A Lateral Replacement project construction contract has been awarded. Staff is awaiting receipt of the construction schedule from the contractor.

The Blue Lake/FCSD River Crossing project is anticipated to be constructed in FY16/17. District has applied for a FEMA hazard mitigation grant in the amount of \$2.1M. The FEMA/CalOES grant will be received once FEMA completes the NEPA process. As you know, there were some challenges with the cultural resource findings. It is expected that this project will be 100% grant funded with no cost to the District or our municipal customers. Accordingly, there is a net zero affect for this project in our FY16/17 draft budget.

The Ruth Lake Cabin replacement was put out to bid and no responses were received. District staff is evaluating available options to move this project forward.

The SCADA System upgrade design is going out for competitive bid this spring. Implementation will occur during the FY16/17.

Preliminary Budget for 2016/17

Staff will make a verbal presentation at the Board meeting.

Next Steps:

There is a Muni meeting on March 16th and with the Board's concurrence, staff will share the preliminary FY16/17 draft budget estimates and get input on the project budget funding so as to advance the discussion. Staff will continue to refine the draft budget and present components to the Board over the next several months with the goal of final adoption at our July 2016 Board meeting.

Humboldt Bay Municipal Water District

Memo to: Board of Directors
From: John Friedenbach, Business Manager
Date: March 3, 2016
Subject: Audit FYE June 30, 2015

The District Audit Committee and staff will meet with the Auditor on March 7, 2016. See attached Audit Committee agenda. A draft audited financial statement, a copy of which is attached, will be reviewed and the auditor will present a detailed explanation of their audit process and findings. The final audited financial statements will be distributed to our Board via hard copy at the March 9th meeting.

Once again, the District has received a "clean" audit opinion. I.E. "...In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Humboldt Bay Municipal Water District as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. ..."

The auditor will also make a summary presentation at our Board meeting on March 9th.

This is the third and final year under contract with Hunter, Hunter, and Hunt for auditing services. Staff has been impressed with their service and professionalism. We appreciate the level of competency of their firm's personnel.

The Audit Committee will make a recommendation to the Board regarding approval of the Audit Report.



HUMBOLDT BAY MUNICIPAL WATER DISTRICT
828 7th Street, Eureka



Audit Committee Meeting

March 7, 2016 3:00 pm.

The Audit Committee is a standing committee of the Board composed of the following representatives: the Secretary/Treasurer and one additional Board member appointed by the President.

The purpose of the Audit Committee is to oversee the District's annual audit process, and to provide input to the Board about the process. The Committee is advisory to the Board of Directors and shall have no decision-making authority.

1. Review the draft audit report for FY 2014-15
2. Status report on internal controls
3. Discussion of documents to be signed or issued
4. Other discussion items, if any

Note: The Brown Act requires posting of agendas for meetings of standing committees of the Board. This is such a notice.

(Posted and mailed March 1, 2016)

HUMBOLDT BAY MUNICIPAL WATER DISTRICT

BASIC FINANCIAL STATEMENTS

and

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2015

DRAFT

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1315 Fourth Street
Eureka, California 95501

Phone 707-476-0674
Fax 707-476-0675
www.hhh-cpa.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Humboldt Bay Municipal Water District
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Humboldt Bay Municipal Water District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the District'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 as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts; 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 opinions 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 and Reporting Guidelines 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. According, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Humboldt Bay Municipal Water District as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter*Change in Accounting Principle*

As discussed in Note 16 of the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment to GASB Statement No. 68. Our opinions are not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of local government's proportionate share of the net pension liability, the schedule of pension contributions, and the schedule of funding progress for other post-employment benefits 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 audit 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Humboldt Bay Municipal Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2016, on our consideration of Humboldt Bay Municipal Water District'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 District's internal control over financial reporting and compliance.

February 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRAFT

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For FY 2014-15**

The purpose of this section of the financial statements is to present management's discussion and analysis of the Humboldt Bay Municipal Water District's (District) financial performance during the fiscal year that ended on June 30, 2015 (FY 2014-15). We recommend that readers review this in conjunction with the remainder of the financial statements.

INTRODUCTION AND BACKGROUND

We would first like to provide a brief overview of the District and the customers served which will provide a context for the financial statements and the discussion which follows.

The Regional Water System:

The District was formed in 1956 pursuant to the Municipal Water District Act of the California Water Code. The District completed construction of the regional water system in 1961, and service commenced to the Cities of Eureka and Arcata and two pulp mills on the Samoa Peninsula. Since the initial construction, a number of additions and improvements to the regional system have been made, and additional wholesale customers have joined the regional system. Since inception, this regional water system has efficiently and reliably served the municipal and industrial water needs of customers in the Humboldt Bay region.

The regional water system includes the following components: R.W. Matthews Dam (which forms Ruth Lake) and the Gosselin Power House, in Trinity County; and the following facilities in Humboldt County: 1) diversion works on the Mad River northeast of Arcata capable of supplying 75 million gallons per day, 2) treatment facilities, including the Lloyd L. Hecathorn Turbidity Reduction Facility, 3) over 35 miles of pipeline infrastructure around the Humboldt Bay area to deliver water to the wholesale customers, and 4) extensive communication and control systems to operate and control the regional system including the John R. Winzler Operations and Control Center.

Customers Served and Associated Wholesale Water Contracts:

The District supplies treated domestic water to seven municipal agencies on a wholesale basis. The municipalities served by the District are the Cities of: Arcata, Blue Lake and Eureka, and the Community Services Districts of: Fieldbrook/Glendale, Humboldt, Manila and McKinleyville. Via the wholesale relationship, the District serves water to an estimated residential population of 88,000 (approximately 65% of the entire County), and to numerous businesses, industries and educational institutions.

The District provides retail water service to about 200 customers who reside outside the service territory of other water purveyors, but are located in close proximity to District facilities.

The District also has facilities to supply untreated water to customers on the Samoa Peninsula. The District was serving one wholesale industrial customer (pulp mill) until it ceased operations on October 15, 2008.

The District has long-term contracts in place with each of its seven wholesale municipal customers. These contracts have a 20-year term and will be in place through 2019 (or technically until the Safe Drinking Water State Revolving Fund (SRF) Loan Debt service to the State is paid in full shortly thereafter). The wholesale municipal customers have an opportunity to extend these contracts by up to ten years.

These contracts define the terms and conditions by which the District provides water service to its customers. The contracts specify that all operating, maintenance and capital costs associated with the regional water system are paid for by the wholesale customers. The contracts also specify the manner in which these costs are allocated *among* the wholesale customers. Furthermore, they specify that revenues received by the District, other than those associated with wholesale water sales, are credited back to the wholesale customers, and thus offset the costs that the wholesale customers otherwise pay. Examples of such revenues which are credited back to the wholesale customers include the District's share of 1% property taxes, power sales from the hydro-electric facility, interest income, revenues associated with retail water service, and other miscellaneous revenues.

A summary of the current cost allocation provisions of the wholesale contract is as follows:

Type of Cost	Municipal Customers' Cost Share	Industrial Customer(s) Cost Share
Debt Service for Turbidity Reduction Facility	100%	0%
Operation, Maintenance and Capital Expenditures associated with drinking water treatment facilities (i.e. facilities associated with providing safe drinking water in accordance with federal and state requirements)	100%	0%
Operation, Maintenance and Capital Expenditures associated with all other aspects of the regional water supply, pumping and distribution system (other than power for pumping water) *Change in % due to pulp mill closure.	55% increased to 100% effective April 1, 2009*	45% decreased to 0% effective April 1, 2009*
Power Costs for Pumping Water	In proportion to actual power use.	n/a

Additionally, the wholesale contracts provide that "Additions to Reserves" may be charged to the wholesale customers should the District need to replenish its General Reserve level. There were \$100,000 in charges for additions to reserves to the wholesale customers for FY 2014-15, and \$145,000 in charges for additions to reserves to the wholesale customers for FY 2013-14.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of several components: a) the Statements of Net Position (page 12), b) the Statements of Revenues, Expenses, and Changes in Net Position (page 13), and c) the Statements of Cash Flows (page 14). These financial statements present the District's financial position on an enterprise fund basis. An enterprise fund accounts for goods or services which are provided to outside parties – in the District's case, this is wholesale and retail water service.

BASIC FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements offer short- and long-term financial information about District activities.

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of 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 results of the District's operations over the past year and can be used to determine the District's general financial well-being and whether the District has recovered its costs through its water charges.

The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and the changes in cash resulting from operations and investments. It also 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 reporting period.

There may be minor rounding differences between the following tables and the financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position was \$18,838,233 as of June 30, 2015, an increase of \$3,998,220 compared to June 30, 2014.
- Revenues were \$9,823,844, an increase of \$826,976 from FY 2013-14.
- Expenses were \$5,825,624, a decrease of \$1,637,172 from FY 2013-14.
- Notes payable net of current portion is \$4,930,551, a decrease of \$685,068 from FY 2013-14.

DISCUSSION AND ANALYSIS

Our analysis of the District begins on page 12 of the financial statements. The Statements of Net Position present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. A summary of the District's Condensed Statements of Net Position is presented in Table 1.

ASSETS	FY 2014-15	As Restated FY 2013-14	Change	
			\$	%
Current Assets	\$2,004,777	\$4,954,592	-\$2,949,815	-59.5%
Restricted Cash & Investments	\$3,421,185	\$3,800,109	-\$378,924	-10.0%
Land, Property & Equipment (net Accumulated Depreciation)	\$22,765,357	\$18,945,068	\$3,820,289	20.2%
Total Assets	\$28,191,319	\$27,699,769	\$491,550	1.8%
Deferred Outflows of Resources	\$261,630	\$230,637	\$30,993	13.4%
LIABILITIES				
Current Liabilities	\$1,433,582	\$4,317,414	-\$2,883,832	-66.8%
Unearned grant revenue	\$30,005	\$33,321	-\$3,316	-10.0%
Post-Retirement Health Benefits Obligation	\$691,690	\$562,404	\$129,286	-23.0%
Net Pension Liability	\$1,969,634	\$2,561,635	-\$592,001	-23.1%
Long-term Debt	\$4,930,551	\$5,615,619	-\$685,068	-12.2%
Total Liabilities	\$9,055,462	\$13,090,393	-\$4,034,931	-30.8%
Deferred Inflows of Resources	\$559,254	-	\$559,254	N/A
NET POSITION				
Net Investment in Capital Assets	\$17,149,715	\$12,647,910	\$4,501,805	35.6%
Restricted (for debt service)	\$707,178	\$706,962	\$216	0.0%
Restricted (for capital projects)	\$1,269,406	\$1,685,098	-\$415,692	-24.7%
Restricted (for credits to municipalities)	\$403,085	\$346,872	\$56,213	16.2%
Unrestricted	-\$691,151	-\$546,829	-\$144,322	26.4%
TOTAL NET POSITION	\$18,838,233	\$14,840,013	\$3,998,220	26.9%

As documented in Note 16 to the audited financial statements, recording the full pension liability for PERS at June 30, 2014, caused the unrestricted net position to be a deficit balance as of June 30, 2014. The deficit continued for the year ended June 30, 2015.

As can be seen from the table above, the net position as of June 30, 2015 was \$18,838,233, an increase of \$3,998,220 (26.9%) as compared to June 30, 2014. The majority of this increase is related to the grant funded construction projects.

The largest portion of the District's net position is its investment in capital assets called property and equipment (e.g., land, buildings, equipment, and water system infrastructure), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide water services to its wholesale and retail customers, and consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to satisfy these liabilities.

The Statements of Revenues, Expenses, and Changes in Net Position (page 13) present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods

(e.g. uncollected taxes, or earned but unused vacation leave). A summary of the District's Condensed Statements of Revenues, Expenses, and Changes in Net Position is presented in Table 2.

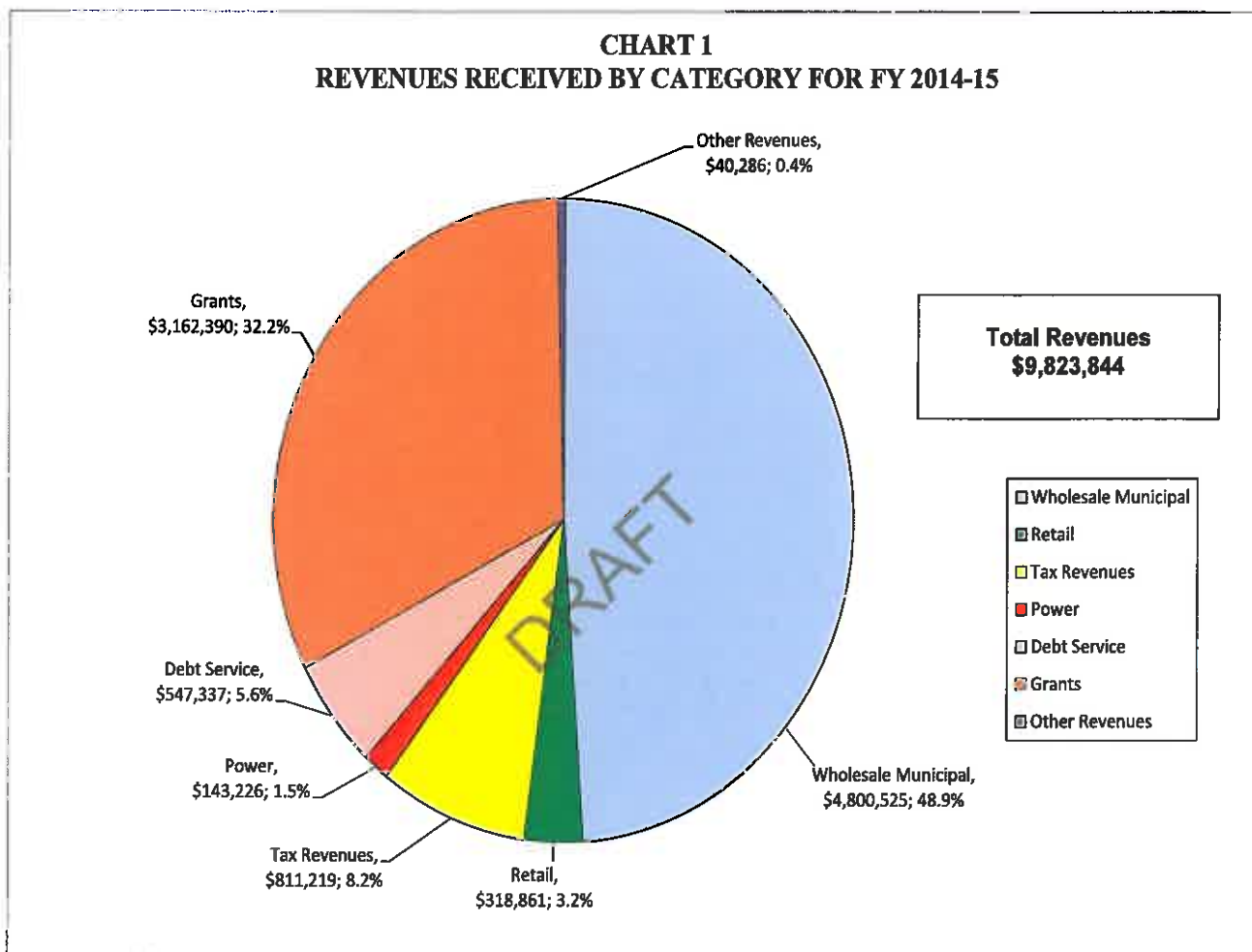
	FY 2014-15	As Restated FY 2013-14	Change	
			\$	%
REVENUES				
*Operating:				
Water Sales	\$5,119,386	\$4,938,217	\$181,169	3.7%
Power Sales	\$143,226	\$122,682	\$20,544	16.8%
SRF Debt Service Receipt	\$547,337	\$547,337	\$0	0.0%
Other Operating	\$17,026	\$11,102	\$5,924	53.4%
*Non-Operating:				
Taxes	\$811,219	\$764,167	\$47,052	6.2%
Interest Income	\$23,260	\$25,109	-\$1,849	-7.4%
Grant Revenues	\$3,162,390	\$2,588,254	\$574,136	22.2%
Total Revenues	\$9,823,844	\$8,996,868	\$826,976	9.2%
EXPENSES				
Operating expense	\$4,629,181	\$4,491,739	\$137,442	3.1%
Non-operating expense	\$26,838	\$33,007	-\$6,169	-18.7%
Loss on asset disposal	\$0,000	\$4,548	-\$4,548	-100.0%
Depreciation	\$1,056,242	\$975,723	\$80,519	8.3%
Grant expenses	\$337,671	\$2,164,154	-\$1,826,483	-84.4%
Less Reimbursements	-\$224,308	-\$206,375	-\$17,933	8.7%
Total Expenses	\$5,825,624	\$7,462,796	-\$1,637,172	-21.9%
Change in Net Position	\$3,998,220	\$1,534,072	\$2,464,148	160.4%
Beginning Net Position	\$14,840,013	\$15,636,939	-\$796,926	-5.1%
Restatement for Pension Liability	-	-\$2,330,998	\$2,330,998	-100.0%
Ending Net Position	\$18,838,233	\$14,840,013	\$3,998,220	26.9%

While the Statements of Net Position show the changes in financial position, the Statements of Revenues, Expenses, and Changes in Net Position explain the nature and source of these changes. As shown in Table 2, the change in net position increased by \$3,998,220 compared to the prior year. The changes in revenues and expenses which contributed to this change in net position are reflected in the above line-item detail.

Although the change in current year net position is shown as an increase of \$3,998,220, it is important to understand that depreciation (a non-cash expense) is included in the expenses. Absent depreciation, the change in current year net position would be a gain of \$5,054,462 (\$3,998,220 + 1,056,242). The majority of this increase is related to the grant funded construction projects.

As a supplement to the Statements of Revenues, Expenses, and Changes in Net Position, Chart 1 presents operating and non-operating revenues earned in FY 2014-15 by category along with the proportionate share of the total revenue each category represents. The total

revenues reflected in Chart 1 are \$9,823,844. The municipal customer receipts of \$547,337 for repayment of the District's SRF Loan for the Turbidity Reduction Facility, which is further described in the subsequent Long-Term Debt section and the grant funding receipts of \$3,162,390, are associated with repayment of long-term debt and special funding respectively and not current operations. The major fluctuations in revenues and expenses relate to the increased grant funding and related expenditures. The Power revenue was slightly higher due to increased rainfall compared to the prior year and management's decision to reduce outflows to maximize water retention in the reservoir in response to the drought conditions during the prior year.



PROPERTY AND EQUIPMENT

The District has invested approximately \$58,200,000 in a broad range of infrastructure for the regional water system. Table 3 presents a summary of the District's property and equipment. The majority of the current year additions in the amount of \$5,420,161 is comprised of the Techite transmission line replacement in the amount of \$4,193,499. As described below in Capital Improvement Program, this project was partially funded through the FEMA Hazard Mitigation Grant Program. Correspondingly, there was a reduction in Projects in Progress of \$655,337 resulting from the reclassification of prior year capitalization of costs related to the Techite project.

**TABLE 3
PROPERTY AND EQUIPMENT**

	FY 2014-15	FY 2013-14	Change	
			\$	%
Buildings	\$1,483,244	\$1,221,352	\$261,892	21.4%
Equip - Auto/Mobile/Office/Radio/Tools	\$2,417,532	\$2,280,645	\$136,887	6.0%
Water System Infrastructure (excludes land)	\$54,312,395	\$49,291,013	\$5,021,382	10.2%
Total Property and Equipment	\$58,213,171	\$52,793,010	\$5,420,161	10.3%
Less Accumulated Depreciation	-\$37,856,493	-\$36,817,763	-\$1,038,730	2.9%
Add Projects in Progress	\$1,036,707	\$1,597,849	-\$561,142	-35.1%
Total Property & Equipment (net of Depr)	\$21,393,385	\$17,573,096	\$3,820,289	21.8%

LONG-TERM DEBT

At FY 2014-15 year-end, the District has two long-term notes payable outstanding for a total amount of \$5,615,643. The first has an outstanding balance of \$4,652,363 (long-term note payable of \$4,105,026 plus current liabilities-current portion of note payable of \$547,337). This is the SRF Loan used to finance the Turbidity Reduction Facility. The SRF loan carries no interest (i.e. zero percent), and has a repayment term of 20 years. The initial SRF loan balance at its inception in 2004 was \$10,946,736. The debt service for the SRF Loan is paid in its entirety by the District's wholesale municipal customers in accordance with the wholesale water contracts (via Price Factor 1).

The second note payable has an outstanding balance of \$963,280 (long-term note payable of \$825,525 plus current liabilities-current portion of note payable of \$137,755). This is the Water System Improvement Loan or US Bank loan, used to finance various improvements to the water system consisting generally of well and pump improvements, and pipeline replacement. The US Bank loan carries interest at 2.63%, and has a repayment term of 10 years. The District makes semi-annual payments of \$81,094 including principal and interest to US Bank, for a resulting annual payment of \$162,188. The Water System Improvement loan balance at its inception in 2011 was \$1,418,000. The debt service for the Water System Improvement Loan is paid in its entirety by the District's wholesale municipal customers in accordance with the wholesale water contracts (via Price Factor 2).

DESCRIPTION OF CURRENTLY KNOWN FACTS OR CONDITIONS THAT MAY HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS

Pulp Mill Closure

On October 15, 2008 (FY2008-09), the District's only industrial customer, Evergreen Pulp, shut down its pulp mill for "three to six months". The mill did not reopen and was sold on February 6, 2009 to Samoa Acquisition Corporation (SAC). The District had an interim agreement with the new owner until April 30, 2009. The District shut off the water supply to the mill on May 1, 2009.

The mill had been paying 45% of the District's operation, maintenance, and capital expenditure costs associated with all aspects of the regional water supply except for the drinking water treatment facilities. For 2008-09, the mill's contribution to the cost of the regional water system would have been approximately \$1.1 million.

Under the terms of the District's Ordinance 16 contracts, costs were shifted to the remaining wholesale customers (seven municipal agencies) beginning April 1, 2009. Whereas the municipalities had previously been paying 55% of costs, they now pay 100%.

SAC did try, under the name Freshwater Tissue, to raise financing to restart the mill but announced on September 28, 2010, that it was unsuccessful and was trying to sell off assets. The mill is not expected to reopen in the foreseeable future. This industrial property was recently acquired by the Humboldt Bay Harbor Recreation and Conservation District for development.

In order to replace the revenue that was being generated by its former industrial customers, the District has been conducting a comprehensive water resources planning effort to identify possible new customers or uses for the water that is now available. Any water use options that are deemed feasible will likely take several years to implement.

Capital Improvement Program

Going forward, the District needs to implement a substantial capital improvement program (CIP) given the age of its infrastructure (50 years). Mechanisms to finance CIP projects include pursuing grant funding, issuing new long-term debt, and working with wholesale municipal customers to increase revenues through water rates.

The first completed large infrastructure project undertaken was the Ranney Collector #3 Rehabilitation project. For financing purposes this was bundled with the Techite Pipeline Replacement project. The funding plan for these combined projects consists of the following components:

Collected from District's wholesale customers for the Ranney project	\$ 322,000
Utilization of the District's Drinking Water Facilities Plant Reserve	630,000
US Bank Loan (10 year loan at 2.63%)	1,418,000
FEMA Grant for Techite project	<u>2,795,000*</u>
Total Projected Project Costs and Financing	<u>\$ 5,165,000</u>

*For the Techite Replacement project, the District received the grant agreement for a Federal Emergency Management Agency (FEMA) grant in the amount of \$2,795,000. The project was put out to bid and a contractor was selected prior to the June 30, 2014 fiscal year end. The contractor commenced the construction project in August 2014 and completed it prior to June 30, 2015.

Another large project is replacement of the District's pipeline that crosses over the Mad River to serve the City of Blue Lake and the Fieldbrook-Glendale Community Services District. The project cost is estimated to be \$3,500,000 in current dollars. For this project, the District has been awarded a State of California Department of Water Resources Proposition 84 grant via the North Coast Integrated Regional Water Management Plan in the amount of \$700,000. Similar to the Techite Replacement project, the District has received a commitment for a Federal Emergency Management Agency (FEMA) Hazard Mitigation grant in the amount of \$2,668,750. FEMA has initiated its National Environmental Policy Act (NEPA) process for this project. Once this is completed, the District anticipates receiving the FEMA grant agreement. Any shortfall will be funded by the District through financing and/or water rates.

The Emergency Intertie project is a multijurisdictional project that the District is leading. The project partners are: HBMWD, the City of Arcata, the City of Eureka and the McKinleyville Community Services District. This project installs new water transmission interconnections between the agencies to allow for water supply redundancy in the event of a supply line disruption. A State of California Department of Public Health Proposition 50 grant in the amount of \$3,648,550 has been received for this project. The Grant Agreement was executed at the

beginning of the 2013/14 fiscal year. The project was put out to bid and a contractor was selected. The construction began prior to the end of the 2013/14 fiscal year and was completed prior to June 30, 2015. The assets created via this construction project were transferred to the respective agencies via the terms and conditions of the Special Facilities Agreement dated May 3, 2013.

DRAFT

BASIC FINANCIAL STATEMENTS

DRAFT

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HUMBOLDT BAY MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2015

ASSETS:

CURRENT ASSETS:

Cash & cash equivalents	\$ 535,868
Accounts receivable	773,318
Grants receivable	518,932
Interest receivable	5,408
Prepaid expenses	166,251
Deposits	5,000
TOTAL CURRENT ASSETS	2,004,777

NON-CURRENT ASSETS:

Restricted cash equivalents	3,421,185
Land	1,371,972
Projects in progress	1,036,707
Property & equipment, net	20,356,678
TOTAL ASSETS	28,191,319

DEFERRED OUTFLOWS OF RESOURCES:

Pension related deferred outflows	261,630
	261,630

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	137,568
Accrued wages, payroll taxes & benefits	137,392
Contract retentions payable	125,838
Interest payable	8,444
Accrued absences	271,937
Current other postemployment benefits obligation	67,311
Current portion of notes payable	685,092
TOTAL CURRENT LIABILITIES	1,433,582

LONG-TERM LIABILITIES:

Unearned grant revenue	30,005
Other postemployment benefits obligation, net	691,690
Net pension liability	1,969,634
Note payables, net	4,930,551
TOTAL LIABILITIES	9,055,462

DEFERRED INFLOWS OF RESOURCES:

Pension related deferred inflows	559,254
	559,254

NET POSITION:

Net investment in capital assets	17,149,714
Restricted for debt service	707,178
Restricted for capital projects	1,269,406
Restricted for credits to municipalities	403,085
Unrestricted	(691,150)
TOTAL NET POSITION	\$ 18,838,233

See accompanying notes.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2015

OPERATING REVENUES:

Water sales:	
Municipal customers	\$ 4,800,525
Retail customers	318,861
Debt service receipts	547,337
Total water sales	<u>5,666,723</u>
Power sales	143,226
Other operating revenues	17,026
TOTAL OPERATING REVENUES	<u>5,826,975</u>

OPERATING EXPENSES:

Payroll & related costs	2,716,049
Employee retirement contributions	321,684
Power & pumping	641,850
Engineering	82,218
Materials & supplies	128,631
Repairs & maintenance	190,358
Auto & travel expenses	56,462
Insurance	94,511
Depreciation	1,056,242
Legal & accounting fees	43,016
Professional assistance	126,096
Tax & license	107,420
Training	23,950
Bad debt	333
Other operating expenses	96,603
Total operating expenses before reimbursements	<u>5,685,423</u>
Reimbursements for services & costs	(224,308)
TOTAL OPERATING EXPENSES	<u>5,461,115</u>
OPERATING INCOME (LOSS)	<u>365,860</u>

NONOPERATING REVENUES (EXPENSES):

Tax revenues	811,219
Grant revenues	3,162,390
Grant expenses	(337,671)
Interest revenues	23,260
Interest expense	(26,838)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>3,632,360</u>
CHANGE IN NET POSITION	3,998,220
BEGINNING NET POSITION, AS RESTATED	14,840,013
ENDING NET POSITION	<u>\$ 18,838,233</u>

See accompanying notes.

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HUMBOLDT BAY MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 5,812,192
Payments to suppliers	(2,060,222)
Payments to employees	(2,957,649)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	794,321

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Taxes for general operations	811,219
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	811,219

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:

Payments to acquire, construct & improve capital assets	(5,152,001)
Receipts of grants for capital financing	3,511,848
Advances repaid to municipal partnership	(335,427)
Principal paid on capital debt	(681,515)
Interest paid on capital debt	(28,015)
NET CASH PROVIDED (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	(2,685,110)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	23,594
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	23,594

INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(1,055,976)
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	5,013,029
CASH & CASH EQUIVALENTS AT END OF YEAR	\$ 3,957,053

FINANCIAL STATEMENT PRESENTATION RECONCILIATION:

Cash & cash equivalents	\$ 535,868
Restricted cash equivalents	3,421,185
CASH & CASH EQUIVALENTS AT END OF YEAR	\$ 3,957,053

**RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (loss)	\$ 365,860
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,056,242
Changes in assets & liabilities:	
Receivables	(238,758)
Prepaid expenses	(5,741)
Accounts payable related to operating activities	(463,366)
Accrued liabilities	80,084
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 794,321

NONCASH CAPITAL FINANCING ACTIVITIES

Earned grant revenue of \$3,316 recognized in the current year was received in the prior year.

Grant funded infrastructure in the amount of \$2,501,825 with an offsetting liability was transferred to other jurisdictions.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Humboldt Bay Municipal Water District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This summary of significant accounting policies of the District is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

Reporting Entity

The District has no oversight responsibility over any other governmental unit and is not included in any other governmental "reporting entity" as defined in GASB pronouncements. The Board of Directors are elected by the public and have the decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

Nature of Activities

The District is a state-authorized special purpose government established to provide water services to the Humboldt Bay region. It was formed in 1956 under provisions of the Municipal Water District Act of 1911. The District provides retail water service to residential customers, and it contracts with seven municipal agencies for the purchase of treated domestic water for resale.

Basis of Presentation

The financial statements required by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 63, include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The District utilizes an enterprise fund, which is a proprietary fund type. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds account for goods or services that are provided to outside parties. The District has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured. Basis of accounting refers to the timing of the recognition of revenues and expenditures in the accounts and their reporting in the financial statements.

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

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HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's practice to first use specifically designated restricted resources before using unrestricted resources.

Allowance for Doubtful Accounts

The District evaluates the collectability of water sales and grants receivable in order to determine the allowance for doubtful accounts. As of June 30, 2015, the District determined that the various receivables are fully collectible and recorded \$0 for the allowance for doubtful accounts. Based on historical experience, the District does not expect amounts to become uncollectible, however if they are, they will be charged to operations as a bad debt expense. The impact of any bad debt expense recorded in the future is expected to be immaterial to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, cash with a fiscal agent, and short-term highly liquid investments that are readily convertible to cash and mature within 90 days of the date acquired. Cash deposited in external investment pools are considered to be cash equivalents when deposits and withdrawals may be made at any time without prior notice or penalty. The District participates in two external investment pools: the Humboldt County Treasurer's Investment Pool and the Local Agency Investment Fund (LAIF).

LAIF is a fund for pooling surplus cash of local government agencies and is chartered and administered by the California State Treasurer's Office. LAIF has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to changes in interest rates.

The Humboldt County Treasurer's Investment Pool is administered by the County of Humboldt Treasurer's Office and conforms to the California Government Code. The County's portfolio normally consists of U.S. Treasury issues, U.S. Agency agreements, banker's acceptances, and the LAIF. All cash invested by the County in demand deposit accounts is collateralized to 110 percent with approved U.S. Government securities, such as Treasury Bills and other U.S. Treasury issues. Normal cash flow withdrawals for operations are paid on a "one dollar net asset value". Withdrawals of funds for another purpose, such as total withdrawal from the County Pool or for an alternative investment of funds, may be paid out based on fair market value at the County's discretion.

The District's investment policy does not restrict the amount the District may deposit with any one issuer and the policy states that all excess funds not required for immediate use be deposited with LAIF or the Humboldt County Treasurer's Investment Pool.

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015**

The District accounts for cash equivalents in the Humboldt County Treasurer's Investment Pool and the LAIF Pool at cost. Management considers the difference between book value and fair value immaterial. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Capital Assets

Capital assets are defined as assets with an initial cost of \$1,000 and projects costing \$5,000 or more. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets that individually may be below threshold amounts are capitalized if collectively they are above the threshold amount.

Additions to and replacements of capital assets are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction, when significant. The costs of betterments or repairs that extend the life of a capital asset are added to capital accounts.

Depreciation of all exhaustible capital assets is charged as an expense against operations, with accumulated depreciation reflected in the statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Dam, pipeline, buildings, water collection system, South Bay extension, Fieldbrook extension, Blue Lake extension, Lindley extension, Essex diversion, hydro plant penstock and piping	40 Years
Pump station and related facilities	10 - 40 Years
Hydro plant turbine and generators	20 Years
Tools and shop equipment, office equipment, pipeline connections, and hydro switchgear and controls	10 Years
Radio communication system and computers	5 Years
Vehicles	5 - 10 Years
Supplemental construction – except valves	40 Years
Supplemental construction – valves	20 Years

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Investments

The District's adopted investment policy seeks to promote the safety of principal, provide adequate liquidity for operational needs, earn market rates of return on investments consistent with liquidity needs and investment quality, and conform to legal requirements.

The District follows the authority governing investments for municipal governments set forth in the California Government Code, Sections 53601 through 53686. The Code authorizes the District to invest in obligations of the U.S. Treasury in the form of notes, bonds, bills or instruments for which the faith and credit of the United States are pledged for payment. The District may also invest in registered treasury notes, or bonds of the State of California and

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

commercial paper of "prime" quality as defined by California Government Code Section 53635 and as rated by Standard and Poors Corporation or Moody's Commercial Paper Record.

The District's investment policy states that the District will structure its portfolio to meet cash requirements for ongoing operations thereby avoiding the need to sell securities prior to their maturity. The policy does not place formal limits on investment maturities.

Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources represent a consumption of or an addition to net position that applies to a future period. These outflows and inflows will not be recognized as expenses and revenues until the appropriate period.

Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by creditors, grantors, laws, or regulations. The District has restricted net position for debt service, advance charges related to capital projects per contracts, and for revenue credits to the seven municipal customers per Ordinance 16 (see Notes 6, 9, 10 and 11).

Unrestricted net position - consists of all other net position that does not meet the definition of "net investment in capital assets" or "restricted net position" and is available for general use by the District. A net position deficit of \$691,150 exists at June 30, 2015. See Note 16 for further discussion.

Property Taxes

The lien date for secured property taxes is March 1 of each year. Taxes are levied as of July 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year. Humboldt County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling legislation.

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a 1% rate applied to the 1975-76 assessed value of the property, or on 1% of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and improvements) can rise at a maximum of 2% per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the District does not levy a specific tax rate but receives a share of the property tax revenue based on State formula. The District's tax rate is \$1.00/\$100 of assessed value, the maximum allowable under Proposition 13.

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015**

During fiscal year 1993-94, an alternate method of property tax allocation (the "Teeter Plan") was adopted by the County. Under this plan, the county auditor/controller distributes 100 percent of current secured taxes billed to taxing entities during the current year, whether collected or not. The District recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

Restricted Assets

Assets that are restricted as to withdrawal or use for other than current operations, for the liquidation of long-term debts or for expenditure in the acquisition or construction of capital assets are separately reported as restricted assets and not as current assets.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publically available reports that can be obtained at the CalPERS' website.

Postemployment Benefits other than Pensions

The District implemented GASB Statement No. 45 prospectively during the transition year ending June 30, 2010. The District records a liability on the Statement of Net Position for the difference between the amount the District contributes for retirees and the actuarially required contribution for funding postemployment benefits other than pension benefits. The District prepared a computation of the required contribution for the year ended June 30, 2015 (see Note 14).

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENT

Cash, cash equivalents, and investment at June 30, 2015, consist of the following:

Cash and cash equivalents:

Unrestricted:

U.S. Bank commercial checking (old)	\$ 1,105
U.S. Bank commercial checking (new)	436,585
Petty cash	650
LAIF	1,595
Humboldt County Treasurer's Investment Pool	<u>95,933</u>
Total unrestricted cash and cash equivalents	<u>535,868</u>

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

Restricted:	
U.S. Bank Money Market Account	159,840
U.S. Bank Money Market Account restricted for loan repayment	547,393
U.S. Bank "Prop 50" Capital Project Fund Account	294,155
Humboldt County Treasurer's Investment Pool	<u>2,419,797</u>
Total restricted cash and cash equivalents	<u>3,421,185</u>
 Total cash and cash equivalents	 <u>\$ 3,957,053</u>

The U.S. Bank commercial checking account balances are carried at cost. One of the U.S. Bank money market accounts is restricted for servicing the Safe Drinking Water State Revolving Fund (SRF) loan (see Note 9). The District transfers \$136,834 quarterly from a fund in the Humboldt County Treasurer's Investment Pool to the restricted U.S. Bank money market account. U.S. Bank, acting as a fiscal agent, administers the semiannual loan payments for a total annual payment of \$547,337.

Restricted cash and cash equivalents include restrictions imposed by creditors, grantors, laws, regulations, and designations imposed by the Board of Directors (see Note 10). Restricted cash and cash equivalents in the Humboldt County Treasurer's Investment Pool are as follows:

Restricted for debt service	\$ 47,822
Restricted for municipalities	422,289
Restricted for capital projects	<u>1,949,686</u>
Total restricted cash in County Investment Pool	<u>\$ 2,419,797</u>

At June 30, 2015, the balances in the U.S. Bank accounts exceeded federally insured limits by \$1,803,249. The amounts in government accounts held by U.S. Bank are collateralized at 110 percent by the Bank. The District has not experienced any losses in these accounts and management believes that the District is not exposed to any significant credit risk related to these accounts.

The District participates in two external investment pools: the Humboldt County Treasurer's Investment Pool and the LAIF. These investments are exempted from the credit risk categorization requirement because they are not securities.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable from customers at June 30, 2015, consist of the following:

Resale customers:	
City of Eureka	\$ 394,018
City of Arcata	80,648
Humboldt CSD	65,737
McKinleyville CSD	65,230
Others	<u>42,109</u>
Subtotal resale customers	647,742

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015**

Maintenance and operations charges to others	71,781
Domestic customers and others	42,410
Hydroelectric sales, Pacific Gas & Electric	11,385
Total accounts receivable	<u>\$ 773,318</u>

NOTE 4 - GRANTS RECEIVABLE, UNEARNED GRANT REVENUE, GRANT REVENUES AND GRANT EXPENSES

Federal Emergency Management Agency (FEMA)

The District was awarded a capital grant from FEMA to be used for the Techite pipeline seismic retrofit project. FEMA originally obligated \$2,185,178 in funds and has since granted the District's request for supplemental funding in the amount of \$610,000. The grant is administered by the California Office of Emergency Services (CalOES), formerly the California Emergency Management Agency (CalEMA). Federal funds are available for 75 percent of the total eligible costs of approximately \$3,700,000. Payments are made on a reimbursement basis with 10 percent retention withheld from each payment to be released at the project's closeout.

FEMA and California Department of Water Resources (CDWR)

The District plans to use funding from FEMA and CDWR to replace the District's pipeline that crosses over the Mad River to serve the City of Blue Lake and the Fieldbrook-Glendale Community Services District. The project cost is estimated to be \$3,500,000.

The District was awarded a Proposition 84 (Round 1) capital grant from CDWR via the North Coast Integrated Regional Water Management Plan (NCIRWMP) in the amount of \$700,000.

FEMA has approved a Phase One funding request for \$220,000, of which FEMA has obligated a 75% Federal share of \$165,000. These funds are available for eligible reimbursements which include a cultural resource survey and design plans. The District has until September of 2016 to complete Phase One. The grant is administered by CalOES.

Upon FEMA's determination of eligibility for construction funding, FEMA will consider the District's request to increase the project cost from \$2,800,000 (with a \$2,100,000 Federal share) to \$3,558,334 (\$2,668,750 Federal share).

CDWR

The District was awarded a Proposition 84 (Round 2) capital grant from CDWR via NCIRWMP in the amount of \$667,000 to be used to replace pipe laterals in Collectors 1 and 1A. The Proposition 84 Sub-Grantee Agreement for this grant was entered into on October 29, 2014. Construction is expected to begin in the spring of 2016 and completed in the fall of 2016.

California Department of Public Health (CDPH)

The District was awarded a Proposition 50 capital grant from CDPH not to exceed \$3,648,550 to be used for new water transmission interconnections (interties) between the participating jurisdictions to allow for water supply redundancy in the event of a supply line disruption. The grant is administered by the State Water Resources Control Board (SWRCB). Payments are made on a reimbursement basis with 5% retention withheld only on the claims that the District has withheld 5% from the contractor. There is no requirement that the District provide matching funds.

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HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

Grants Receivable

Grants receivable for the year ended June 30, 2015, consist of the following:

CalOES Techite project	\$ 279,518
CalOES Blue Lake project	20,608
SWRCB Interties project	186,221
CDWR Blue Lake project	<u>32,585</u>
Total grants receivable	<u>\$ 518,932</u>

The CalOES Techite project grant receivable includes \$279,518 of retentions on claims submitted from April 2012 through June 2015. The CalOES Blue Lake project grant receivable includes \$10,341 of retentions on claims submitted from April 2014 through June 2015. The CDWR Blue Lake project grant receivable includes \$1,629 of retentions on claims submitted from December 2014 through June 2015. The SWRCB grant receivable at includes \$125,838 of retentions on claims submitted from January 2014 through June 2015. As of June 30, 2015, the District has recorded contract retentions payable of \$125,838 for amounts withheld from payments to one of the contractors providing services on the Proposition 50 grant funded interties project.

Unearned Grant Revenue

In May 2012, the District received an administrative share allowance of \$40,136 from CalOES for the Techite pipeline project. During the year ended June 30, 2014, the District received an additional administrative allowance of \$8,138.

For the year ended June 30, 2015, grant administrative expenses incurred and thus earned were \$3,316.

For the year ended June 30, 2015, unearned grant revenue was \$30,005.

Grant Revenues

Grant revenues for the year ended June 30, 2015, consist of the following:

CalOES Techite project	\$ 2,290,175
CalOES Blue Lake project	58,887
SWRCB Interties project	780,743
CDWR Blue Lake project	<u>32,585</u>
Total grant revenues	<u>\$ 3,162,390</u>

Grant Expenses

As outlined in a special facilities agreement between the participating jurisdictions, the District has the right and obligation to complete the interties project funded by the Proposition 50 capital grant. For the year ended June 30, 2015, the District transferred portions of the constructed property to the City of Arcata and the McKinleyville Community Services District. Amounts transferred to the City of Arcata and the McKinleyville Community Services District are \$1,528,119 and \$973,706, respectively.

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HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

The transfer is considered to be a voluntary nonexchange transaction and as such, grant expenses and the related liability are recognized in the period when the grantor approves the costs as eligible. The District incurred \$780,743 in eligible intertie construction costs during the year ended June 30, 2015. The District has recognized \$337,671 as grant expenses, a related liability labeled property transfer payable, and as a current asset labeled property to be transferred (see Notes 6 and 8). The asset and related liability were eliminated when the property ownership was transferred to the City of Arcata and the McKinleyville Community Services District during the year.

NOTE 5 - LAND

Land at June 30, 2015, consists of land and land rights of the General District, South Bay Water extension, and District No. U-1. There were no changes in land during the year ended June 30, 2015.

NOTE 6 - PROPERTY AND EQUIPMENT

Changes in property and equipment during the year ended June 30, 2015, are as follows:

	Balance 06/30/14	Additions	Deletions	Balance 06/30/15
Buildings	\$ 1,221,352	\$ 261,892	\$ -	\$ 1,483,244
Equipment:				
Automotive	864,968	98,269	-	963,237
Mobile	462,661	53,229	-	515,890
Office	445,395	16,887	(6,461)	455,821
Radio communications	84,775	-	-	84,775
Tools & shop	422,846	22,053	(47,090)	397,809
Water System Infrastructure:				
Blue Lake extension	13,808	-	-	13,808
Fieldbrook extension	300,559	-	-	300,559
Lindley extension	11,995	-	-	11,995
South Bay water extension	1,490,263	-	-	1,490,263
Essex diversion	7,549,757	52,452	-	7,602,209
Idled industrial pump station	482,819	-	-	482,819
Meters	143,607	-	-	143,607
Pipeline	6,575,392	4,225,727	-	10,801,119
Pumping plant	4,152,131	697,534	-	4,849,665
Storage tank	1,352,300	-	-	1,352,300
Water treatment facility	11,302,573	45,669	-	11,348,242
Ruth Lake Infrastructure:				
Ruth dam & works	7,096,523	-	-	7,096,523
Ruth hydroelectric plant	3,346,347	-	-	3,346,347
Ruth Lake fishing access	118,041	-	-	118,041
District No. U-1:				
Supplemental development	5,354,898	-	-	5,354,898

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
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For the year ended June 30, 2015

Total property & equipment	52,793,010	5,473,712	(53,551)	58,213,171
Accumulated depreciation	<u>(36,817,763)</u>	<u>(1,056,242)</u>	<u>17,512</u>	<u>(37,856,493)</u>
Net property & equipment	15,975,247	4,417,470	(36,039)	20,356,678
Projects in progress	<u>1,597,849</u>	<u>717,030</u>	<u>(1,278,172)</u>	<u>1,036,707</u>
Total property & equipment, net	<u>\$ 17,573,096</u>	<u>\$ 5,134,500</u>	<u>\$ (1,314,211)</u>	<u>\$ 21,393,385</u>

Total depreciation expense charged to operations for the year ended June 30, 2015, was \$1,056,242. All capital assets are depreciable except land and projects in progress.

The Hilfiker Pump Station No. 6 is a direct diversion facility at Essex that supplies industrial water. The pump station was idled on May 1, 2009. The carrying value of the idled industrial pump station is \$125,643 as of June 30, 2015. The remainder of the industrial system is fully depreciated. The idled industrial pump station may potentially be put back into service.

Constructed property in the amount of \$2,501,825 transferred to other jurisdictions was recognized as a current asset until the date of transfer (see Note 4).

A forklift with a cost of \$36,039 was transferred between tools and shop equipment and mobile equipment during the year.

Net investment in capital assets as of June 30, 2015, consist of the following:

Land	\$ 1,371,972
Projects in progress	1,036,707
Property & equipment, net	20,356,678
Current portion of notes payable	(685,092)
Notes payable, net	<u>(4,930,551)</u>
Total net investment in capital assets	<u>\$ 17,149,714</u>

Net position restricted for capital projects as of June 30, 2015, consist of the following:

Municipal customer advance charges for Ranney projects	\$ 975,251
Restricted for Ranney projects	<u>294,155</u>
Total net position restricted for capital projects	<u>\$ 1,269,406</u>

NOTE 7 - ACCRUED ABSENCES

Accrued absences consist of estimates of future obligations relating to accumulated unpaid vacation and sick leave compensation. There are predetermined limits to the amount of vacation and sick leave hours that can be accumulated by an employee. The District will pay the employee at the end of each calendar year for any excess vacation time accumulated that year.

Upon retirement, an employee will receive compensation for unused accumulated vacation. The employee also has the option under the District's California Public Employees' Retirement System (CalPERS) contract to convert 100% of the unused sick leave accrual to CalPERS service credit, or to receive a 35% cash payment and convert the remainder to CalPERS service credit. However, if an employee with less than ten years of employment terminates or retires, the unused accumulated sick leave is not eligible for compensation or CalPERS service credit conversion. Accrued absences as of June 30, 2015, consist of the following:

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Accrued vacation	\$ 141,935
Accrued sick leave	<u>130,002</u>
Total accrued absences	<u>\$ 271,937</u>

NOTE 8 - PROJECT ADVANCES FROM MUNICIPAL PARTNERS

The District has had to pay significant construction costs on the multijurisdictional interties project before being reimbursed by the grantor. To help the District cover the cash shortfalls, the City of Arcata and the McKinleyville Community Services District have advanced funds to the District which were repaid when the project was completed. At June 30, 2015, all project advances have been repaid.

NOTE 9 - LONG-TERM NOTES PAYABLE

California Safe Drinking Water State Revolving Fund (SRF) Note

The District has a loan with the California Department of Water Resources (acting on behalf of the California Department of Health Services) under the provisions of the California SRF Law of 1997. The proceeds of the SRF loan were used to finance the construction of the Turbidity Reduction Facility. The loan, which matures in January of 2024, carries no interest and has a repayment term of 20 years. The District pays \$547,337 annually in two semiannual payments. A U.S. Bank money market account is restricted for servicing the loan. The debt service for the loan is paid in its entirety by the District's municipal customers. Future debt service on the loan is:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 547,337	\$ -	\$ 547,337
2017	547,337	-	547,337
2018	547,337	-	547,337
2019	547,337	-	547,337
2020	547,337	-	547,337
2021 to 2024	<u>1,915,678</u>	-	<u>1,915,678</u>
Total	4,652,363	-	4,652,363
Due within one year	<u>(547,337)</u>	-	<u>(547,337)</u>
Due after one year	<u>\$ 4,105,026</u>	<u>\$ -</u>	<u>\$ 4,105,026</u>

Water System Improvement Loan

The District has a loan, which matures in September of 2021, with Municipal Finance Corporation (MFC) to finance various capital improvements to the water supply system. Under the ten-year installment sales agreement, the District is obligated to pay semiannual installment payments of principal and interest at the rate of 2.63% per annum on the unpaid principal balance. MFC assigned its rights to receive and enforce the payments under the agreement to US Bank. The debt service for the loan is paid in its entirety by the District's municipal water customers. Future debt service on the loan is:

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Year Ending June 30	Principal	Interest	Total
2016	\$ 137,755	\$ 24,433	\$ 162,188
2017	141,401	20,787	162,188
2018	145,145	17,043	162,188
2019	148,987	13,201	162,188
2020	152,931	9,257	162,188
2021 to 2022	<u>237,061</u>	<u>6,222</u>	<u>243,283</u>
Total	963,280	90,943	1,054,223
Due within one year	<u>(137,755)</u>	<u>(24,433)</u>	<u>(162,188)</u>
Due after one year	<u>\$ 825,525</u>	<u>\$ 66,510</u>	<u>\$ 892,035</u>

Notes payable as of June 30, 2015, consists of the following:

SRF Note	\$ 4,652,363
MFC Note	<u>963,280</u>
Total notes payable	5,615,643
Less current portion	<u>(685,092)</u>
Total notes payable, net	<u>\$ 4,930,551</u>

Net position restricted for debt service for the years ended June 30, 2015 was \$707,178.

NOTE 10 - NET POSITION

Restrictions on net position are imposed by creditors, grantors, laws, and regulations. Unrestricted net position as of June 30, 2015, has a deficit balance due to the impact of GASB 68 (See Note 16).

Restrictions on net position as designated by the Board of Directors are reported as unrestricted net position. Since the unrestricted net position has a deficit balance for the year ended June 30, 2015, designations of net position are not appropriate.

NOTE 11 - WHOLESALE WATER CONTRACTS

The District is primarily a wholesale water provider. The District's Ordinance 16 as amended in June 2006 establishes rates, charges, and conditions of service for water sales to the municipal water customers. The costs of constructing, operating, maintaining, repairing and replacing the water treatment facilities and maintaining reasonable reserves are allocated among the municipal customers.

The District has long-term contracts with its wholesale customers that govern wholesale rates, charges and conditions of service. The District has twenty-year contracts, effective July 1, 1999, in place with the following wholesale municipal customers:

- City of Arcata
- City of Blue Lake
- City of Eureka
- Fieldbrook-Glendale Community Services District

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
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For the year ended June 30, 2015

- Humboldt Community Services District
- McKinleyville Community Services District
- Manila Community Services District

All operating, maintenance, and capital costs associated with the regional water system are paid for by the wholesale customers. The rate structure is based on "Price Factor" formulas which allocate, in proportionate shares, the operating, maintenance and capital costs of the District to each of the wholesale customers. Municipal customers are billed monthly for water usage based on their share of such operating, maintenance and capital costs.

Revenues received by the District, other than those associated with wholesale water sales, are credited back to the wholesale municipal customers. These revenues include property tax revenues, power sales, interest income, retail water service revenues and other miscellaneous revenues. The revenue credit is applied ratably on a monthly basis during the course of the year.

The seven wholesale municipal customers are initially billed based on the District's approved budget, with the costs spread out evenly across the fiscal year. At year-end, the budgeted costs are reconciled with actual costs. Any underpayments or overpayments are divided into even monthly installments and applied to the municipalities' billing during the course of the following year.

The District had a contract with Evergreen Pulp, Inc., to supply wholesale industrial and retail water which was cancelled when the mill was sold in February 2009. The mill had been charged based on actual costs as incurred. The mill had been paying 45% of the District's operation, maintenance, and capital expenditure costs associated with all aspects of the regional water supply except for the drinking water treatment. Beginning April 1, 2009, costs were shifted to the seven municipal customers. Whereas the municipalities had previously been paying 55% of costs, they currently pay 100%.

During the fiscal year ended June 30, 2009, the contracts with the municipal customers were amended to provide greater specificity regarding remedies in the event of inaccuracies due to metering equipment. The contracts were also amended to allow the District to retain \$393,358 in overpayments due to the municipal customers as of June 30, 2009. The overpayments were placed into the Municipal Supplemental Reserve Account dedicated for municipal customer purposes and benefit. The account is normally designated as a partially restricted reserve per Board of Director's policy; however, due to the deficit balance of unrestricted net assets, designations are not appropriate for the year ended June 30, 2015 (see Note 10). As of June 30, 2015, the reserve account had a balance of \$414,785.

As of June 30, 2015, the municipal customers overpaid \$395,581, for operating, maintenance, and capital costs. Overpayments in the amount of \$346,435 were credited to the municipalities' 2014/2015 billings. Overpayments in the amount of \$395,581 will be credited to the municipalities' 2015/2016 billings. As of June 30, 2015, there were additional credits to the municipalities in the amount of \$7,504. At June 30, 2015, total net position restricted for credits to the municipalities was \$403,085.

The municipal water customers may be charged in advance in order to fund future capital projects. For the year ended June 30, 2015, the municipal customers had balances in advance charges of \$975,251 for improvement projects (see Note 6).

Additions to the District's general reserves may be charged to the wholesale customers should the District need to replenish its general reserve level. For the year ended June 30, 2015, the District charged the wholesale customers \$100,000.

NOTE 12 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employee or other beneficiary) placed in trust for the benefit of the participants or their beneficiaries, and are not the assets of the District.

Effective January 1, 2013, the District contributes \$25 for each employee who is not currently participating in the deferred compensation program. The District will provide a contribution match of up to \$50 per month for employees who are participating in the deferred compensation program.

The District has a fiduciary responsibility to the participating employees in administration of the plan, but is not liable for losses arising from depreciation or other declines in the value of the plan assets.

NOTE 13 - RETIREMENT PLAN

General Information about the Pension Plan

Plan Description

All qualified full-time and part-time employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information. These reports can be obtained at CalPERS' website (www.calpers.ca.gov) under "Forms and Publications".

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members hired prior to January 1, 2013 with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013 with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

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The Plan's provisions and benefits in effect at June 30, 2015 are summarized as follows:

Hire date	Prior to January 15, 2011	January 15, 2011 through December 31, 2012	On or After January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.10% to 2.5%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	6.891%	6.891%	6.891%
Required employer contribution rates	13.741%	13.741%	13.741%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate is 6.891 percent of annual pay, and the employer's contribution rate is 13.741 percent of annual payroll. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer \$ 229,022

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability in the amount of \$1,969,634.

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the Plan relative to the projected

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 was as follows:

	<u>CalPERS</u>
Proportion - June 30, 2013	0.0781%
Proportion - June 30, 2014	<u>0.0797%</u>
Change - Increase (Decrease)	<u>0.0016%</u>

For the year ended June 30, 2015, the District recognized pension expense of \$190,051. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 253,791	
Differences between the employer's contributions and the employer's proportionate share of contributions	7,839	
Change in employer's proportion		434
Net differences between projected and actual earnings on plan investments		\$ 558,820
Total	<u>\$ 261,630</u>	<u>\$ 559,254</u>

\$253,791 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>Increase (Decrease) Pension Expense</u>
2016	\$ (137,061)
2017	(137,061)
2018	(137,588)
2019	(139,705)
2020	-
Thereafter	-
Total	<u>\$ (551,415)</u>

Actuarial Assumptions

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability for the Plan was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities for the Plan were based on the following actuarial assumptions:

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Actuarial Cost Method	Entry-age normal cost method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.5% (a)
Mortality	Derived using CalPERS's membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor applies, 2.75% thereafter

(a) - Net of pension plan investment expense, including inflation

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. Further details of the Experience Study can found on the CalPERS website (www.calpers.ca.gov) under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website (www.calpers.ca.gov) under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS deemed this difference to be immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in these calculations.

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NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) - An expected inflation of 2.5% used for this period.

(b) - An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate less 1% <u>6.5%</u>	Current Discount <u>7.5%</u>	Discount Rate plus 1% <u>8.5%</u>
Net pension liability	\$ 3,310,216	\$ 1,969,634	\$ 857,078

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Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports available on CalPERS' website (www.calpers.ca.gov) under Forms and Publications.

Payable to the Pension Plan

At June 30, 2015, the District reported a payable in the amount of \$33,103 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District provides a defined benefit healthcare plan (the "Retiree Health Plan"). The District pays a certain percentage of eligible retirees' actual costs subject to a maximum of \$640 per month.

The duration of retiree benefits provided by the District depends on the date an employee was hired by the District. For all full-time regular employees hired by the District prior to July 8, 2004, the District will pay the medical costs premium during the life of a retired subject to a maximum of \$640 per month.

For all full-time regular employees hired by the District after July 8, 2004, the District will pay 100% of the medical cost premium during retirement, subject to a maximum of \$640 per month, for a maximum of 10 years or until the retiree reaches age 65, whichever comes first.

Funding Policy

The District's Board of Directors will not be funding the plan in the current year but will follow a pay-as-you-go approach. The Board will review the funding requirements and policy annually.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 30 years.

The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

	<u>2015</u>
Annual required contribution	\$ 227,019
Interest on net OPEB obligation	34,226
Adjustment to annual required contribution	<u>(32,432)</u>
Annual OPEB cost (expense)	228,813

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
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Estimated contributions made:	
Premiums paid	(61,814)
Implicit subsidy contributions	(32,216)
Increase in net OPEB obligation	134,783
Net OPEB obligation - beginning of year	624,218
Net OPEB obligation - end of year	<u>\$ 759,001</u>
Current OPEB obligation	\$ 67,311
Noncurrent OPEB obligation	691,690
Total OPEB obligation	<u>\$ 759,001</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Amount Contributed</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2015	\$ 228,813	\$ 61,814	27%	\$ 759,001
June 30, 2014	\$ 228,416	\$ 57,551	26%	\$ 624,218
June 30, 2013	\$ 228,013	\$ 57,743	25%	\$ 484,631

Funding Status and Funding Progress

As of July 1, 2012, the actuarial accrued liability (AAL) for benefits was \$2,413,787, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 59, or at the first subsequent year in which the member would qualify for benefits.

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

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For the year ended June 30, 2015**

Mortality - Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover - The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

Healthcare cost trend rate - Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment. The ultimate trend rate was 3%.

Health insurance premiums - 2012 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.

Medicare Coordination - Medicare was assumed as the primary payer for current and future retirees at age 65.

Payroll increase - Payroll for current employees is expected to increase at the rate of approximately 2.8% annually.

Discount rate - The calculation uses an annual discount rate of 5.5%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method - The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2012, was twenty-seven years.

Plan for Funding

On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

The schedule of funding progress, presented as required supplemental information following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial liabilities for benefits.

NOTE 15 - RISK MANAGEMENT

The District 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 risk of loss is variable as to the deductible amount per occurrence. Liability losses up to \$1 million and property losses up to \$50,000, are covered through a pooled self-insurance program, administered by the Association of California Water Agencies – Joint Powers Insurance Authority (ACWA-JPIA). Through participation in ACWA-JPIA, the District is covered by commercial liability insurance for losses in excess of \$1 million, up to an insured maximum of

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

\$60 million. Separately, the District insures for property damages in excess of the pooled limit of \$1 million, with commercial insurance for losses up to \$100 million.

The ACWA-JPIA began operations on October 1, 1979, and has continued without interruption since that time. The District is one of approximately two hundred and eighty-eight districts participating in the pool. The responsibilities of the ACWA-JPIA and the District are as follows:

Responsibilities of the ACWA-JPIA:

- a. Provide insurance coverage as necessary.
- b. Assist members in obtaining insurance coverage for risks not included within the coverage of the ACWA-JPIA.
- c. Assist each member's designated risk manager with the implementation risk management function.
- d. Provide loss prevention and safety consulting services to members as required.
- e. Provide claims adjusting and subrogation services for claims covered by the ACWA-JPIA's joint protection programs.
- f. Provide loss analysis and control in order to identify high exposure operations and to evaluate proper levels of self-retention and deductibles.
- g. Review members' contracts to determine sufficiency of indemnity and insurance provisions when requested.
- h. Conduct risk management audits to review the participation of each member in the programs.
- i. The ACWA-JPIA shall have such other responsibilities as deemed necessary by the Board of Directors and Executive Committee (of the ACWA-JPIA).

Responsibilities of the District:

- a. The governing board of each member district shall appoint a representative and at least one alternate representative to the Board of Directors.
- b. Each member shall appoint an employee of the member to be responsible for the risk management function within that member and serve as a liaison between the member and the ACWA-JPIA as to risk management.
- c. Each member shall maintain an active safety officer and/or committee, and shall consider all recommendations of the ACWA-JPIA concerning unsafe practices.
- d. Each member shall maintain its own set of records, including a loss log, in all categories of risk covered by the joint protection program to insure accuracy of the ACWA-JPIA's loss reporting system.

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HUMBOLDT BAY MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2015

- e. Each member shall pay its deposit premium and premium adjustments within thirty days of the invoice date.
- f. Each member shall provide the ACWA-JPIA with such other information or assistance as may be necessary for the ACWA-JPIA to carry out the joint protection programs.
- g. Each member shall cooperate with and assist the ACWA-JPIA, and any insurer of the ACWA-JPIA, in all matters and covered claims and will comply with all bylaws, rules and regulations adopted by the Board of Directors and Executive Committee of the ACWA-JPIA.

There have been no significant reductions in insurance coverage from the prior year. The amounts of settlements have not exceeded the insurance coverage in each of the past three fiscal years.

NOTE 16 - PRIOR YEAR ADJUSTMENT FOR PENSION LIABILITIES

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during the fiscal year ended June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Proprietary Fund
Net Position at June 30, 2014 as previously reported	\$ 17,171,011
Net Pension liability at June 30, 2014	(2,561,635)
Change in outflows of resources related to contributions made after the June 30, 2014 measurement date	230,637
Net position June 30, 2014 as restated	\$ 14,840,013

The combination of the prior year and current year pension liability adjustments under GASB No. 68 caused the Unrestricted Net Position to be a deficit balance of \$691,150 for the year ended June 30, 2015.

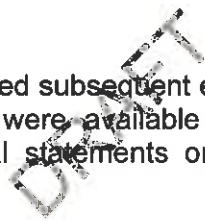
NOTE 17 - CONTINGENCIES

The District receives, on a cost-reimbursement basis, federal and state funds to carry out a variety of projects and studies. As a recipient of federal and state funds, the District is responsible for maintaining an internal control structure that ensures compliance with all laws and regulations related to these programs. All federal and state program expenditures are subject to financial and compliance audits by the awarding agency. In addition, federal funds are subject to an annual audit process in accordance with OMB Circular A-133. Such audits could result in claims against the District for disallowed costs or noncompliance with contract provisions. No provision has been made for any liabilities which may arise from the noncompliance or questioned costs since the amounts, if any, cannot be determined at this time.

On January 27, 2016, CalOES issued a draft audit letter questioning \$378,404 of costs relating to Federal Hazard Mitigation Grant Program funds for the Techite project. The District believes that the findings from the 2012 audit causing the questioned costs have been resolved. Additionally, the District believes that other District matching costs will qualify for funding under terms of the grant if the \$378,404 of questioned costs is ultimately determined to be disallowed. The outcome of this audit is not known at the date the audit report was issued.

NOTE 18 – SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through February 22, 2016, which is the date the financial statements were available to be issued, and concluded that no additional adjustments to the financial statements or disclosures are required for the year ending June 30, 2015.



REQUIRED SUPPLEMENTARY INFORMATION

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**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SCHEDULE OF THE LOCAL GOVERNMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
As of June 30, 2015**

	<u>2015</u>
Proportion of the net pension liability	0.03165%
Proportionate share of the net pension liability	\$ 1,969,634
Covered - employee payroll	\$ 1,644,389
Proportionate share of the net pension liability as a percentage of covered-employee payroll	119.78%
Plan's fiduciary net position	\$ 8,135,555
Plan fiduciary net position as a percentage of the total pension liability	80.51%

NOTE 1 - CHANGES IN BENEFITS AND ASSUMPTIONS

Benefit changes - There were no changes to benefit terms.

Changes in assumptions - There were no changes in assumptions.

NOTE 2 - TEN YEAR TREND SCHEDULE

The year ended June 30, 2015 was the first year of implementation for GASB 68, therefore, only one year of trend information is shown.

DRAFT

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
As of June 30, 2015**

	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 229,022
Contributions in relation to the actuarially determined contributions	(229,022)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 1,644,389
Contributions as a percentage of covered- employee payroll	13.93%

NOTE 1 - VALUATION DATE

Valuation date: June 30, 2013

NOTE 2 - METHODS AND ASSUMPTIONS

Methods and assumptions used to determine contributions rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years (a)
Asset valuation method	Smoothed value
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.5% net of pension plan investment expense, including inflation
Retirement age	60 years
Mortality	CalPERS Mortality Experience Study

(a) - Actuarial policy ACT-96-0SE specifies that all changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition, all gains or losses are tracked and the net unamortized gain or loss is amortized as a rolling 30-year amortization with the exception of gains and losses in fiscal years 2008-09, 2009-10 and 2010-11 in which each years' gains or losses will be isolated and amortized over fixed and declining 30-year periods (as opposed to the current rolling 30-year amortization). Also, if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability. Finally, all plans are subject to a minimum employer contribution rate equal to the employer normal cost plus a 30-year amortization of surplus, if any.

NOTE 3 - TEN YEAR TREND SCHEDULE

The year ended June 30, 2015 was the first year of implementation for GASB 68, therefore, only one year of trend information is shown.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
As of June 30, 2015

Actuarial Valuation Date	Actuarial Accrued Liability Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of Payroll ([a-b]/c)
July 1, 2012	\$ 2,413,787	\$ -	\$ 2,413,787	0%	\$ 1,567,071	154.0%
July 1, 2009	\$ 1,994,945	\$ -	\$ 1,994,945	0%	\$ 1,520,676	131.2%

NOTE 1 - SCHEDULE DESCRIPTION

The District sponsors a defined benefit postemployment healthcare plan (the Plan) to subsidize healthcare benefits to eligible retired employees. The above schedule presents information about the funded status for the Plan's two actuarial valuations.

NOTE 2 - ACTUARIAL VALUATIONS

Actuarial valuations of an on-going plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Information regarding the actuarial methods and assumptions for the July 1, 2012 actuarial valuation can be found in Note 14 of the basic financial statements. The next actuarial valuation will be performed during the year ended June 30, 2016.

OTHER SUPPLEMENTARY INFORMATION

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1315 Fourth Street
Eureka, California 95501

Hunter, Hunter & Hunt, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Members of the AICPA

Phone 707-476-0674
Fax 707-476-0675
www.hhh-cpa.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Humboldt Bay Municipal Water District

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 as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts, the financial statements of the business-type activities of Humboldt Bay Municipal Water District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated February 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider deficiency 2015-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

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. We consider deficiencies 2015-002 to 2015-004 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 22, 2016

DRAFT

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors
Humboldt Bay Municipal Water District

Report on Compliance for Each Major Federal Program

We have audited the Humboldt Bay Municipal Water Districts' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each or its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-004. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-004 to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

February 22, 2016

DRAFT

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015**

Federal Agency, Pass-through Agency/ Program or Cluster Title	Pass-through Agreement #	CFDA #	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
Federal Emergency Management Agency			
Pass-through from CA Governor's Office of Emergency Services Hazard Mitigation Grant Program	1731-35-53	97.039	\$ 2,290,175
Federal Emergency Management Agency			
Pass-through from CA Governor's Office of Emergency Services Hazard Mitigation Grant Program	1911-09-09R	97.039	58,887
Total U.S. Department of Homeland Security			<u>2,349,062</u>
Total Expenditures of Federal Awards			<u>\$ 2,349,062</u>

NOTE 1 - BASIS OF PRESENTATION

The above schedule includes the federal award activity of the Humboldt Bay Municipal Water District for the year ended June 30, 2015. The information in this schedule is presented in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

SECTION J2c, PAGE NO. 56

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiencies identified not considered to be material weakness(es)? X Yes None reported

Noncompliance material to financial statements noted: Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified not considered to be material weaknesses? X Yes None reported

Type of auditor's report issued: Unqualified

Any audit findings disclosed that are required to be Reported in accordance with Circular A-133, Section .510(a) of OMB Circular A-133 X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.039	Hazard Mitigation Grant Program

Dollar threshold used to distinguish between Types A and B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

SECTION II - FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENT AUDIT

Finding 2015-001

Criteria - Expenditures incurred during the prior fiscal year but paid in the current fiscal year should not be recorded as current fiscal year accounts payable. All contract payments held in retention by the District at the fiscal year-end should be recorded as current fiscal year contract retentions payable. Capital additions should be recognized in the same period in which the expenditures (including amounts retained from payment) are incurred.

Condition - For the year ended June 30, 2015, the District did not remove \$407,970 of contract expenditures from accounts payable and fixed assets, and did not properly record \$125,838 in amounts retained from contract payments as contract retentions payable.

Cause - The District maintains the accounting records on a cash basis during the fiscal year. The accounting records are converted to accrual basis at year-end. The District's internal controls over financial reporting did not identify the misstatements in a timely manner.

Effect or Potential Effect - Although the potential effect of the material weakness would be to overstate accounts payable by \$407,970, overstate fixed assets by \$407,970 understate contract retentions payable by \$125,838, and overstate accounts payable by \$125,838, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that the year-end closing procedures include a thorough examination and review of all expenditures and contract retentions to ensure that they are accounted for in the proper period.

Actions Taken - District management reviewed the auditor's findings and respectfully provided the following in response:

Management and the accounting staff have reviewed the internal accounting control procedures relating to grant revenue accrual including retention for proper recording in the financial records to ensure that they are accounted for in the proper period. As mentioned above, the items noted by the auditor were corrected and there was no effect upon the financial statements issued.

This finding is considered a material weakness.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

Finding 2015-002

Criteria – The District should properly verify and allocate the value of fixed assets transferred to other municipalities.

Condition – Transfers to municipalities for fixed assets constructed as part of the Intertie project were correct in total, but the amounts transferred to each municipality were incorrect.

Cause - Management did not properly review the individual municipality transfers or confirm balances with engineers and the receiving municipalities.

Effect or Potential Effect - Although the potential effect of the significant deficiency would have no effect upon the financial statements issued, the receiving municipalities could have misstated values of the fixed assets received.

Recommendation - We recommend that management confirm the valuations of fixed assets to be transferred with appropriate professionals and the affected municipalities.

Actions Taken - District management and accounting staff reviewed the auditor's findings and respectfully provided the following in response:

Management and the accounting staff have reviewed its internal accounting control procedures relating to valuing fixed assets. The situation of asset transfers to other municipalities was unique to the Prop 50 Intertie Grant construction project and most likely will not re-occur in the near future. However, staff will endeavor to ensure that proper allocations are performed and communicated to other municipalities. Coordination with the other municipalities did occur once the issue was identified. As mentioned above, the items noted by the auditor were corrected and there was no effect upon the financial statements issued.

This finding is considered a significant deficiency.

SECTION J2C PAGE NO. 59

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

Finding 2015-003

Criteria - The District should prepare a depreciation schedule that is reconciled to the capital asset account balances and depreciation expense should be calculated.

Condition - The asset addition and deletion schedules prepared by management did not include all capital additions. As a result, the cost basis of the assets according to the schedules did not match the capital asset account balances according to the general ledger. Depreciation expense was not calculated.

Cause - Management did not prepare a depreciation schedule. The asset additions report that management used to prepare the depreciation schedule was not complete. Management did not calculate depreciation expense.

Effect or Potential Effect - Although the potential effect of the significant deficiency would be a difference of \$503,501 in the asset cost basis according to the depreciation schedule compared to the asset cost basis according to the general ledger, as well as the omission of depreciation expense. The items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that management create a depreciation schedule that reconciles the asset costs to the capital asset account balances, as well as calculating depreciation expense and accumulated depreciation.

Actions Taken - District management and accounting staff reviewed the auditor's findings and respectfully provided the following in response:

Management and the accounting staff have reviewed the internal accounting control procedures relating to the preparation and reconciliation of the depreciation schedule and capital account balances to ensure that proper reconciliations are performed. As mentioned above, the items noted by the auditor were corrected and there was no effect upon the financial statements issued.

This finding is considered a significant deficiency.

SECTION 12c, PAGE NO. 60

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

Finding 2015-004

Criteria - The District should reconcile grant revenues recorded in the general ledger to the detail of grant activity maintained outside of the general ledger.

Condition – Grant funds received to reimburse costs incurred by other municipalities were recorded as revenue, and previously unearned revenue earned for administrative expenses was not recorded in the general ledger.

Cause - Management did not prepare a complete reconciliation of grant activity for each grant that provided for timely and detailed identification of reimbursements and unearned grant revenue balances.

Effect or Potential Effect - Although the potential effect of the significant deficiency would be an overstatement of state grant revenue of \$10,545 from reimbursements to outside agencies, and an understatement of federal grant revenue for \$3,316 from administrative costs, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that management track grant activity in a manner that easily allows for complete tracking of revenues and expenses.

Actions Taken - District management and accounting staff reviewed the auditor's findings and respectfully provided the following in response:

Management and the accounting staff have reviewed and updated its internal accounting control procedures relating to the grant revenues reconciliation to ensure that a more thorough review of the grant revenues reconciliations is performed. As mentioned above, the items noted by the auditor were corrected and there was no effect upon the financial statements issued.

This finding is considered a significant deficiency.

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

See Finding 2015-004. This finding is considered a significant deficiency and relates to the major programs as follows:

U.S. Department of Homeland Security
Hazard Mitigation Grant Program - CFDA No. 97.039
Grant Period - 2/13/12 to 10/07/15

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SECTION J2C PAGE NO. 62

**HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014**

Finding 2014-001

Criteria - Expenditures incurred during the current fiscal year but paid in the following fiscal year should be recorded as current fiscal year accounts payable. All contract payments held in retention by the District at the fiscal year-end should be recorded as current fiscal year contract retentions payable. Capital additions should be recognized in the same period in which the expenditures (including amounts retained from payment) are incurred.

Condition - For the year ended June 30, 2014, the District did not recognize \$407,970 of contract expenditures as accounts payable and property to be transferred, and did not record \$95,531 in amounts retained from contract payments as contract retentions payable and property to be transferred.

Cause - The District maintains the accounting records on a cash basis during the fiscal year. The accounting records are converted to accrual basis at year-end. The District's internal controls over financial reporting did not identify the misstatements in a timely manner.

Effect or Potential Effect - Although the potential effect of the material weakness would be to understate accounts payable by \$407,970, understate contract retentions payable by \$95,531, understate property to be transferred by \$503,501, understate property transfer payable by \$503,501, and understate grant expenses by \$503,501, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that the year-end closing procedures include a thorough examination and review of all expenditures and contract retentions to ensure that they are accounted for in the proper period.

Current Status - Partially Implemented. See current year finding 2015-001.

SECTION J2C PAGE NO. 63

HUMBOLDT BAY MUNICIPAL WATER DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2014

Finding 2014-002

Criteria - Bank reconciliations at the end of the fiscal year should be prepared for all cash accounts.

Condition - Bank reconciliations at year-end were requested but not provided to the auditors for the cash accounts held with the Humboldt County Treasurer's Pooled Investment Fund. It appeared that the reconciliations were not performed.

Cause - Management did not provide a bank reconciliation for the Humboldt County Treasurer's Pooled Investment Fund. Audit procedures identified a significant error in the ending cash balance of the fund that could have been identified if a bank reconciliation had been prepared.

Effect or Potential Effect - Although the potential effect of the significant deficiency would be to understate cash equivalents by \$58,395 and understate tax revenues by the same amount, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that management provide all bank reconciliations for all cash accounts.

Current Status - Implemented.

Finding 2014-003

Criteria - The depreciation schedule should be reconciled to the capital asset account balances.

Condition - The depreciation schedule prepared by management had mathematical inaccuracies and did not include all capital additions. As a result, the cost basis of the assets according to the depreciation schedule did not match the capital asset account balances according to the general ledger, and depreciation expense was understated in the general ledger.

Cause - Management did not reconcile the depreciation schedule to the capital asset account balances. The asset additions report that management used to prepare the depreciation schedule was not complete. Audit procedures identified significant differences that could have been identified if a reconciliation had been prepared.

Effect or Potential Effect - Although the potential effect of the significant deficiency would be a difference of \$146,800 in the asset cost basis according to the depreciation schedule compared to the asset cost basis according to the general ledger, as well as an understatement of \$1,500 in depreciation expense, the items noted above were corrected, so there is no effect upon the financial statements issued.

Recommendation - We recommend that management reconcile the depreciation schedule to the capital asset account balances.

Current Status - Partially Implemented. See current year finding 2015-003.

Paul Helliker

From: Paul Helliker
Sent: Wednesday, February 24, 2016 5:00 PM
To: 'Cherry, Carol@CalOES'; John Friedenbach
Subject: RE: Draft compliance report
Attachments: HBMWD RFQ for Engr - Techite Project.pdf; SOQ Rating Sheet for Selection team (Techite).xlsx; Confirmations of Publication of the RFQ Advertisement.pdf; Board Memo re Techite and BLFGSD Professional Service Proposals.docx

Hi, Carol – thank you for the opportunity to review the draft compliance report. We are prepared to submit a plan to ensure that all federal procurement provisions are included in future projects at Humboldt Bay Municipal Water District that receive federal funding. We look forward to receiving the guidelines referenced in the draft report.

Per your request, attached are the following:

RFQ solicitation (including a list of firms that received it)
Copies of the receipts from the publications in which the RFQ was advertised
Scoring sheet for the proposals received
Memo to the HBMWD Board of Directors summarizing the RFQ process, the proposals received and the rationale for selection

Please let us know if there are any other materials that you would like (such as the responses to the RFQ that were received).

For this project, HBMWD has expended \$4,244,380 and has received \$2,795,178 in reimbursement from FEMA, which represents 65.8% of the total. This includes the original funding request of \$2,185,178, approved on February 13, 2012 and the supplemental request for reimbursement of \$610,000, approved on April 25, 2014. As noted in our Grant Close Out correspondence dated September 3, 2015, the District incurred an additional \$548,061 in expenses above the grant approved project costs.

Thanks again,

Paul Helliker
General Manager
Humboldt Bay Municipal Water District
828 7th Street
Eureka, CA 95501
(707) 443-5018

From: Cherry, Carol@CalOES [<mailto:Carol.Cherry@CalOES.ca.gov>]
Sent: Wednesday, January 27, 2016 2:21 PM
To: Paul Helliker; John Friedenbach
Subject: Draft compliance report

Good Afternoon Everyone,

I have attached a copy of the "Draft" compliance review report. As stated in our conference call yesterday, we need additional documentation from the Water District for the procurement of the engineer. It is my understanding the

District obtained the engineer services via a "Request for Qualifications" process. Please provide the following documentation to support the RFQ:

- Copy of official RFQ advertisement
- Summary of all RFQ's received
- Questions and Scoring of each RFQ received
- Justification for selection process is the best RFQ was not chosen

Please provide the requested documentation by February 26, 2016

If you have any questions, please give me a call at 916-845-8778.

Thank you,

Carol Cherry
3650 Schriever Avenue
Mather, CA 95655
(916) 845-8778



Operations

Memo to: HBMWD Board of Directors
From: Dale Davidsen, Superintendent
Date: March 3, 2016
Subject: Essex/Ruth February Operational Report

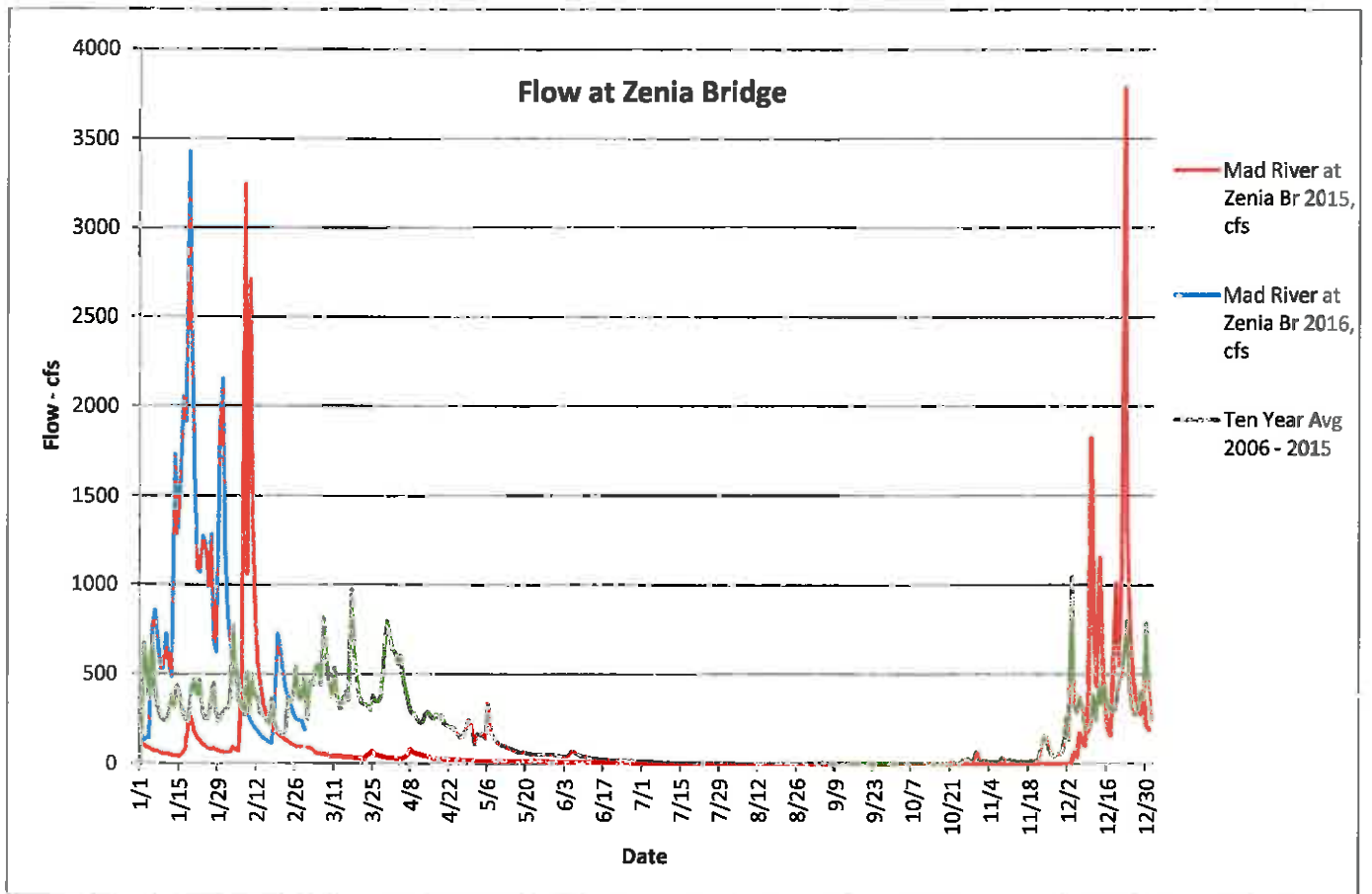
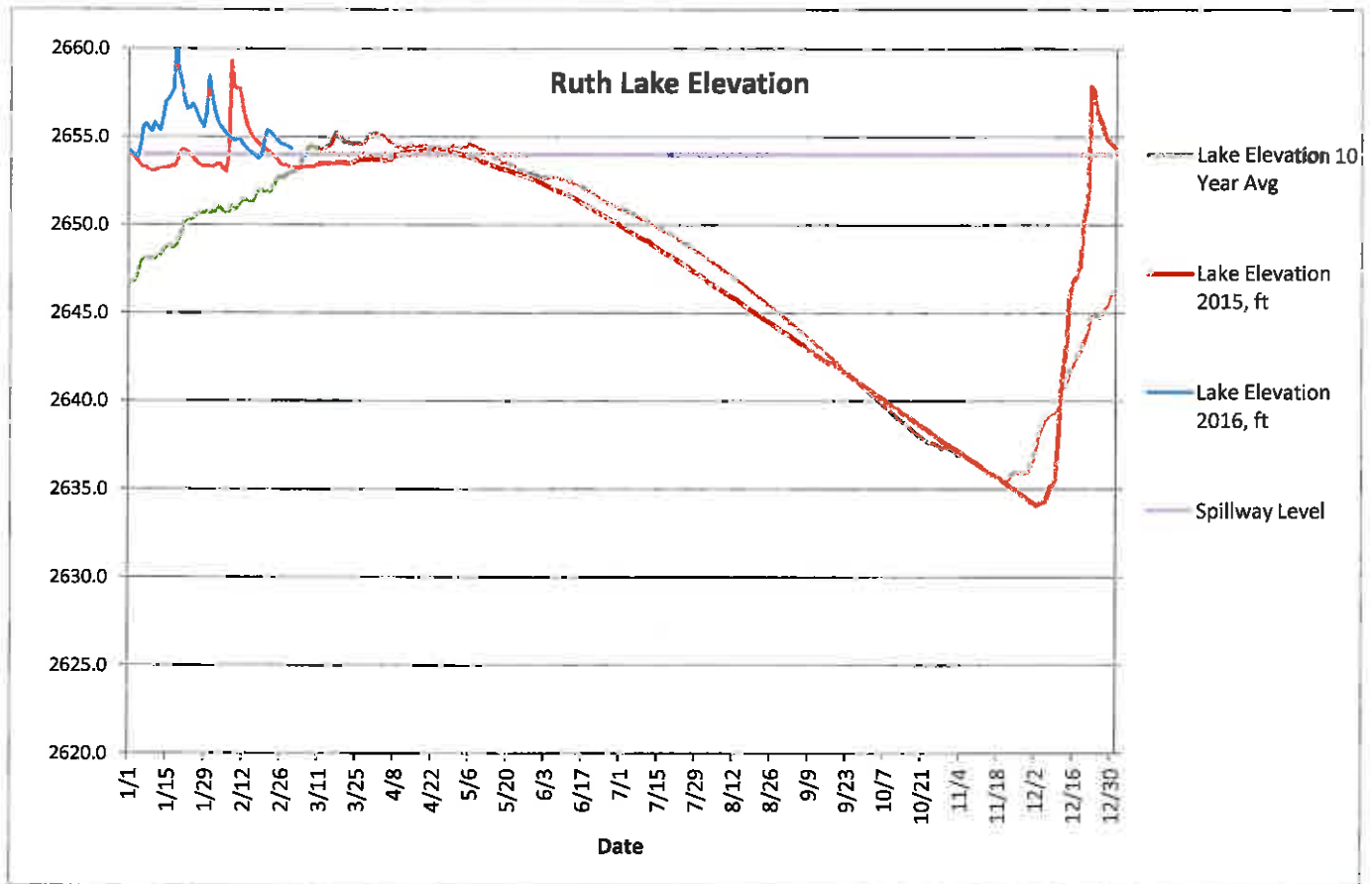
Ruth Lake, Upper Mad River and Hydro Plant

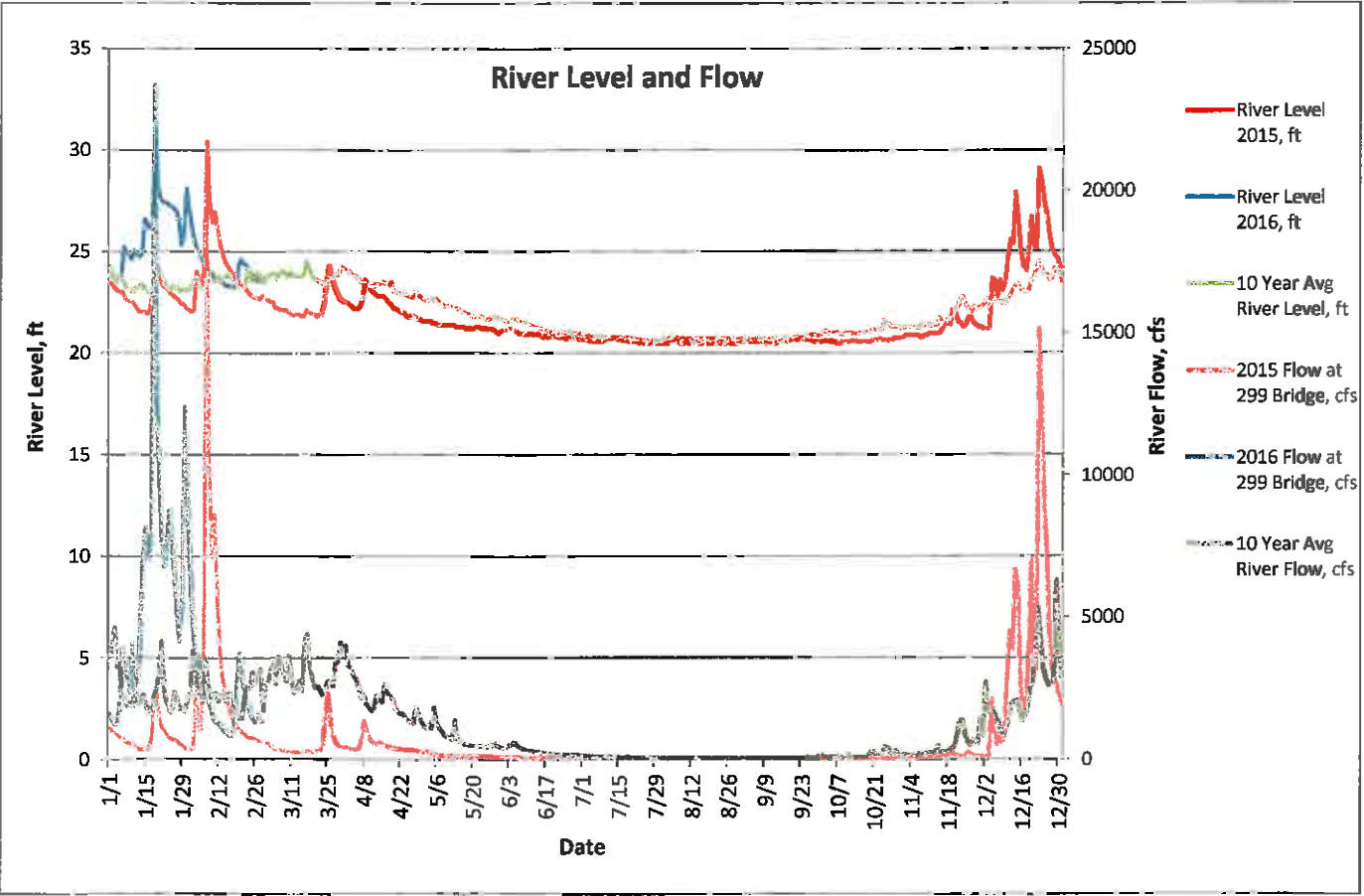
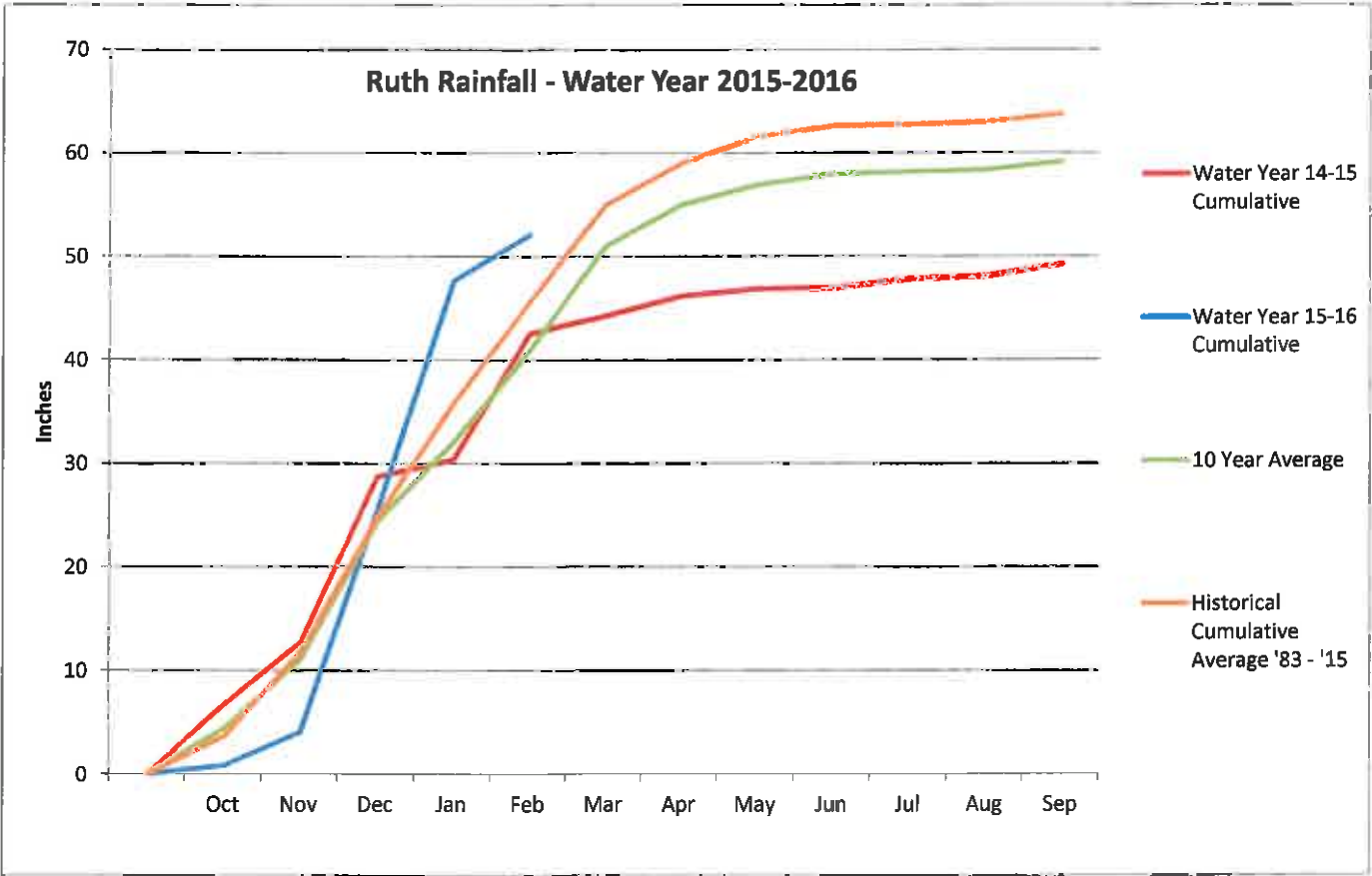
1. The high flow at Mad River above Ruth Reservoir (Zenia Bridge) during the month was measured on February 1 at 923 cfs and the low flow was measured on February 17 at 116 cfs.
2. The conditions at Ruth Lake in February were as follows:
 - a. The lake level on February 29, 2016 was 2654.36 feet which is:
 1. 3.00 feet higher than January 31, 2016
 2. 1.00 feet higher than February 28, 2015
 3. 1.42 feet above the ten year average
 4. 0.36 feet above the spillway
3. We measured 4.89 inches of rain at Ruth Headquarters during the month with a high reading of 1.80 inches measured on February 18 and 19, each day.
4. Ruth hydro power production was 820,800 kWh during the month with 1 curtailment and 45,578 kW lost production.
5. The high discharge flow from the lake this month was 1,602 cfs on February 1 and the low release flow from the lake was 238 cfs on February 17.

Winzler Control, TRF and Lower Mad River


6. The river at Winzler Control Center reached a high recorded flow of 7,190 cfs and a level of 26.2 feet on February 1. The low river flow was on February 17, with a flow of 814 cfs and a level of 23.2 feet.
7. The domestic water conditions for 29 days in February were as follows:
 - a. The monthly turbidity average was 0.06 NTU, which meets Public Health Secondary Standards.
 - b. We pumped 224.483 million gallons at an average of 7.741 MGD.
 - c. The maximum metered daily municipal customer use was 8.961 MGD on February 2.
8. The Turbidity Reduction Facility ran 29 days in February. The conditions were as follows:
 - a. Filtered water production was 228.833 million gallons.
 - b. Average monthly source water turbidity was 0.88 NTU.
 - c. Average monthly filtered water turbidity was 0.06 NTU.

9. February 3rd – Safety Award Drawing – This year Jasson KlingonSmith was the lucky winner.
10. February 4th – SB198 Safety Meeting – We have a new safety committee for this year; they are Carol McKibben and Tim Farrell with Steve Marshall being our scribe. Soon, Chris Merz will become our scribe as part of the new Assistant Maintenance Supervisor's position duties.
11. February 5th – I went to Ruth to look at the surficial slide above the access road to the hydro plant with Brian and USFS. We met Fred Leviton - USFS geologist and Adam Dresser - USFS hydrologist at the dam and walked the slide with them. Fred agreed the slide has moved some due to the recent heavy rains. He will send us his report when complete.
12. February 8th – Someone hit the fence around the Morris Booster Pump Station over the weekend. Our crew repaired the fence and I reported it to the Sheriff's Department. I have not heard anything more from the Sheriff's office.
13. February 9th – Maintenance crew started 90 day BIT inspections on commercial fleet vehicles.
14. February 10th
 - a. Safety meeting - CL2 leak response training.
 - b. John, Steve and I attended CERS (California Environmental Reporting System) training in Eureka.
15. February 9th – Maintenance crew replaced the gates at the IW Reservoir site. Someone stole the gates so we replaced them and welded them on.
16. February 23rd – John and Thavisak toured Essex and TRF to review and report on our hazardous materials inventory.
17. On February 25th and 26th - Annual Hearing and Respiratory Exams were conducted by Mad River Occupational Health. These examinations are required for our employees that could be required to use respirators and it provides a good baseline of information to help safeguard the health of our employees.
18. February 29th – Maintenance crew removed the McKinleyville meter for routine calibration.





Confidential: Documents submitted under General Order 66-C, §§2.8 and PU Code §583

 Pacific Gas and Electric Company Purchase / Sales Invoice Invoice Number: 64703 Delivery Period Start: 01/01/2016 Delivery Period End: 01/31/2016 Invoice Date: 02/17/2016 Due Date: 03/01/2016 Log Number: 19H051 Account Code: 2320900 Meter Channel: LJ600B Contract Start: 04/10/1983	From: Pacific Gas and Electric Company 77 Beale Street San Francisco, CA 94105	To: HUMBOLDT BAY MWD P. O. Box 95 Eureka, CA 95501
	Contract Manager: Nancy Breckenridge Phone: 415-973-4092 Email: NJB6@pge.com Settlement Analyst: Kimberly Song Phone: 415-973-5815 Fax: 415-973-9505 Email: K5SW@pge.com	Project Name: HUMBOLDT BAY MWD Payment Method: CHECK Vendor Number: 1024538 Contact: Becky Moyle Phone: 707-443-5018 Fax: 707-443-5731 Email: MOYLE@HBMWD.COM

Payment Name	Quantity	Unit	Amount
Energy Payment 01/01/2016 - 01/31/2016	907.104	MWh	\$-26,273.69
As-Delivered Capacity Payment	756.404	MWh	\$-2,140.83
		Net Total	\$-28,414.52

Total Amount Due to HUMBOLDT BAY MWD on Due Date: 03/01/2016	USD \$ 28,414.52
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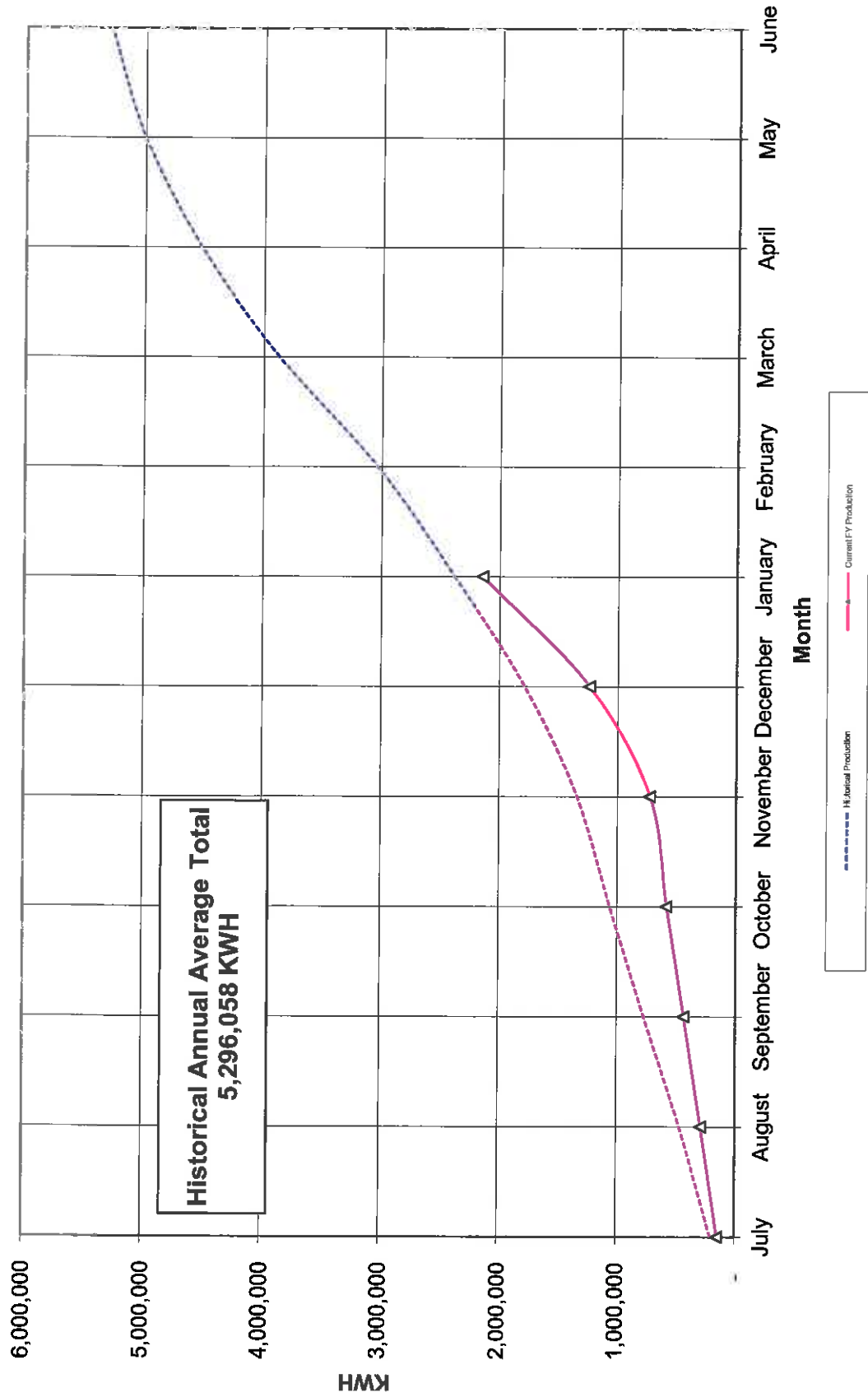
New report format from PGE



Humboldt Bay Municipal Water District Ruth Hydro Production Report - Since June 1983

	Total Kwh Production	Production for Period Ending 1/1/2016	Average Monthly Kwh Production
On Peak	11,313,641		28,935
Part Peak	55,296,869	328,025	141,424
Off Peak	79,444,968	428,379	203,184
Super Off Peak	25,263,931	150,699	64,614
Grand Total	171,319,409	907,103	438,157
Grand Total Revenues		\$8,471,534.10	
No. of Months of Operation		391	
Average \$/Kwh		\$0.0494	

**Historical vs. Actual Cumulative Production
Gosselin Hydroelectric Plant @ Ruth Lake
All Data In Kilowatt Hours**



Payment Calculation For Energy

Winter Period Payment

Date Period	TOD ¹	MW Levels	MWh	Energy Rate	Rate (\$/MWh)	Rate %	Amount Due
01/01/16 to 01/31/16	PP	0.0 to 1.3	328.0250	SRAC B	31.2921	100	\$10,264.57
01/01/16 to 01/31/16	OP	0.0 to 1.3	428.3790	SRAC B	28.9883	100	\$12,417.98
01/01/16 to 01/31/16	SO	0.0 to 1.3	150.6995	SRAC B	23.8298	100	\$3,591.14
SRAC B Subtotal for level 0.0 to 1.3:			907.1035				\$26,273.69
Date Period	TOD ¹	MW Levels	MWh	Energy Rate	Rate (\$/MWh)	Rate %	Amount Due
01/01/16 to 01/31/16	PP	1.301 to Total	0.0000	SRAC B	31.2921	100	\$0.00
01/01/16 to 01/31/16	OP	1.301 to Total	0.0000	SRAC B	28.9883	100	\$0.00
01/01/16 to 01/31/16	SO	1.301 to Total	0.0000	SRAC B	23.8298	100	\$0.00
SRAC B Subtotal for level 1.301 to Total:			0.0000				\$0.00
Winter Period Subtotal:							\$26,273.69
Energy Total:							\$26,273.69

TOD¹ = Time Of Deliveries, PK = Peak, PP = Partial Peak, OP = Off Peak, SO = Super Off Peak

Energy line loss adjustments, in accordance with the Settlement Agreement approved by the CPUC Decision 06-07-032, are being applied to the generation delivered after March 31, 2009 23:59 for energy payments.

Confidential: Documents submitted under General Order 66-C, §§2.8 and PU Code §583

Payment Calculation For As-Delivered Capacity

Winter Period Payment

Date Period	TOD ¹	MW Level	MWh	Rate Name ²	Rate (\$/MWy)	Rate %	CLAF ³	Allocation Factor	Amount Due
01/01/16 to 01/31/16	PP	0.0 to 1.3	328.025	CSCFIX50	50,000.00	100	0.991	0.0001308	\$2,125.976
01/01/16 to 01/31/16	OP	0.0 to 1.3	428.379	CSCFIX50	50,000.00	100	0.991	0.0000007	\$14.858
01/01/16 to 01/31/16	SO	0.0 to 1.3	150.700	CSCFIX50	50,000.00	100	0.991	0.0000000	\$0.000
CSCFIX50 Subtotal for level 0.0 to 1.3:			756.404						\$2,140.83
Date Period	TOD ¹	MW Level	MWh	Rate Name ²	Rate (\$/MWy)	Rate %	CLAF ³	Allocation Factor	Amount Due
01/01/16 to 01/31/16	PP	1.301 to Total	0.000	CSCFIX50	50,000.00	100	0.991	0.0001308	\$0.000
01/01/16 to 01/31/16	OP	1.301 to Total	0.000	CSCFIX50	50,000.00	100	0.991	0.0000007	\$0.000
01/01/16 to 01/31/16	SO	1.301 to Total	0.000	CSCFIX50	50,000.00	100	0.991	0.0000000	\$0.000
CSCFIX50 Subtotal for level 1.301 to Total:			0.000						\$0.00
Winter Period Subtotal:									\$2,140.83
As-Delivered Capacity Total:									\$2,140.83

TOD¹ = Time Of Deliveries, PK = Peak, PP = Partial Peak, OP = Off Peak, SO = Super Off Peak

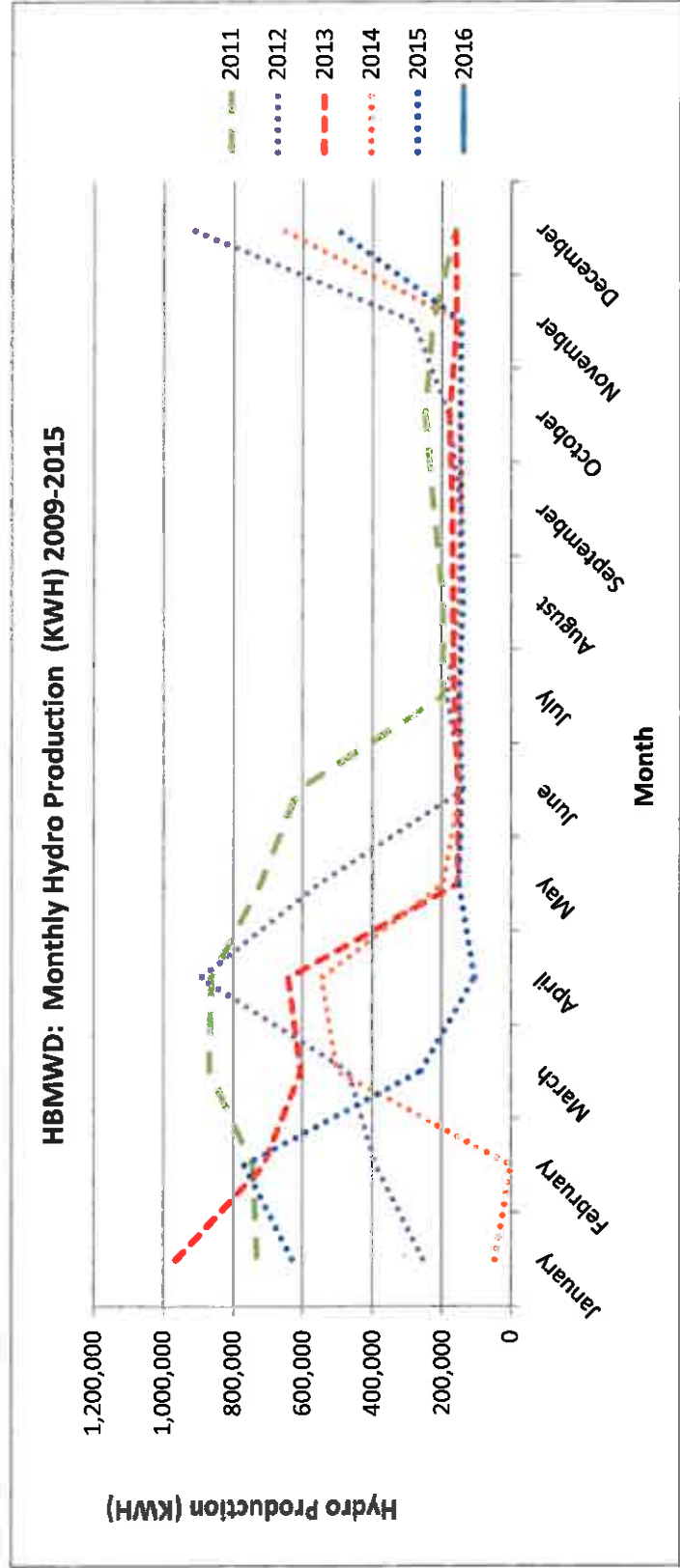
Rate Name² =

- FSC = Forecasted Shortage Cost
- CSC = Current Shortage Cost

CLAF³ = Capacity Loss Adjustment Factor

**Humboldt Bay Municipal Water District
Monthly Hydro Electric Production (KWH) for CY2011 - 2016**

Month	2011	2012	2013	2014	2015	2016
January	731,895	255,300	962,724	47,002	632,611	907,103
February	743,385	390,898	713,055	0	769,170	
March	868,396	470,351	605,327	501,812	261,555	
April	862,182	892,452	642,402	545,893	106,258	
May	720,776	553,888	152,795	196,968	151,803	
June	613,500	138,181	152,044	147,630	143,055	
July	197,448	186,027	164,775	149,503	150,599	
August	196,872	151,424	168,428	148,220	140,977	
September	224,463	147,850	169,768	145,020	145,468	
October	249,000	179,706	178,812	148,715	147,574	
November	226,807	282,768	157,195	148,816	145,196	
December	159,636	923,766	160,936	665,823	510,915	
Total Annual	5,794,360	4,572,611	4,228,261	2,845,402	3,305,181	907,103



RCEA, RREDC, LAFCO



Redwood Coast Energy Authority

633 3rd Street

Eureka, CA 95501

Phone: (707) 269-1700 Toll-Free (800) 931-RCEA Fax: (707) 269-1777

E-mail: info@redwoodenergy.org Web: www.redwoodenergy.org

MEETING AGENDA

Redwood Coast Energy Resource Center
633 3rd Street, Eureka, CA 95501

February 22, 2016
Monday, 3:15 p.m.

Redwood Coast Energy Authority will accommodate those with special needs. Arrangements for people with disabilities who attend RCEA meetings can be made in advance by contacting Lexie Fischer at 269-1700 by noon the day of the meeting.

I. ROLL CALL

II. REPORTS FROM MEMBER ENTITIES

III. ORAL COMMUNICATIONS

This time is provided for people to address the Board or submit written communications on matters not on the agenda. At the conclusion of all oral & written communications, the Board may respond to statements. Any request that requires Board action will be set by the Board for a future agenda or referred to staff.

IV. CONSENT CALENDAR

All matters on the Consent Calendar are considered to be routine by the Board and are enacted on one motion. There is no separate discussion of any of these items. If discussion is required, that item is removed from the Consent Calendar and considered separately. At the end of the reading of the Consent Calendar, Board members or members of the public can request that an item be removed for separate discussion.

- A. Approve Minutes of January 11, 2016 Board Meeting.
- B. Approve attached Warrants.
- C. Accept attached Financial Reports.

V. REMOVED FROM CONSENT CALENDAR ITEMS

Items removed from the Consent Calendar will be heard under this section.

VI. NEW BUSINESS

- A. Community Choice Aggregation

Schedule and implementation planning update.

Second Reading and Consideration of Adoption of Ordinance No. 2016-1
Authorizing the Implementation of a Community Choice Aggregation Program by
RCEA as the Community Choice Aggregator.

VII. STAFF REPORTS

- A. Matthew Marshall, Executive Director

VIII. ADJOURNMENT

*The next RCEA Board of Directors Business Meeting is scheduled for
Monday, March 21st, 2016 at 3:15p.m.*



Redwood Region
Economic Development
Commission

REDWOOD REGION ECONOMIC DEVELOPMENT COMMISSION
520 E Street Eureka, California 95501 • (707) 445-9651 • FAX (707) 445-9652
Regular meeting of the Board of Directors
At the Prosperity Center 520 E Street, Eureka, CA
February 22, 2016 at 6:30 pm
AGENDA

- I. **Call to Order & Flag Salute**
- II. **Approval of Agenda and Minutes**
 - A. Approval of Agenda for February 22, 2016
 - B. Approval of Minutes of the Board of Directors for January 25, 2016
- III. **Public Input – for non-agenda items**
- IV. **Program – Randall Weaver, Labor Market Consultant, Employment Development Department, State of California, discussing Humboldt County's Labor Force**
- V. **Consent Calendar**
 - A. Acceptance of Agency-wide Financial Report: January 31, 2016
- VI. **Reports – No Action Required**
 - A. Loan Portfolio Reports: December 31, 2015; January 31, 2016
 - B. Executive Director's Report
 - C. Minutes of Executive Committee Meeting: January 14, 2016 information only
- VII. **Old Business**

None
- VIII. **New Business**
 - A. Discussion of FY 2016/2017 Budget
 - B. Discussion and Consideration of Position Regarding Changes to the Humboldt Bay Area Plan and Coastal Zoning Regulation to Allow Flexible Uses in Industrial/Coastal-Dependent Zone
- IX. **Member Reports**
 - A. Willow Creek
 - B. Ferndale
- X. **Agenda/Program Requests for future Board of Directors Meetings**
- XI. **Adjourn**

The Redwood Region Economic Development Commission will, on request, make agendas available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Individuals who need this agenda in an alternative format or who need a disability-related modification or accommodation in order to participate in the meeting should contact the Board Secretary at (707) 445-9651. Notification 48 hours prior to the meeting will enable the Commission to make reasonable arrangements for accommodations.

M E M B E R A G E N C I E S

City of Arcata • City of Blue Lake • City of Eureka • City of Ferndale • City of Fortuna • City of Rio Dell • City of Trinidad
County of Humboldt • Humboldt Bay Harbor, Recreation and Conservation District • Humboldt Bay Municipal Water District
Humboldt Community Services District • Manila Community Services District • McKinleyville Community Services District
Orick Community Services District • Redwoods Community College District • Hoopa Valley Tribe
Willow Creek Community Services District • Orleans Community Services District • Redway Community Services District



LaborMarketInfo
www.labormarketinfo.edd.ca.gov

Humboldt County Economic Overview

Randy Weaver
Labor Market Consultant
North Coast Region
Labor Market Information Division
Employment Development Department

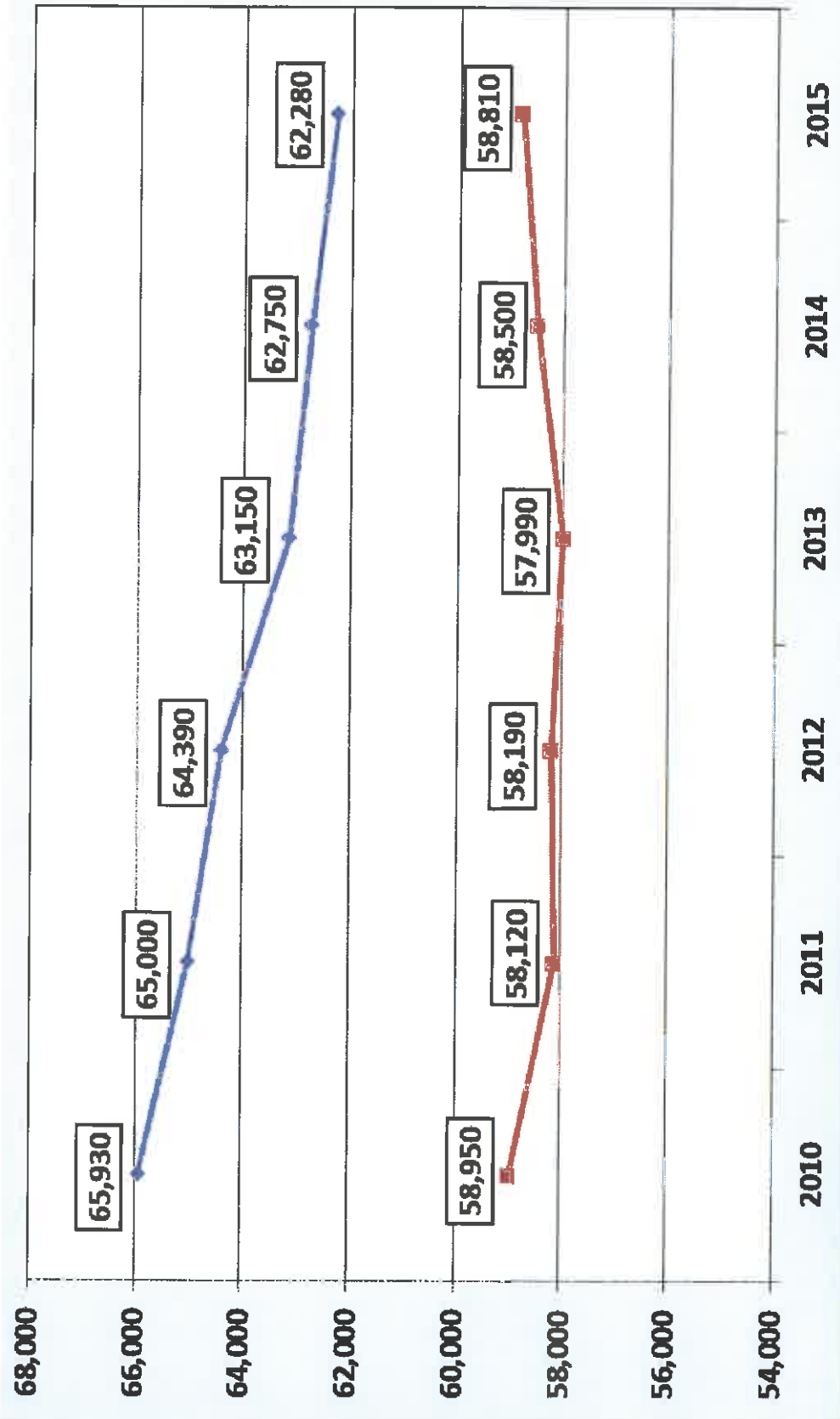


Program Topics

- Labor Force & Unemployment
- Industries
- Self Employment
- Wages
- Summary

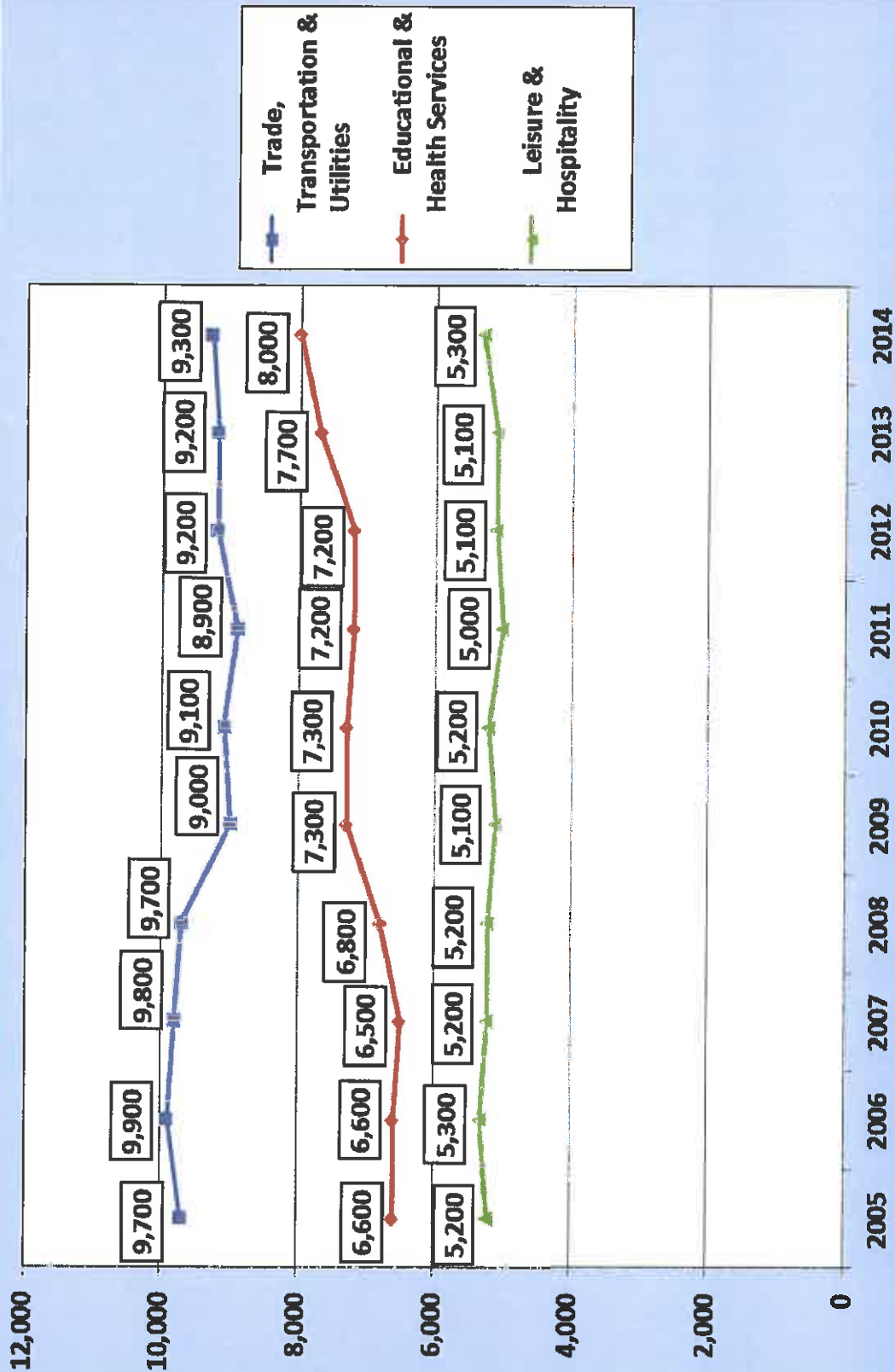
Labor Force & Employment - 5 Year Trend

Source: EDD/LMID: Historical Unemployment and Labor Force Data Tables



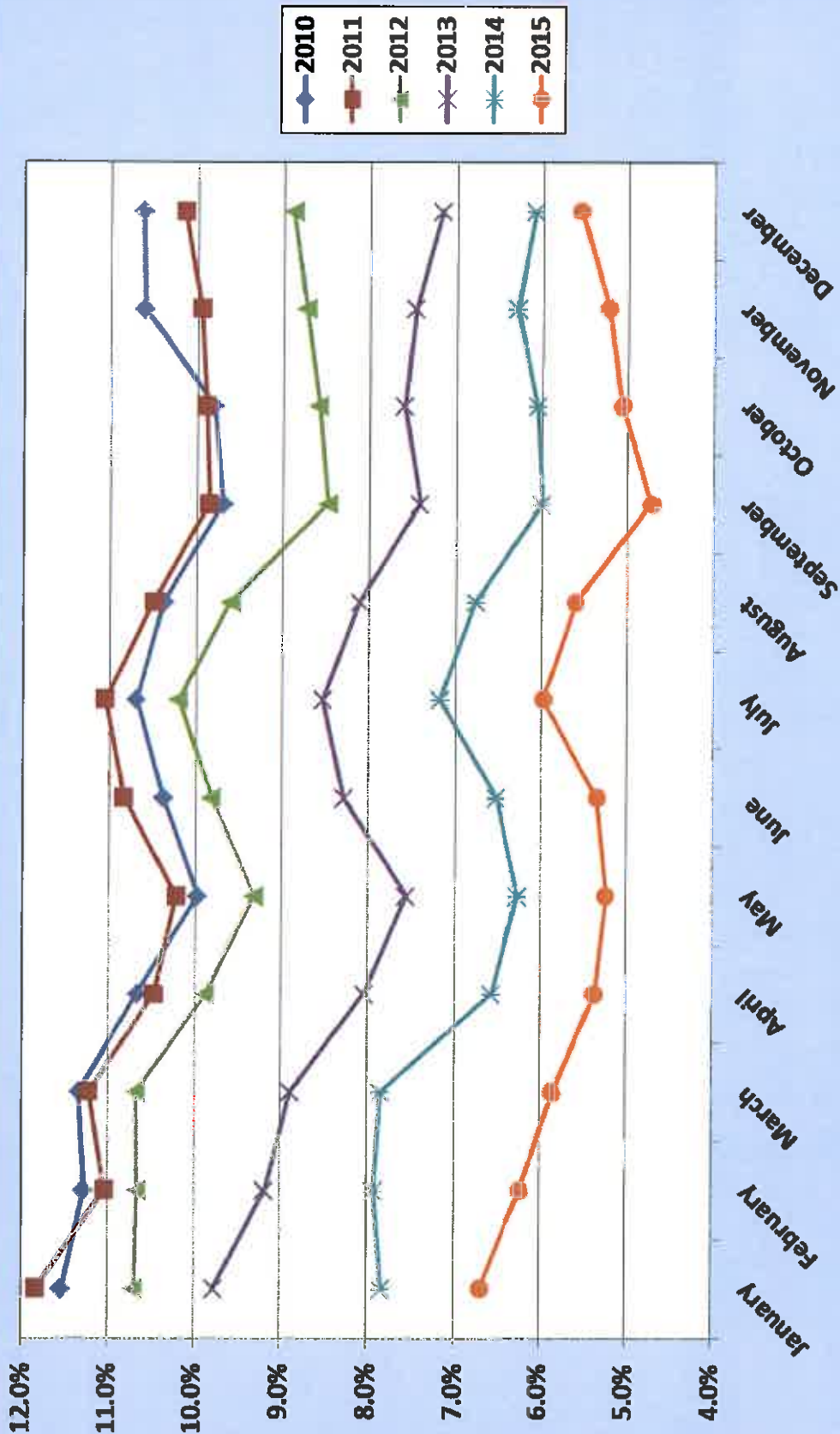
Trends in Top Three Sectors

Source: EDD/LMID Industry Employment & Labor Force Annual Averages 2005-2014



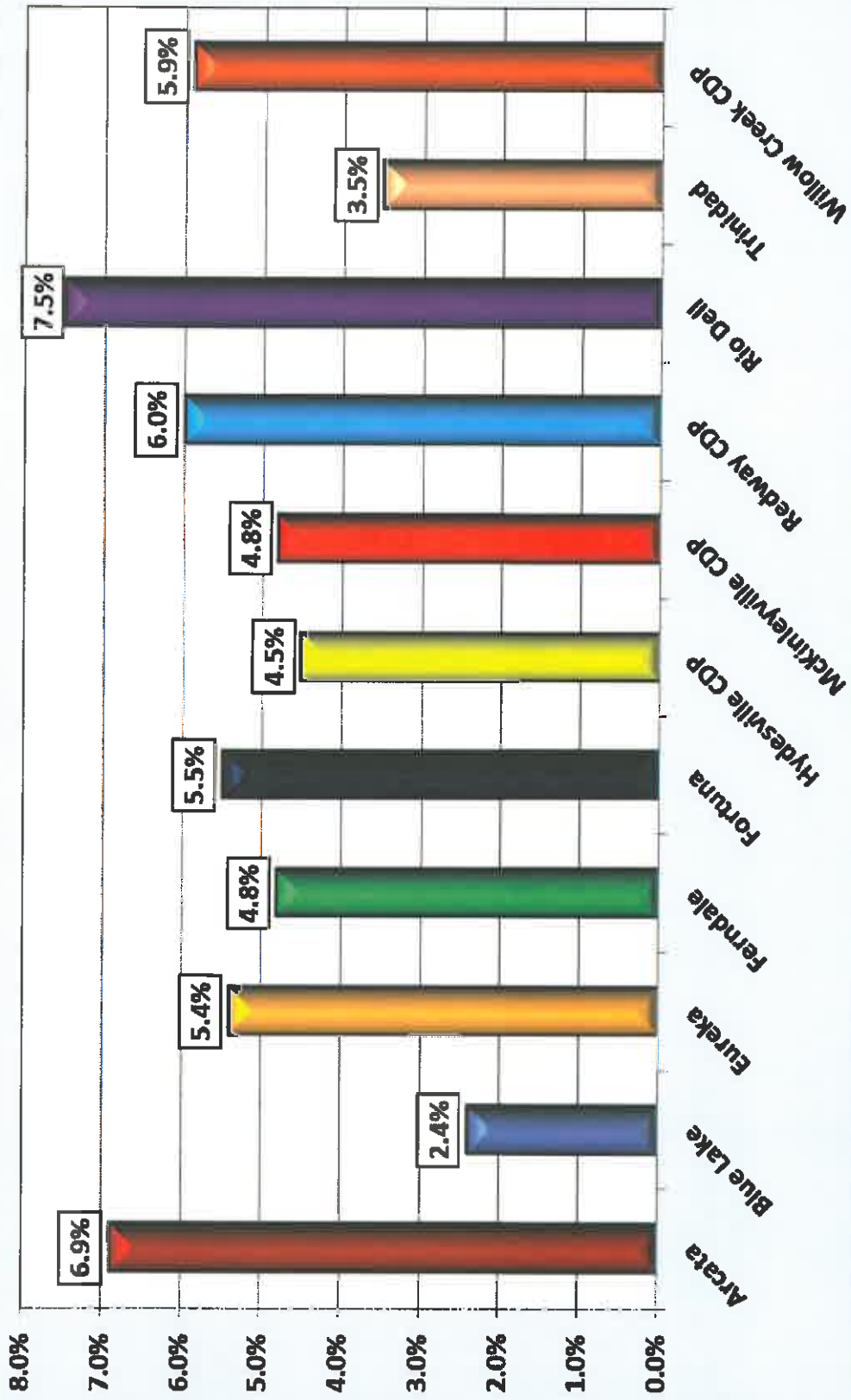
County Unemployment - 5 Year Trend

Source: EDD/LMHD Historical Industry Employment and Civilian Labor Force Data Tables



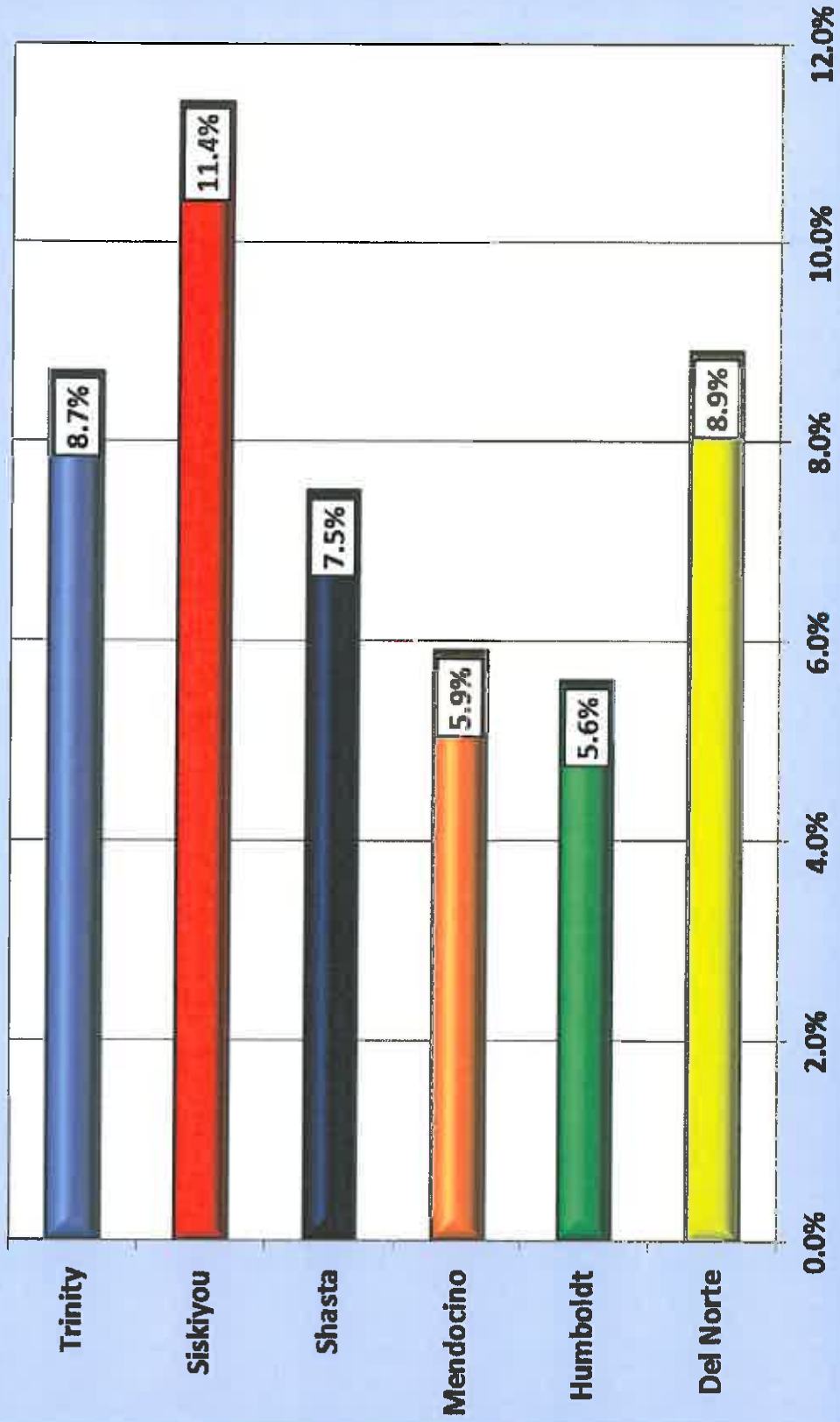
Sub-Area Unemployment - December 2015

Source: EDD/LMID Monthly Labor Force Data for Cities and Census Designated Places



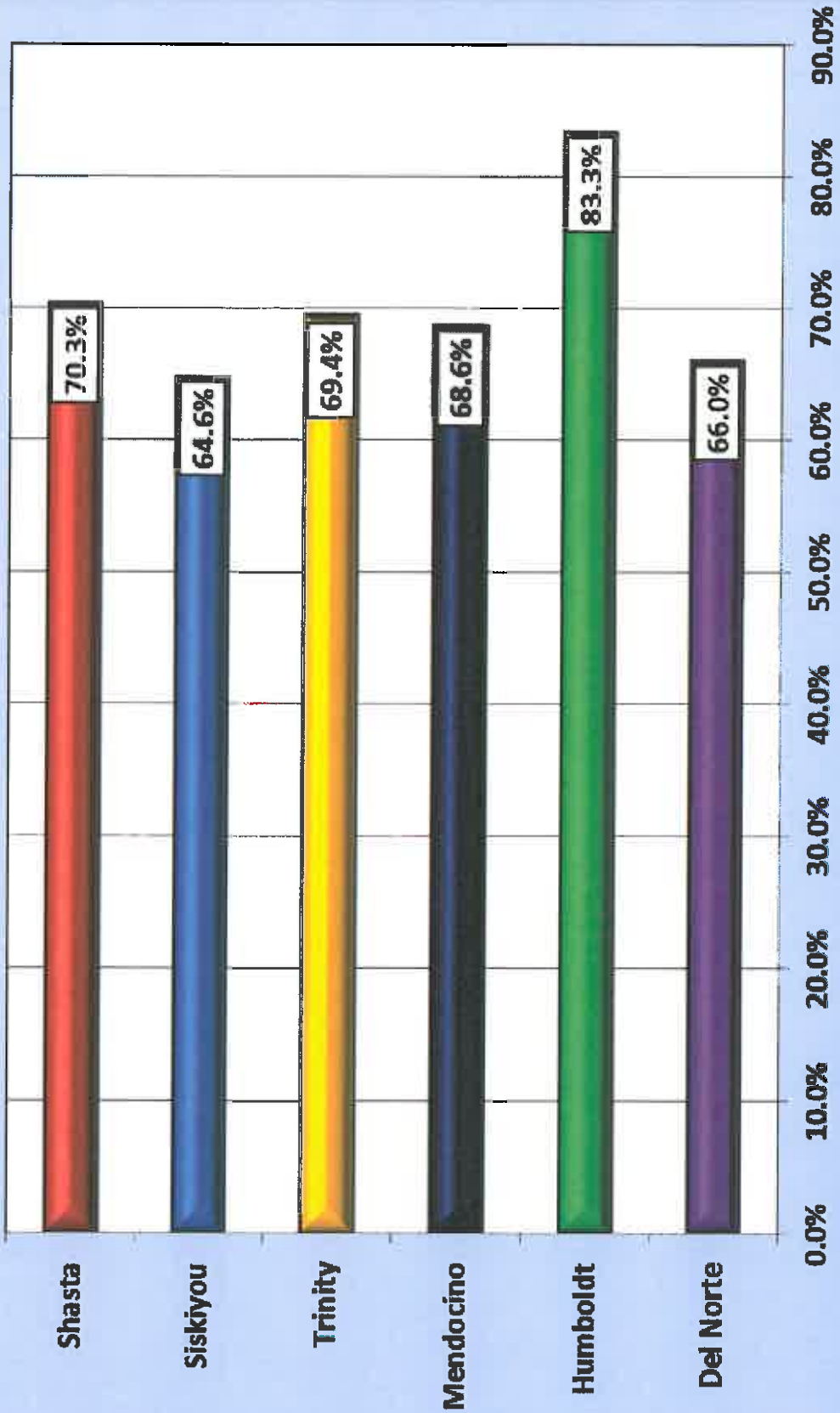
Comparative Regional Unemployment – December 2015

Source: EDB/IMD Monthly Labor Force Data for Counties



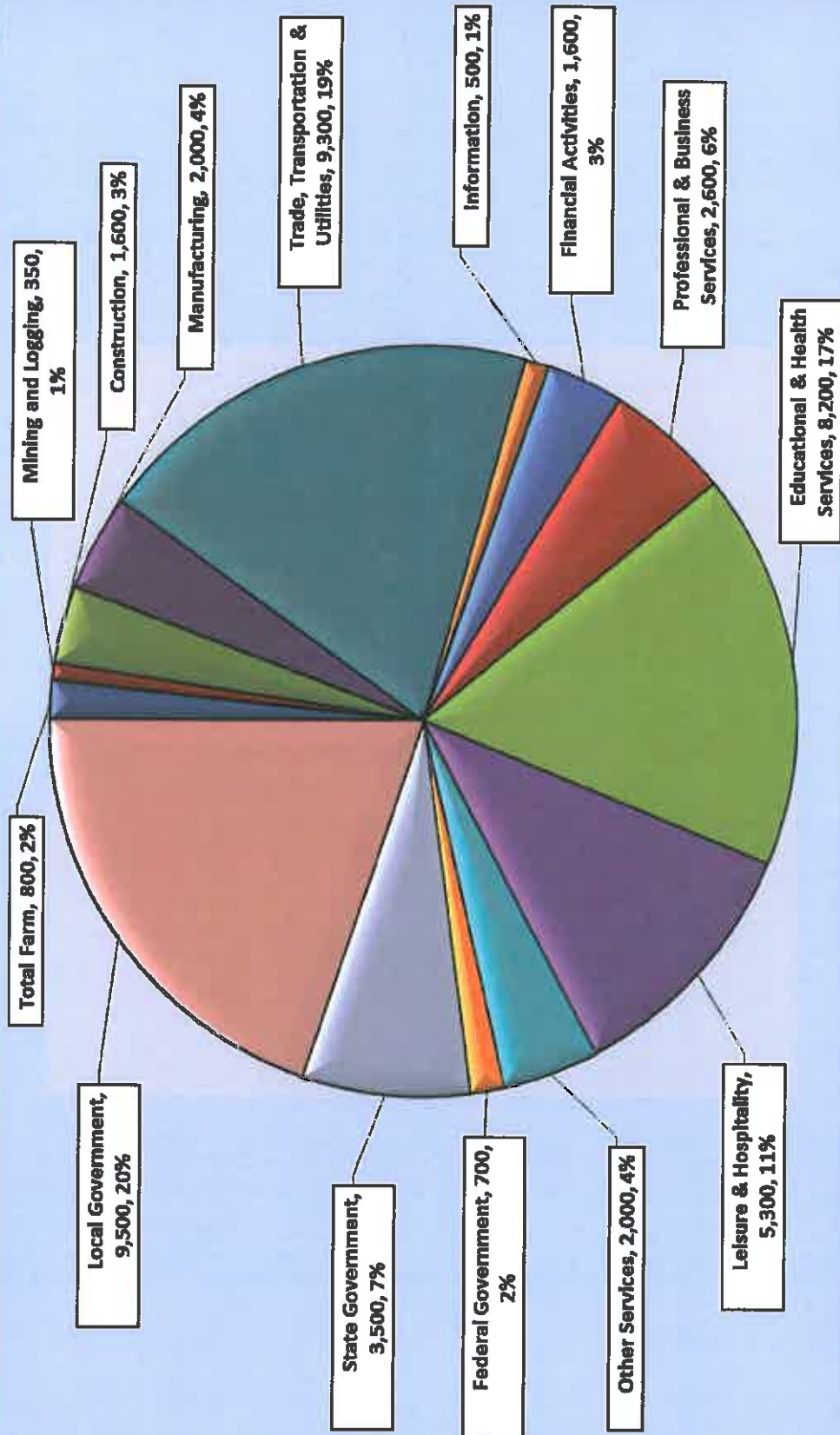
Where Do We Work?

Source: U.S. Census Bureau County Commute Patterns



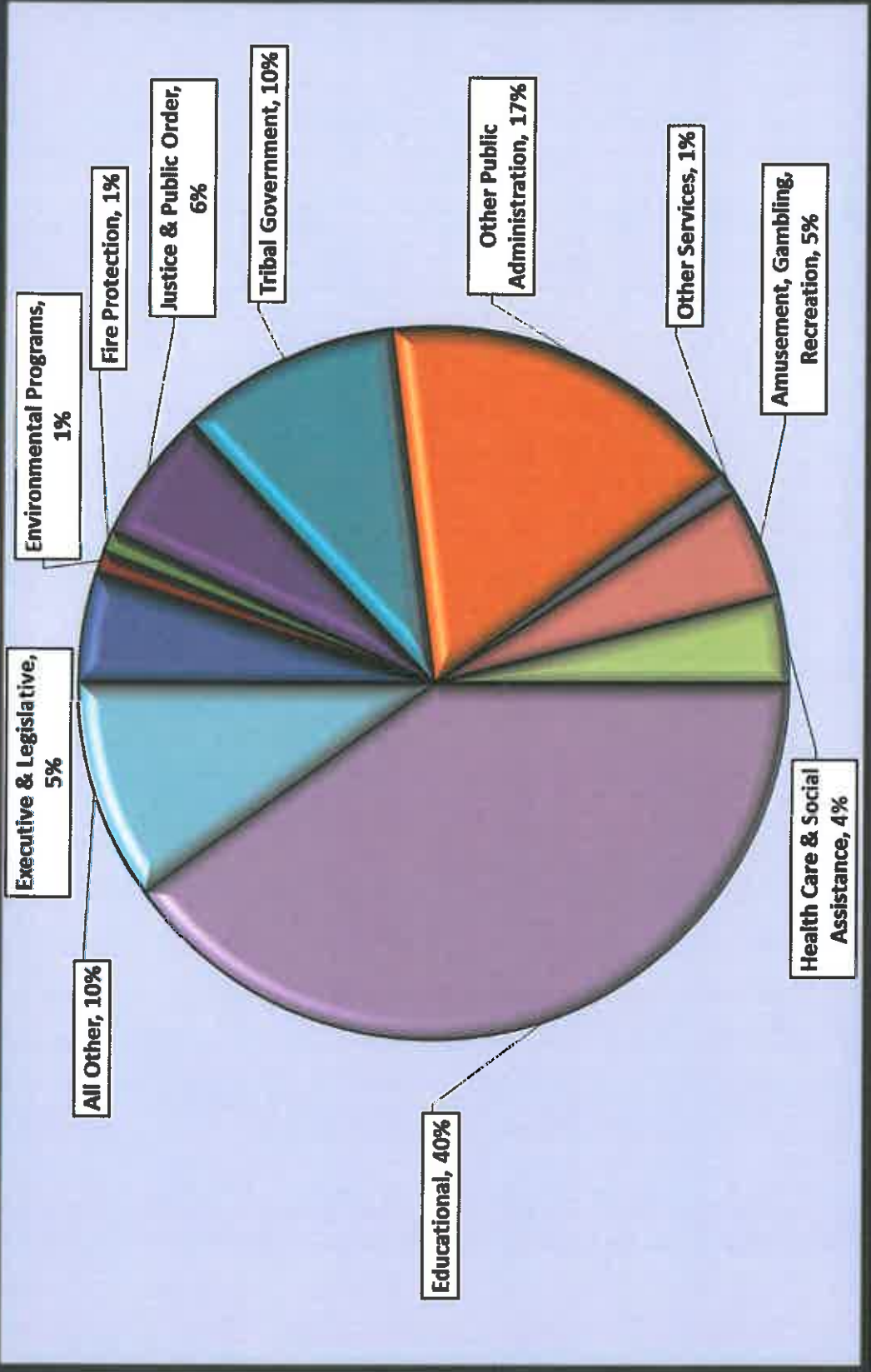
Industry Employment 2015

Source: EDP/LMID Industry and Labor Force; Annual Average Employment 2015



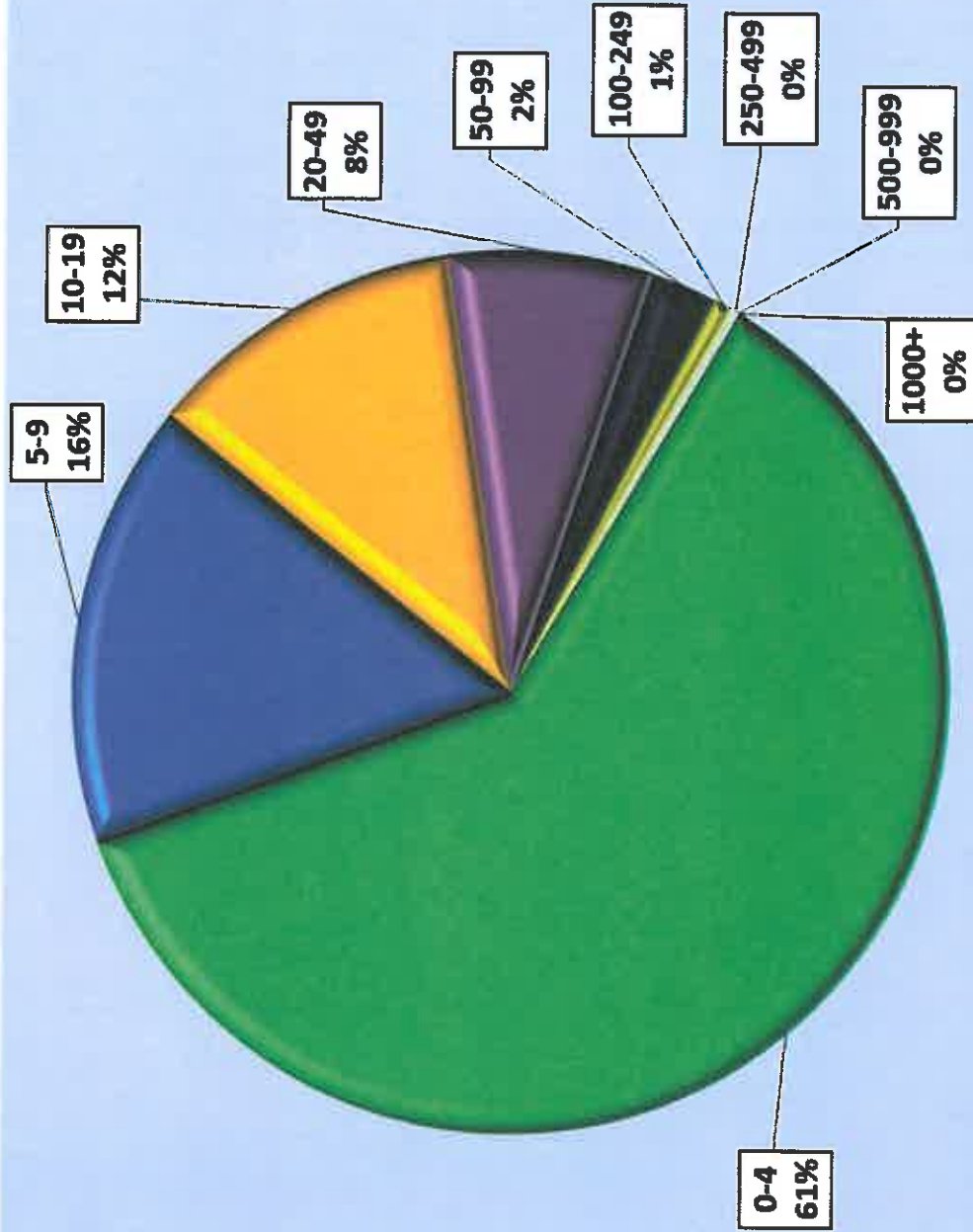
Local Government

Source: EDD/LMFD Quarterly Census of Employment and Wages Annual Average 2013



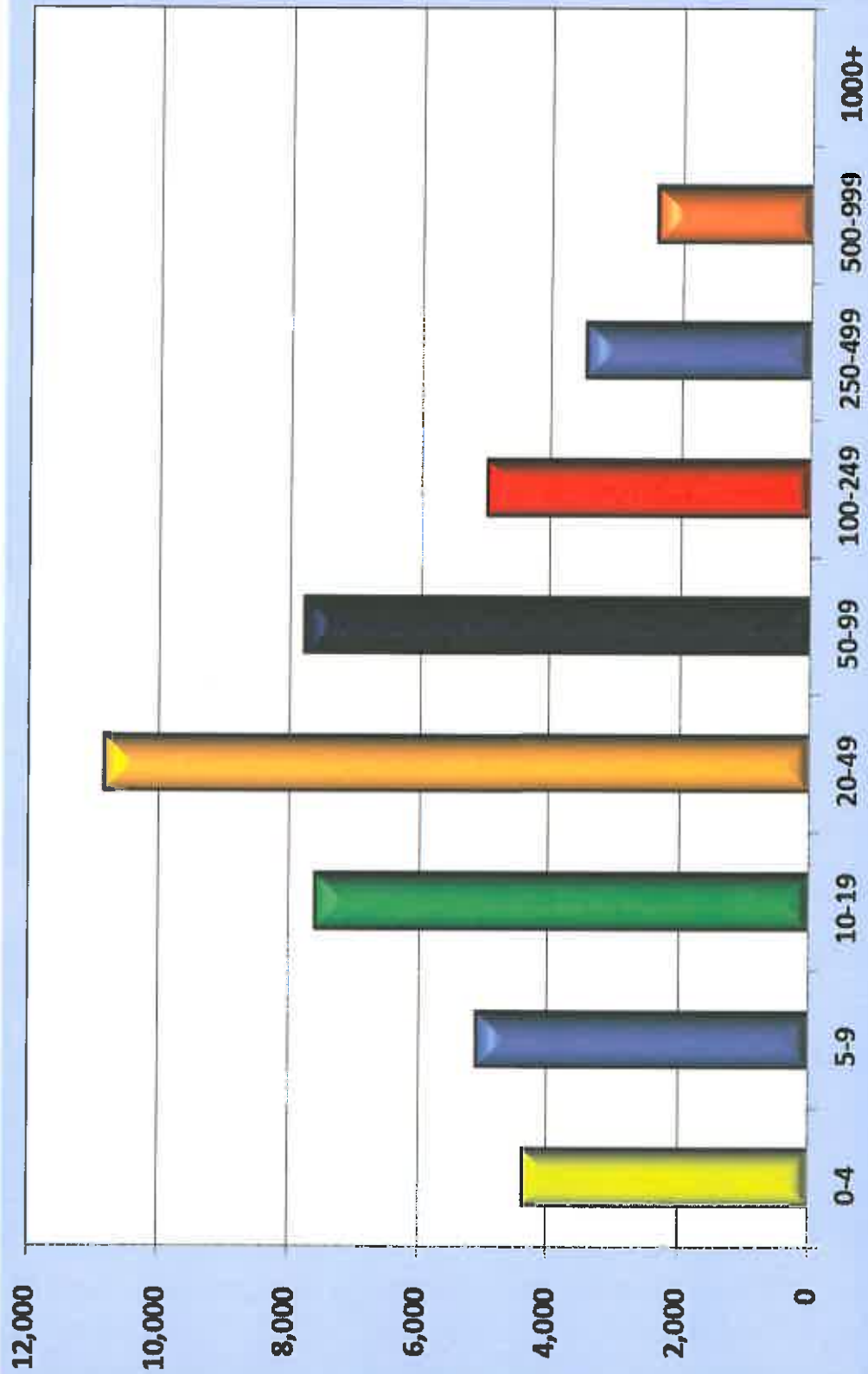
Size of Business By Employees

Source: EDD/LMID Table 3A; Third Quarter 2014 Payroll and Number of Businesses by Size Category



Number of Employees by Size Category

Source: EDD/LMID Table 3B: Third Quarter 2014 Number of Employees by Size Category



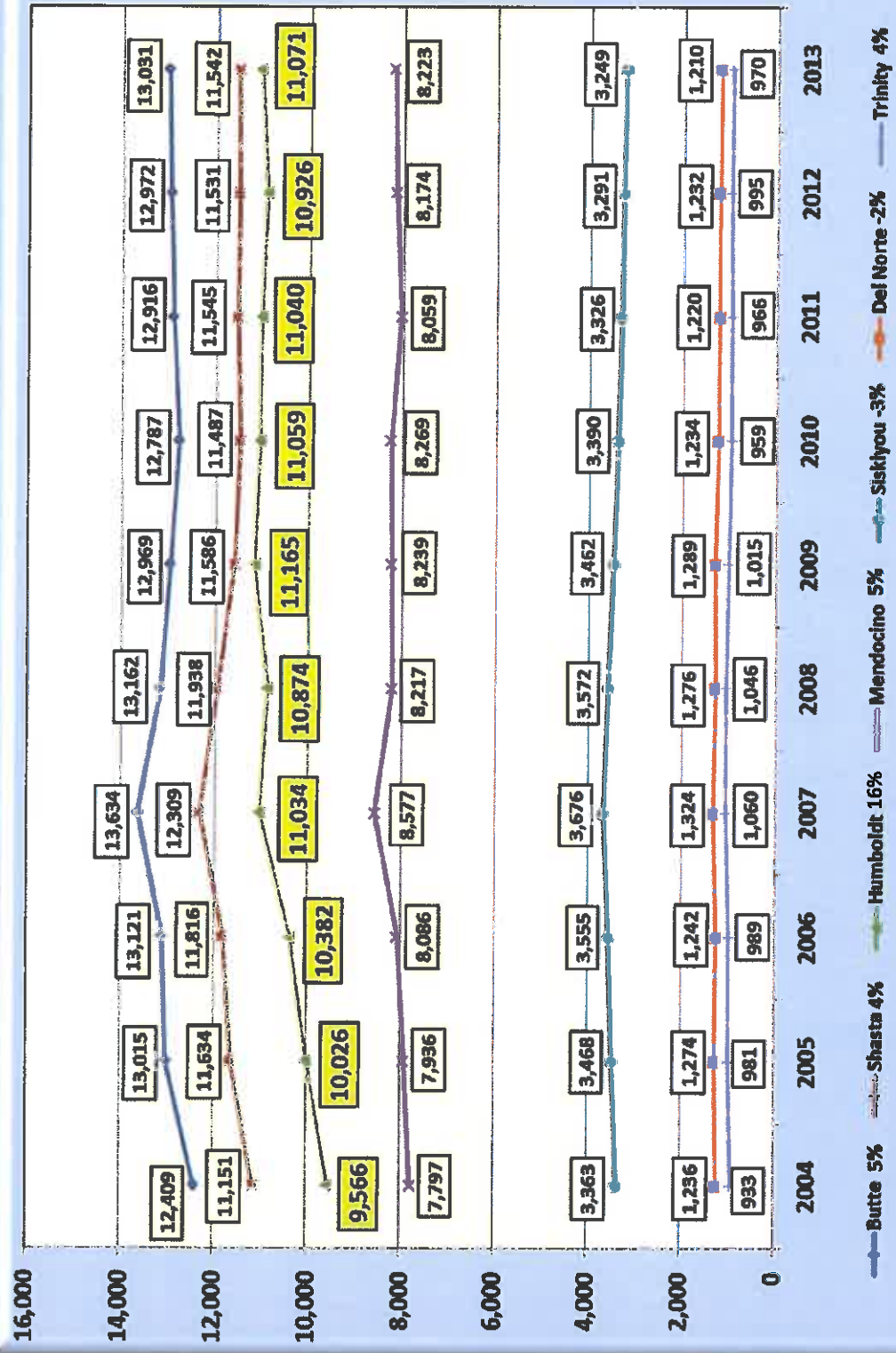
Tribal Enterprises

Source: FDD/UMD Quarterly Census of Employment & Wages: 3rd Quarter 2013

Category	Direct Tribal	Tribal Gaming
Employment	2200	800
Wages	\$19 million	\$5 million

Non-Employer Firms

Source: U.S. Census Non-Employer Statistics 2004-2013

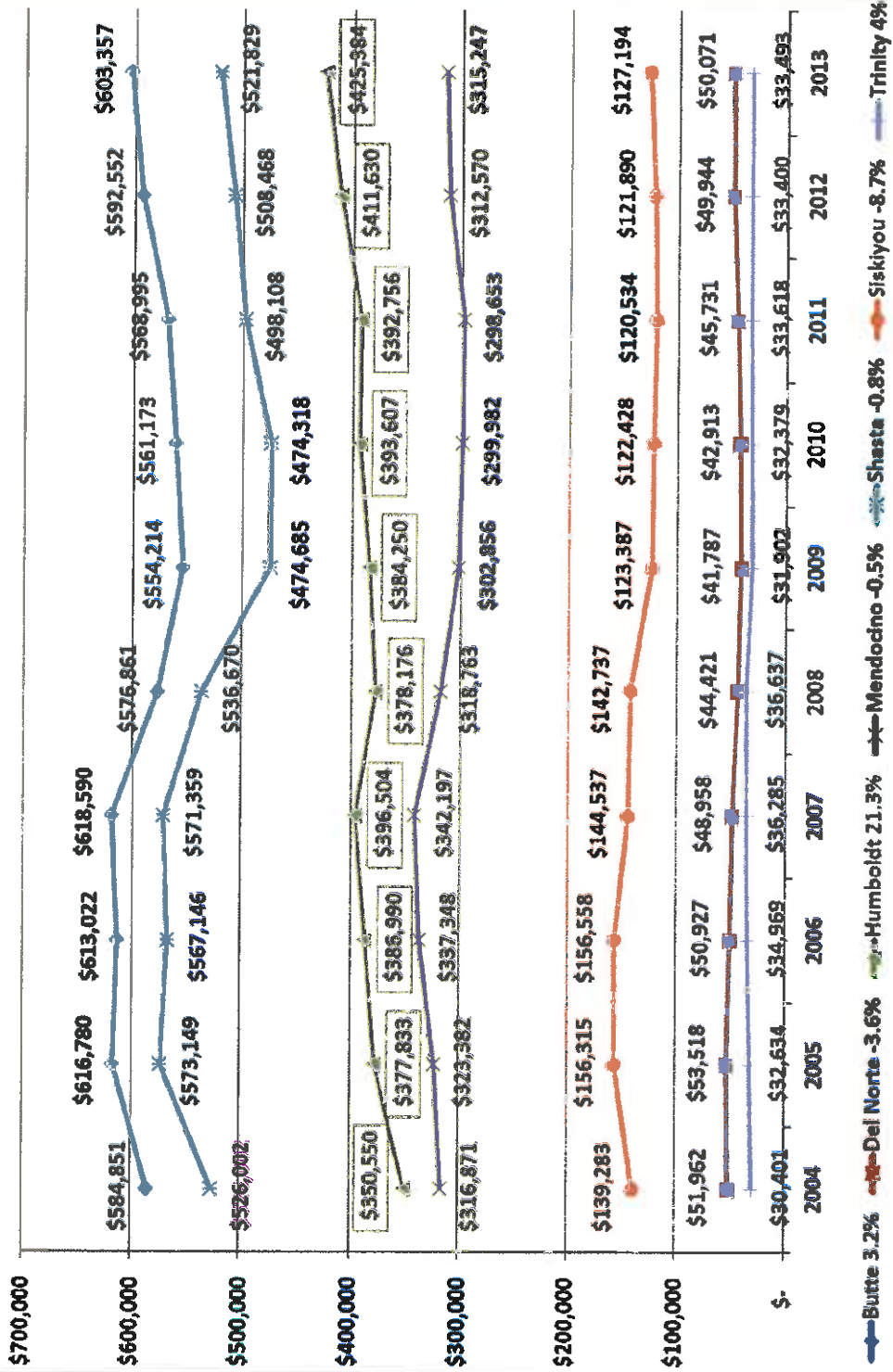


Non-Employer Firm Receipts

Source: U.S. Census Non-Employer Statistics 2004-2013

Firms With No Paid Employees Receipts

U.S. Census Nonemployer Statistics 2004 - 2013 (000)



Wages (Mean Hourly)

Source: EDD/LMID/Occupational Employment Wage Data Survey Results, 1st Quarter 2015

County	Registered Nurse	Heavy & Tractor- Trailer Truck Driver	Retail Salesperson
Humboldt	\$33.38	\$18.75	\$12.69
Shasta	\$43.85	\$20.40	\$11.95
Sonoma	\$50.05	\$22.23	\$14.14
Modoc	\$36.38	\$20.07	\$13.54

Targets Update

Cluster	Jobs	Growth Rate
Diversified Health	+ 1076	+ 0.9%
Specialty Ag, Beverage, & Food	+ 91	+ 0.1%
Building & Systems Construction & Maintenance	- 2,172	- 3%
Investment Support Services	- 648	- 1.7%
Management & Innovation Services	+ 510	+ 1.7%
Niche Manufacturing	+ 563	+ 2.5%
Forest Products	- 2,849	- 5.9%
Tourism	- 272	- 0.2%

The Elephant in the Economy: Cannabis

Source: Gossip and Immuendo



Summary

- Labor force is shrinking
- Unemployment steadily decreasing
- Humboldt stays home to work
- We are an economy of small businesses
- We have an entrepreneurial culture
- Wages are an issue
- Targets update in progress
- Cannabis is a thing – we just don't know what

Questions/Comments



Public Hearing

HUMBOLDT BAY MUNICIPAL WATER DISTRICT

To: Board of Directors

From: Paul Helliker

Date: March 3, 2016

Subject: Retail Rate Adjustments

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At the December, 2015 Board meeting, we discussed with the Board the need for a rate adjustment, to balance expenses and revenues. At the meeting, the Board adopted alternative 2C, which would phase in a monthly charge in Fairhaven to fund future capital improvements. This alternative did not change the base monthly charge, but increased the consumption charge by 31%. This alternative would generate 38% of its revenues from base charges and 62% from commodity charges.

Both before and after the January Board meeting, we held individual meetings with our largest commercial and industrial customers, to discuss the proposed rate structure and impacts on their water bills. DG Fairhaven Power has been offline since January 1, and is currently negotiating with PG&E to receive a price that can allow them to continue to operate. Depending on the price they negotiate, the proposed water rates may or may not have much impact on their profits. The other large industrial customers understood the need to continue to fund operations and capital improvements, but wanted to know if another significant increase would be coming in another five years, and we said that we hoped the new capital charge schedule would be the last major rate increase.

At the January 14 Board meeting, the Board approved the Proposition 218 notice, which was then mailed out to HBMWD's retail customers, in time to meet the 45-day advance notice requirement prior to the rate hearing, which is scheduled for March 9 at 5:30 p.m. The notice provided customers information on the reasons for the rate increase, how to get more information and how to file a protest. If protest letters are received from a majority of property owners, the rate increase cannot go forward.

Two public meetings were held during the comment/protest period, to brief participants on the reasons for the rate increase and to answer their questions. The first was held on February 9 at the HBMWD Board room, from 4 p.m. until 7 p.m. No customers attended. The second was held on February 17 at the Samoa Fire Hall from 4-7 p.m., and 6 customers attended. We briefed them on the reason for the rate increase, and we answered their questions about how wholesale costs are apportioned, what information we used in the preparation of the capital improvement plan, what future rate increases might occur, etc.

To date, no protest letters have been received. For a protest to be successful, 103 protest letters would need to be received by the end of the public hearing. Staff recommend that the Board conduct the public hearing, hear and respond to testimony, and adopt the rate increase as proposed.

Resolution No. 2016-02**Resolution of the Humboldt Bay Municipal Water District Board of Directors Increasing the District's Rates for Retail Water Service**

WHEREAS, Section 71614 of the California Water Code states that water districts may fix the rates at which water shall be sold and different rates may be established for different classes or conditions of service; and

WHEREAS, the Humboldt Bay Municipal Water District (District) is a water district formed under the California Water Code; and

WHEREAS, Article 6 of the District's Ordinance No. 13 (establishing rates, rules and regulations for retail water service) states that rates for retail water service are subject to change by resolutions of the Board; and

WHEREAS, the District has not changed rates for retail water service since 2009 and this Resolution supercedes Resolution 2009-05; and

WHEREAS, the District has performed a rate study to determine the revenue requirements of the retail system and developed a rate schedule to meet these revenue requirements; and

WHEREAS, the District has notified its customers of the proposed rate changes, and

WHEREAS, the District held a full and fair public hearing to allow public input on the water rates, and

WHEREAS, Notice of the public hearing was given pursuant to Government Code Section 61123(b) and Article XIII D, Section 6(a) (1) of the California Constitution; and

WHEREAS, a majority protest, as defined by Article XIII D, Section 6(a)(2) of the California Constitution, does not exist with respect to the proposed charges; and

WHEREAS, the Board desires to increase the water charges, and:

WHEREAS, the consumption charge per hundred cubic foot set forth shall include an annual "pass through" as allowed by California Government Code section 53756,

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Humboldt Bay Municipal Water District hereby establishes the rates for retail water service and other charges as follows:

BASIC WATER SERVICE CHARGE

Category 1 - Domestic and Small Business Located within the Fairhaven Distribution Grid

Meter Size	Existing Base Rate	Capital Replacement Charge - 2014/15	Monthly Base Charge	New Base Rate	Capital Replacement Charge - 2016	Capital Replacement Charge - 2017	Capital Replacement Charge - 2018	Capital Replacement Charge - 2019	Capital Replacement Charge - 2020
5/8 & 3/4"	23.24	5.18	28.42	23.24	11.41	17.64	23.87	30.10	36.33
1"	30.99	5.18	36.17	30.99	11.41	17.64	23.87	30.10	36.33
1.5"	38.74	5.18	43.92	38.74	11.41	17.64	23.87	30.10	36.33
2"	54.23	5.18	59.41	54.23	11.41	17.64	23.87	30.10	36.33
3"	116.20	5.18	121.38	116.20	11.41	17.64	23.87	30.10	36.33
4"	232.40	5.18	237.58	232.40	11.41	17.64	23.87	30.10	36.33
6"	335.70	5.18	340.88	335.70	11.41	17.64	23.87	30.10	36.33
8"	568.12	5.18	573.30	568.12	11.41	17.64	23.87	30.10	36.33

Category 2 - Domestic and Small Business Located outside the Fairhaven Distribution Grid

Meter Size	Existing Base Rate	Capital Replacement Charge - 2014/15	Monthly Base Charge	New Base Rate	Capital Replacement Charge - 2016	Capital Replacement Charge - 2017	Capital Replacement Charge - 2018	Capital Replacement Charge - 2019	Capital Replacement Charge - 2020
5/8 & 3/4"	23.24	2.16	25.40	23.24	4.03	4.03	4.03	4.03	4.03
1"	30.99	2.16	33.15	30.99	4.03	4.03	4.03	4.03	4.03
1.5"	38.74	2.16	40.90	38.74	4.03	4.03	4.03	4.03	4.03
2"	54.23	2.16	56.39	54.23	4.03	4.03	4.03	4.03	4.03
3"	116.20	2.16	118.36	116.20	4.03	4.03	4.03	4.03	4.03
4"	232.40	2.16	234.56	232.40	4.03	4.03	4.03	4.03	4.03
6"	335.70	2.16	337.86	335.70	4.03	4.03	4.03	4.03	4.03
8"	568.12	2.16	570.28	568.12	4.03	4.03	4.03	4.03	4.03

Category 3 - Large Business

Meter Size	Existing Base Rate	Capital Replacement Charge - 2014/15	Monthly Base Charge	New Base Rate	Capital Replacement Charge - 2016	New Monthly Base Charge
Large Business						
4" DG Fairhaven Power	232.40	76.40	308.80	232.40	73.11	305.51
4" Town of Samoa	232.40	71.02	303.42	232.40	55.04	287.44
6" Humboldt Bay Harbor & Rec	335.70	71.02	406.72	335.70	82.33	418.03
6" US Coast Guard	335.70	81.77	417.47	335.70	86.81	422.51
Category 4 - Standby Fire Charges						
6" DG Fairhaven Power	595.02	7.53	602.54	778.62	9.00	787.62
8" Calif. Redwood Co.	990.97	71.02	1,061.99	1,296.77	70.16	1,366.93
8" Sequoia Investments	990.97	159.24	1,150.22	1,296.77	144.91	1,441.68

METERED WATER SERVICE RATES (Per cubic feet)

Usage Range (CF)	Current Rate	New Rate
0-500	0.00	0.00
501-1500	1.30	1.77
1501-5000	1.40	1.90
5001-100,000	1.52	2.07
>100,000	0.60	0.82

OTHER CHARGES

Application Processing Fee - for setting up new accounts	\$30	Padlock Charge	At Cost
Reconnection Service Charge - Due to non-payment	\$25	Connection Charge -- For connection to system	\$2,400
Reconnection Service Charge - For replacement of meter head	\$175		

BE IT FURTHER RESOLVED, that the Board of Directors of the Humboldt Bay Municipal Water District hereby establishes a rate adjustment formula for inflation based on any annual increase change in the Consumer Price Index (CPI for West –Size B/C) with rates to be adjusted each July 1st through the calendar year 2021.

BE IT FURTHER RESOLVED, that the consumption charge per hundred cubic feet set forth above shall be subject to a “pass through” adjustment. The pass through adjustment shall be calculated for each fiscal year by subtracting the District’s actual commodity cost of water (per 100 cf) for the most recent calendar year 2015. The actual commodity cost of water (per 100 cf) for a year shall be calculated by *dividing* the total of all Humboldt Bay Municipal Water District charges for water delivered during the year *by* the number of 100 cf of water delivered.

and BE IT FURTHER RESOLVED, that these rates shall be effective as of April 1, 2016.

The Board finds and determines:

- a. Revenues derived from the water service charge will not exceed the funds required to provide water service.
- b. Revenues derived from the water service charge will not be used for any purpose other than providing water service.
- c. The amount of the charges imposed by this Resolution upon any parcel or person as an incident of property ownership will not exceed the proportional cost of the service attributable to the parcel.
- d. No charge will be imposed under this Resolution for a service unless that service is actually used by, or immediately available to, the owner of the property in question.

Adopted and approved this 9th day of March 2016 by the following roll call vote:

AYES:

NOES:

ABSENT:

Attest:

Barbara Hecathorn, President

J. Bruce Rupp, Secretary/Treasurer