

To: Board of Directors
From: Norma J. Camacho, Interim CEO

Chief Executive Officer Bulletin Week of February 10 - 16, 2017

Board Executive Limitation Policy EL-7:

The Board Appointed Officers shall inform and support the Board in its work. Further, a BAO shall 1) inform the Board of relevant trends, anticipated adverse media coverage, or material external and internal changes, particularly changes in the assumptions upon which any Board policy has previously been established and 2) report in a timely manner an actual or anticipated noncompliance with any policy of the Board.

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Report of Non-Compliance with Executive Limitation (EL) Policy EL-1: California Political Reform Act Non-Compliance

This is to notify the Board of a non-compliance with Executive Limitations Policy-1.

California Government Code Section 86113 requires registered lobbyists to file with the Secretary of State a quarterly Lobbyist Report (Form 615) which discloses expenses paid, incurred, or arranged by the lobbyist for the purpose of influencing legislative or administrative action. This report must be filed even when the lobbyist has no qualifying expenses to report.

The water district employs staff who are registered lobbyists. The Lobbyist Reports for the 3rd and 4th quarters of 2015 were prepared, disclosed there were no reportable expenses, but were mistakenly not filed in a timely manner. The water district discovered the error, subsequently filed the required reports, and submitted a Request for Waiver of Liability to the Secretary of State for the late filing of Form 615 for the two quarters in question. The person who failed to file the required reports is no longer employed by the water district.

In December 2016, the Secretary of State notified the water district that the Request for Waiver of Liability had been denied and that a fine of \$100 per quarter must be paid. The water district paid the fines totaling \$200.

Failure to timely file disclosures required by law constitutes non-compliance with the governance policy number EL-1. Corrective steps taken to ensure the timely filing of all future lobbyist disclosures include a staffing change and a procedure to verify the electronic filing of required documents.

For further information, please contact Rick Callender at (408) 630-2017.

Water District Credit Rating Updates

On February 8, 2017, Fitch Ratings, Inc. ("Fitch") upgraded the water district's Water Utility credit rating to 'AA+' from 'AA', and adjusted the Watersheds credit rating to the same level as Water Utility rating of 'AA+' from 'AAA'.

These adjustments are due to Fitch's revised 'U.S. Tax-Supported Rating Criteria', published April 18, 2016, which required the assignment of an Issuer Default Rating (IDR) that reflects overall operating risk for issuers of tax-supported debt. Fitch emphasized that the Watersheds credit rating adjustment "reflects the implementation of the IDR cap, not a weakening in credit fundamentals" (source: <https://www.fitchratings.com/site/pr/1018747>). In addition, on February 7, 2017, Moody's Investor Services (Moody's) affirmed the Watershed credit rating at 'Aa1'.

With the rating changes, the water district's overall credit rating profile is now as follows:

- (1) Watersheds Credit Ratings: Fitch AA+; Moody's Aa1; S&P AA+
- (2) Water Utility Credit Ratings: Fitch AA+; Moody's Aa1; S&P AA-

The Watersheds credit ratings for all three rating agencies are one notch below the highest category of 'AAA'. These ratings reflect very high credit quality as a result of the water district's large size, diverse sources of revenues, strong liquidity position, economic strength of the service area, strong management team, and the board's leadership in maintaining a strong financial position.

The Fitch upgrade for the Water Utility credit is a strong positive for the water district, and should allow the water district to borrow at lower costs for future debt issuances to finance the Water Utility Capital Improvement Plan.

For further information, please contact Darin Taylor at (408) 630-3068.

Status of the Safe, Clean Water funded Water Conservation Research Grant Program, including projects selected for the 2017 round of funding

The Safe, Clean Water funded Water Conservation Research Grant Program provides funding for research projects of new and innovative water conservation programs and technologies. The primary goal is to identify water savings devices and strategies that can assist the water district in meeting its long-term water savings goal of 98,500 acre-feet per year by 2030.

On September 27, 2016, the board approved the fourth cycle for the Safe, Clean Water funded Water

Conservation Research Grant Program (Program). The board approved a funding amount for the 2017 grant cycle of up to \$100,000, approved the evaluation criteria, and authorized the CEO to execute grant agreements consistent with the Program.

The water district released the request for grant proposals on September 30, 2016. Significant outreach was conducted, including: email notification to over 400 stakeholder groups, and an additional 210 schools (including public elementary, middle, high schools, and charter schools); notification letters from the water district to City Managers and executive directors; notification letter from the board to city mayors and the County of Santa Clara President of the Board of Supervisors; web page updates; and a pre-bid workshop. Eight applications were received by the due date of November 30, 2016.

A four-member review panel (two internal and two external) evaluated the eight proposals based on the approved criteria. The following two proposals received the highest scores and were selected for funding:

- Fisher Nickel, Inc. - Dipper Well Replacement Study, \$37,500
- Ecology Action - Every Drop Counts-Investigation of water savings from using captured rainwater for indoor purposes such as toilet flushing and clothes washing, \$49,940

Funding for these projects totaled \$87,440. The remaining unused funding (\$12,560) will be allocated in future rounds.

For further information, please contact Garth Hall at (408) 630-2750.

Santos

**Prepare Board Item considering policy restricting District funded travel to states of Kansas, Mississippi, North Carolina, and Tennessee, due to sexual orientation, gender identify, gender expression discriminatory laws
R-17-0002**

The requested board item is being prepared and will be presented to the board on April 25, 2017.

For further information, please contact Rick Callender at (408) 630-2017.
