

**DELTA CONVEYANCE FINANCE AUTHORITY  
BOARD OF DIRECTORS MEETING**

**REGULAR MEETING**

Thursday, October 15, 2020  
11:00 a.m.

Via Teleconference:  
United States: +1 (408) 650-3123  
Access Code: 785-848-229

**AGENDA**

***SPECIAL NOTICE REGARDING COVID-19***

*On March 4, 2020, Governor Newsom proclaimed a State of Emergency in California as a result of the threat of COVID-19. On March 17, 2020, Governor Newsom issued Executive Order N-29-20 (superseding the Brown Act-related provisions of Executive Order N-25-20 issued on March 12, 2020), which allows a local legislative body to hold public meetings via teleconferencing and to make public meetings accessible telephonically or otherwise electronically to all members of the public seeking to observe and to address the local legislative body. Pursuant to Executive Order N-29-20, please be advised that members of the public will participate in meetings telephonically.*

***PUBLIC PARTICIPATION:*** Pursuant to Executive N-29-20 and given the current health concerns, members of the public can access meetings via conference call at **United States: +1 (408) 650-3123, Access Code: 785-848-229**. In addition, members of the public can submit comments electronically for consideration by **9:00 a.m. on October 15, 2020** by sending them to **[lindastandlee@dcfinanceauthority.org](mailto:lindastandlee@dcfinanceauthority.org)**. To ensure distribution to the members of the DC Finance Authority Board of Directors prior to consideration of the agenda, **please submit comments prior to 9:00 a.m. on October 15, 2020**. Those comments will be distributed to the members of the DC Finance Authority Board and will be made part of the official public record of the meeting. Contact Linda Standlee at 916-812-6400 with any questions.

***ACCESSIBILITY:*** If requested, the agenda and backup materials will be made 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. Any person who requires a disability-related modification or accommodation, in order to observe and/or offer public comment may request such reasonable modification, accommodation, aid, or service by contacting **Linda Standlee** by telephone at **916-812-6400** or via email to **[lindastandlee@dcfinanceauthority.org](mailto:lindastandlee@dcfinanceauthority.org)** no later than **5:00 p.m.** on October 14, 2020.

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. PLEDGE OF ALLEGIANCE**
- 4. PUBLIC COMMENT**
- 5. OTHER MATTERS**
  - a. None.

**6. CONSENT CALENDAR**

*Items on the Consent Calendar are considered to be routine by the Board of Directors and will be enacted by one motion and one vote. There will be no separate discussion of these items unless a director so requests, in which event the item will be removed from the Consent Calendar and considered separately.*

- a. Approval of the minutes from the meeting of July 16, 2020

**7. SCHEDULED ACTION ITEMS**

- a. Approval of a no-cost extension to Michael Bell Management Consulting Contract for Executive Director
- b. Receive and file the 2019/20 Audit Report

**8. REPORTS AND ANNOUNCEMENTS**

- a. Executive Director's Report
- b. General Counsel's Report
- c. Treasurer's Report

**9. FUTURE AGENDA ITEMS**

**10. CLOSED SESSION**

- a. Conference with legal counsel pursuant to Government Code section 54956.9, potential litigation: one case.

**11. ADJOURNMENT**

BOARD OF DIRECTORS MEETING

# MINUTES

**REGULAR MEETING**  
**Thursday, July 16, 2020**  
**11:00 am**

(Paragraph numbers coincide with agenda item numbers)

## 1. CALL TO ORDER

The regular meeting of the Delta Conveyance Finance Authority (Finance Authority) Board of Directors was called to order by President Record via teleconference at 11:01 a.m. Linda Standlee reviewed the process the Board and public would follow for the meeting, noting that all voting would be via roll call vote, as the meeting was being held remotely.

## 2. ROLL CALL

Board members in attendance were Robert Cheng, Dwayne Chisam, Kathy Cortner, Jeff Davis, Mark Krause, Gary Kremen, Valerie Pryor, Randy Record, Cindy Saks, Paul Sethy, and Matt Stone.

Staff members in attendance were Brian Thomas, Katano Kasaine, and Steve O'Neill.

## 3. PLEDGE OF ALLEGIANCE

Director Cheng led the Pledge of Allegiance.

## 4. PUBLIC COMMENT

President Record declared public comment open, limiting speaking time to three minutes.

No members of the public requested time to speak, therefore President Record closed public comment. Brian Thomas noted that a letter had been received from Terra Land Group, which was distributed to the Board and entered into the meeting record.

## 5. OTHER MATTERS

5.a. None.

## 6. CONSENT CALENDAR:

6.a. Approval of the minutes from the meeting of May 21, 2020.

|                  |   |
|------------------|---|
| Motion:          | Approve the minutes from the meeting of May 21, 2020  |
| Move to Approve: | Valerie Pryor   |
| Second:          | Jeff Davis  |
| Yeas:            | Robert Cheng, Dwayne Chisam, Kathy Cortner, Jeff Davis, Mark Krause, Gary Kremen, Valerie Pryor, Randy Record, Cindy Saks, and Matt Stone |
| Nays:            | None  |

|           |   |
|-----------|---|
| Abstains: | 1, Paul Sethy   |
| Recusals: | None  |
| Absent:   | None  |
| Summary:  | 10 Yeas; 0 Nays; 1 Abstains; 0 Absent. (Motion passed as MO 20-07-01) |

## **7. SCHEDULED ITEMS**

- a. Report from Kathryn Mallon, Executive Director for the Delta Conveyance Design & Construction Authority (informational)

Ms. Mallon noted that at the June DCA Board meeting the fiscal year 20/21 budget was approved by the Board. The budget is \$34 million for the year, which is consistent with the cost plan. Approximately \$24 million is dedicated to engineering and fieldwork activities. Director Cheng queried how the remaining budget would be utilized, with Ms. Mallon noting the funds would be utilized for administrative-type costs (e.g., lease, utilities, office expenses, overhead functions).

- b. Review and approval of changes to the DCFA's investment policy

Director Record queried for public comment on this item. No public comment was offered. Ms. Katano Kasaine, DCFA's Treasurer presented this item to the Board. Ms. Kasaine provided a presentation to the Board that identified changes to the DCFA investment policy for FY20/21 to be consistent with Metropolitan's adopted Investment Policy. Ms. Kasaine also discussed with the Board the annual delegation of authority to the DCFA Treasurer that allows for the investment or reinvestment of DCFA funds pursuant to California Government Code Section 53607.

- 7.b. Approval of changes to the DCFA's investment policy.

|                  |   |
|------------------|---|
| Motion:          | Approve Resolution 20-01 adopting the revised investment policy   |
| Move to Approve: | Jeff Davis  |
| Second:          | Kathy Cortner   |
| Yeas:            | Robert Cheng, Dwayne Chisam, Kathy Cortner, Jeff Davis, Mark Krause, Gary Kremen, Valerie Pryor, Randy Record, Cindy Saks, Paul Sethy, and Matt Stone |
| Nays:            | None  |
| Abstains:        | None  |
| Recusals:        | None  |
| Absent:          | None  |
| Summary:         | 11 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 20-07-02)   |

|                  |   |
|------------------|---|
| Motion:          | Approve Resolution 20-02 delegating authority to the Treasurer to invest the Authority's funds  |
| Move to Approve: | Kathy Cortner   |
| Second:          | Robert Cheng  |
| Yeas:            | Robert Cheng, Dwayne Chisam, Kathy Cortner, Jeff Davis, Mark Krause, Gary Kremen, Valerie Pryor, Randy Record, Cindy Saks, Paul Sethy, and Matt Stone |
| Nays:            | None  |

|           |   |
|-----------|---|
| Abstains: | None  |
| Recusals: | None  |
| Absent:   | None  |
| Summary:  | 11 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 20-07-03) |

## **8. REPORTS AND ANNOUNCEMENTS**

### **8.a. Executive Director Report**

Mr. Thomas noted his written report and updated actions were included in the Board packet. He noted that during the last few months activities associated with the DCFA have been limited. Mr. Thomas noted he held conversations with DWR legal, where they informed him that they expect to file their validation action within the next few months. He noted that the audit process has begun, and that he plans to meet with the auditors and Ms. Kasaine and her staff remotely while working on this project.

### **8.b. General Counsel Report**

Mr. O'Neill reported on activities which occurred during the last two months. He noted there had been some coordination with staff on Form 700 administrative matters, the audit peer review letter, and general board coordination. He also noted he worked with Ms. Kasaine and Mr. Thomas on the investment policy revisions.

### **8.c. Treasurer's Report**

Ms. Kasaine noted the Treasurer's report was included in the board packet. She also noted that work will begin shortly on the audit.

## **9. FUTURE AGENDA ITEMS**

There were no future agenda items.

## **10. CLOSED SESSION**

- 10.a. Conference with legal counsel pursuant to Government Code section 54956.9, potential litigation: one case.

Mr. O'Neill noted there was no need for a closed session.

## **11. ADJOURNMENT:**

President Record adjourned the meeting at 11:27 a.m.

## **Board Memo**

Contact: Brian Thomas, Executive Director

**AGENDA DATE: October 15, 2020**

**Item No. 7.a**

**Subject: Contract Extension for Executive Director Services**

### **Executive Summary**

The Board of Directors approved a one-year contract with Michael Bell Management Consulting to provide Executive Director services at its meeting on December 20, 2018. Brian Thomas, Executive Director, provides services under this contract. The initial contract term covered January 1, 2019 to December 31, 2019 at a total compensation, including expenses, of \$200,000. Brian Thomas has been providing such services since the Delta Conveyance Finance Authority's (Authority or DCFA) creation. On October 17, 2019, the Board approved a one-year extension to December 31, 2020. This extension was a "no-cost" extension, with no change in compensation or total contract amounts. Given this year's activity and expenditure levels, the contract can be extended for an additional year without a change to the compensation level and total contract amount.

### **Detailed Report**

The board approved a contract with Michael Bell Management Consulting to retain the services of Brian Thomas to serve as Executive Director of the Authority at its meeting on December 20, 2018. Mr. Thomas has been serving as the Authority's Executive Director since the Authority's inception in July 2018. At the October 17, 2019, board meeting, the Board approved an extension at no cost until December 31, 2020. The terms of the amended contract include maximum compensation of \$200,000 (including expenses) and a termination date of December 31, 2020.

As discussed in recent board meetings and as shown in the 2020/21 budget, the DCFA's activities have been limited to administrative and maintenance functions. Given this change, the cost for executive director activities has been significantly lower than previously anticipated when the original contract was executed. Total expenditures under the contract through September 2020 are anticipated to be about \$100,000, or about 50% of the total contract amount. Expenditures for fiscal year 2019/20 are estimated to be less than the budget of \$60,000.

At this level of spending, the existing contract with Michael Bell Management Consulting can be extended for another year without additional cost. If activity, including any need for financing, extensive financial analysis or outreach, increases in the next calendar year, the board may amend the contract for any supplemental funds. This extension will have no impact on member agency assessments or the operating budget.

### **Funding**

Funds are available in the 2020/21 budget and will be included in the 2021/22 fiscal year operating budget.

**Recommended Action**

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Approve Amendment No.2 to the contract with Michael Bell Management Consulting to extend the term of the contract for an additional year to December 31, 2021 with no increase in compensation or total contract amount.

## Board Memo

Contact: Brian Thomas, Executive Director

**AGENDA DATE: October 15, 2020**

**Item No. 7.b**

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### Subject

Audited Financial Statements for Fiscal Year 2019/20

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### Executive Summary

The Board retained the services of Richardson & Company to perform an audit of the Delta Conveyance Finance Authority's (Authority) financial activities for the past fiscal year. The attached audit report and accompanying documents are provided for the Board's review.

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### Detailed Report

Annually, the Authority is required to conduct an external financial audit. Since the operating activity of the Authority is limited, the financial statements are presented on a cash basis, showing actual receipts and disbursements. Given the Authority has no assets other than the cash and investments in the trust fund, the cash basis of accounting is the easiest and most transparent way to present the financial activities of the Authority. It is also consistent with the Authority's budgeting process and presentation. If, and when, the Authority issues any debt, the basis of accounting would be modified to the accrual basis.

In addition to the audit and accompanying cash basis financial statements, the auditor has issued a Governance Letter and a Management Letter. The Governance Letter includes certain required disclosures to the board. These disclosures are required under external audit standards. The Management Letter addresses the external auditor's review of internal controls as it pertains to their audit of the Authority's financial statements. There were no material weaknesses or recommendations reported by the external auditor.

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### Funding

NA

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### Recommended Action

Receive and file the audited financial statements and attached reports for fiscal year 2019/20.

### ATTACHMENT:

Audited Financial Statements for Fiscal Year 2019/20  
Governance Letter  
Management Letter



DELTA CONVEYANCE FINANCE AUTHORITY  
BOARD MEETING AUDIT PRESENTATION AGENDA

October 15, 2020

Presentation by Richardson & Company, LLP of the Audited Financial Statements, including the following communications required by Generally Accepted Auditing Standards:

Reports issued

- Auditor's opinion on the financial statement
- Governance (required communications) letter
- Management letter

Independent Auditor's Report (page 1)

- Fairly presented on cash basis of accounting

Discussion of financial statements

- Contributions from members (\$550,000) increased and exceeded disbursements
- Disbursements consist of mostly payments to consulting firm for executive director, payments to MWD for treasury and accounting functions and legal services
- Remaining cash balance of \$621,471 maintained in MWD's cash and investment pool
- Contingency disclosure regarding status of Delta Conveyance Project
- Disclosure as a result of COVID

Governance letter

- Discusses scope and limitations of an audit
- No misstatements noted
- No difficulties in performing the audit and no unusual accounting practices

Management letter

- No material weaknesses in internal controls--good internal controls

**DELTA CONVEYANCE  
FINANCE AUTHORITY**

Audited Statements of Cash Receipts and Disbursements

June 30, 2020 and 2019

DELTA CONVEYANCE FINANCE AUTHORITY  
AUDITED STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS

June 30, 2020 and 2019

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Delta Conveyance Finance Authority  
Sacramento, California

We have audited the accompanying financial statement of the Delta Conveyance Finance Authority (the Authority), which comprise the statements of cash receipts and disbursements for the years ended June 30, 2020 and 2019, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinion on the financial statement based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is 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 internal control. Accordingly, 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 opinion.

### **Opinion**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash receipts and cash disbursements of the Authority for the years ended June 30, 2020 and 2019, in accordance with the cash basis of accounting described in Note A.

Board of Directors  
Delta Conveyance Finance Authority

**Basis of Accounting**

We draw attention to Note A of the financial statements, which describes the basis of accounting. These financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

*Richardson & Company, LLP*

October 2, 2020

DELTA CONVEYANCE FINANCE AUTHORITY

STATEMENTS OF CASH RECEIPTS AND CASH DISBURSEMENTS

Years Ended June 30, 2020 and 2019

|   | <u>2020</u>              | <u>2019</u>              |
|---|--------------------------|--------------------------|
| CASH RECEIPTS                             |                          |                          |
| Contributions from member agencies        | \$ 550,000               | \$ 400,000               |
| Interest income                           | 12,586                   | 1,900                    |
| TOTAL CASH RECEIPTS                       | <u>562,586</u>           | <u>401,900</u>           |
| CASH DISBURSEMENTS                        |                          |                          |
| Executive director                        | 54,918                   | 109,170                  |
| Insurance premiums                        | 11,943                   | 11,943                   |
| Treasury and accounting                   | 30,000                   | 30,000                   |
| Meeting expenses                          | 200                      | 2,100                    |
| Professional services                     | 70,084                   | 22,657                   |
| TOTAL CASH DISBURSEMENTS                  | <u>167,145</u>           | <u>175,870</u>           |
| EXCESS OF RECEIPTS OVER DISBURSEMENTS     | 395,441                  | 226,030                  |
| Cash and investments at beginning of year | <u>226,030</u>           | <u>-</u>                 |
| CASH AND INVESTMENTS AT END OF YEAR       | <u><u>\$ 621,471</u></u> | <u><u>\$ 226,030</u></u> |

The accompanying notes are an integral part of the financial statement.

# DELTA CONVEYANCE FINANCE AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2020 and 2019

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity:** The Authority is a Joint Powers Authority organized under California Government Code Section 6505. The Authority was created July 3, 2018 to assist the Department of Water Resources (DWR) and public agency participants to finance all or a portion of the California WaterFix. The California WaterFix is a major project that will deliver water from the Sacramento River near the northern end of Sacramento-San Joaquin Delta to the existing State Water Project and Central Valley Project pumping plants in the southern end of the delta. Its members consist of water agencies that contract with DWR for the purchase of water. Its operations are supported by the collection of contributions from its members. The governing board is made up of eleven representatives from member agencies.

**Basis of Presentation and Accounting:** The accompanying statements of cash receipts and disbursements has been prepared on the cash receipts and disbursements basis of accounting. Under that basis, the only asset recognized is cash and investments and no liabilities are recognized. All transactions are recognized as either cash receipts or cash disbursements, and noncash transactions are not recognized. The cash basis differs from generally accepted accounting principles primarily because revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

### NOTE B – CASH AND INVESTMENTS

At June 30, 2020 and 2019, all of the Authority's cash and investments are maintained in Metropolitan Water District of Southern California's (MWD's) Treasury.

**Investment policy:** California statutes authorize districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The following table identifies the investment types that are authorized for the Authority by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

| Authorized Investment Type                         | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|--|------------------|---------------------------------|----------------------------------|
| U.S. Treasury Obligations                          | 5 years          | No limit                        | No limit                         |
| Federal Agency Obligations                         | 5 years          | No limit                        | No limit                         |
| Bankers' Acceptances                               | 180 days         | 40%                             | 5%                               |
| Commercial Paper                                   | 270 days         | 25%                             | 5%                               |
| Negotiable Certificates of Deposit                 | 5 years          | 30%                             | 5%                               |
| Certificates of Time Deposit                       | 5 years          | 30%                             | No limit                         |
| Repurchase Agreements                              | 270 days         | 20%                             | No limit                         |
| Medium-Term Corporate Notes                        | 5 years          | 30%                             | 5%                               |
| Money Market Mutual Funds                          | N/A              | 20%                             | No limit                         |
| Municipal Bond and Notes                           | 5 years          | 30%                             | 5%                               |
| Metropolitan Water District Pooled Investment Fund | N/A              | No limit                        | No limit                         |
| Local Agency Investment Fund (LAIF)                | N/A              | No limit                        | No limit                         |
| California Asset Management Program (CAMP)         | N/A              | 10%                             | No limit                         |
| Asset- Backed Securities                           | 5 years          | 20%                             | 5%                               |
| Supranationals                                     | 5 years          | 30%                             | No limit                         |

## DELTA CONVEYANCE FINANCE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

#### NOTE B – CASH AND INVESTMENTS (Continued)

The Authority complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The Authority will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

Investment in the MWD Investment Pool: The Authority's cash is held in the MWD's cash and investment pool which is managed by the MWD Treasurer. The Authority's cash balances invested in the MWD Treasurer's cash and investment pool are stated at amortized cost, which approximates fair value. The amount invested by all public agencies in MWD's cash and investment pool is \$1,241,744,000 at June 30, 2020 and \$1,182,641,000 at June 30, 2019. MWD does not invest in any derivative financial products. MWD's Board delegates to the treasurer the oversight responsibility for MWD's cash and investment pool. The value of pool shares in MWD that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Authority's position in the pool. Cash held in the MWD's investment pool will be disbursed within 5 days. Close-out of the cash held in the pool requires 30-day notice.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment in MWD's pool has an average maturity of 235 days as of June 30, 2020 and 238 days as of June 30, 2019.

Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The external investment pool is not rated.

Concentration of Credit Risk: The investment policy of the Authority limits the amount that can be invested by any one issuer to the California Government Code. There are no investments in any one issuer (other than external investment pools) that represent 5% or more of total Authority investments.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect deposits or investments in securities with governmental investment pools (such as MWD's investment pool).

#### NOTE C – RELATED PARTY TRANSACTIONS

The Authority contracts for treasury and accounting services with MWD, who is also a member agency. The expenses for treasury and accounting services totaled \$30,000 for both the years ending June 30, 2020 and 2019.



## DELTA CONVEYANCE FINANCE AUTHORITY

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

#### NOTE D – CONDUIT DEBT

The Authority has the power to issue, sell and deliver, in accordance with the Joint Powers Act, bonds, notes, or other obligations to provide funds for the acquisition, construction and/or financing of the Conveyance Project known as the California WaterFix. The Authority Finance Program acts as a conduit of debt and as a result, the financing obligations are not recorded in the Authority's financial statement. Currently, the Authority has not issued any conduit debt as of June 30, 2020 and 2019.

#### NOTE E - CONTINGENCY

The Authority was created to support the financing of all or a portion of the Delta Conveyance facility. On May 2, 2019, as a result of the Governor's determination that a smaller facility was appropriate, the Department of Water Resources withdrew its proposed permits for the project and initiated a renewed environmental process. This action has deferred the need to finance construction of the facility. As of August 21, 2020 a final decision regarding whether to approve the proposed Delta Conveyance Project or an alternative, including no project alternative, will not occur until after completion of the environmental review under the California Environmental Quality Act and National Environmental Policy Act, and other environmental permitting processes have been completed.

#### NOTE F – SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Authority's operation and financial performance depends on certain developments, including the duration and spread of the outbreak, and the impact on the public, member agencies and vendors, all of which are uncertain and not determinable. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain.



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## GOVERNANCE LETTER

Board of Directors  
Delta Conveyance Finance Authority  
Sacramento, California

We have audited the financial statement of the Delta Conveyance Finance Authority (Authority) for the year ended June 30, 2020, and have issued our report thereon dated October 2, 2020. Professional standards require that we provide you with the following information about our responsibility under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statement prepared by management with your oversight is fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statement does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.

### Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statement and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We noted no material weaknesses in internal control as a result of our audit.

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 10, 2020.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note A to the financial statement. We noted

no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No misstatements were noted during our audit.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 2, 2020.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statement or a determination of the type of auditor's opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Richardson & Company, LLP*

October 2, 2020



550 Howe Avenue, Suite 210  
Sacramento, California 95825  
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## MANAGEMENT LETTER

Board of Directors  
Delta Conveyance Finance Authority  
Sacramento, California

In planning and performing our audit of the financial statement of Delta Conveyance Finance Authority (Authority) for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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 statement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

No recommendations for improvement were noted during our audit.

\* \* \* \* \*

This communication is intended solely for the information and use of management, the Board of Directors and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Richardson & Company, LLP*

October 2, 2020

## Board Memo

Contact: Brian Thomas, Executive Director

**AGENDA DATE: October 15, 2020**

**Item No. 8.a**

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### Subject:

Executive Director's Report

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### Executive Summary

As we have discussed, the DCFA's activity since the last meeting has been focused on administrative activities and completing the external audit. But, we have continued to communicate with the State Water Contractors, including the Metropolitan Water District, the Department of Water Resources and the DCA to keep current with activities on the project.

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### Detailed Report

#### Activities

**Administration.** The DCA has launched their new website. The DCFA has its own tab on that website, including all documents and board agendas and reports. Most of the activity has been completing the external audit, which will be presented at the board meeting. Given the DCFA's limited activities, there are no comments or areas of weakness in fiscal controls. I have attached a copy of board actions to date for your reference.

**Meetings/calls.** The DCA presented its update cost estimate of the project, which is now \$15.9 billion. This cost estimate includes significant contingencies and is in 2019 dollars. As such, the construction cost as bid will be different. At this stage of the project, it was determined an estimate in 2019 dollars was appropriate. State Water Project Contractors are expected to take cost share agreements (AIP) to their boards over the next quarter. This will also determine the respective shares of the planning costs. DWR continues to make progress on the environmental documents, and the DCA has continued its outreach through the Stakeholder Engagement process.

#### Future Activities

I will continue working with the members, the DCA, DWR and the state water project contractors to identify opportunities to support financial analysis and activities.

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### Recommended Action

Informational.

## DELTA CONVEYANCE FINANCE AUTHORITY

Completed Actions as of:

September 30, 2020

| Action  | Date       |
|---|------------|
| Adopted the CEQA determination for actions related to California Water Fix – that the Board has reviewed and considered the BDCP/California WaterFix environmental documentation and adopts the lead agency’s Findings of Fact, Statement of Overriding Considerations, Mitigation Monitoring and Reporting Program | 7/19/2018  |
| Approved agreement with Metropolitan to provide treasury and accounting services  | 7/19/2018  |
| Approved submittal of WIFIA Letter of Interest  | 7/19/2018  |
| Approved execution of agreement with Michael Bell Consulting to retain the services of Brian Thomas as Interim Executive Director   | 7/19/2018  |
| Approved Fiscal Year 2018/19 Operating Budget   | 8/16/2018  |
| Approved Debt Management Policy   | 8/16/2018  |
| Approved Investment Policy  | 8/16/2018  |
| Approved Bylaws   | 11/15/2018 |
| Approved extension of contract with Michael Bell Management Consulting for the services of Brian Thomas as Executive Director through December 31, 2019   | 12/14/2018 |
| Adopted Conflict of Interest Code   | 12/28/2018 |
| Approved Reimbursement Policy   | 1/17/2019  |
| Approved execution of agreement with Oliverrez Madruga Lemieux O'Neill to serve as general counsel  | 1/17/2019  |
| Approved execution of agreement with Norton Rose Fulbright to serve as bond counsel   | 2/21/2019  |
| Approved execution of agreement with Stradling Yocca Carlson & Rauth to serve as disclosure counsel   | 2/21/2019  |
| Approved Fiscal Year 2019/20 Operating Budget and annual membership fees  | 5/16/2019  |
| Approved execution of agreement with Richardson & Co. to provide external audit services  | 5/16/2019  |
| Approved updated and amended Investment Policy  | 7/18/2019  |
| Approved amendments to the DCFA bylaws  | 7/18/2019  |

## DELTA CONVEYANCE FINANCE AUTHORITY

Completed Actions as of:

September 30, 2020

| Action  | Date       |
|---|------------|
| Approved no-cost extension to agreement with Michael Bell Management Consulting Services to provide Executive Director Services through December 2020 | 10/17/2019 |
| Received and filed audited financial statements for fiscal year 2018/19   | 10/17/2019 |
| Appointed Board Officers and Executive Committee  | 1/16/2020  |
| Appointed MWD CFO as the Treasurer for the Authority  | 1/16/2020  |
| Approved Fiscal Year 2020/21 Budget   | 5/21/2020  |
| Approved Updated Investment Policy and Delegated authority to the Treasurer to invest funds   | 7/16/2020  |



## **Board Memo**

Contact: Katano Kasaine, Treasurer

**AGENDA DATE: October 15, 2020**

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**Item No. 8c**

**Subject: Treasurer's Report, Quarter Ended September 30, 2020**

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### **Executive Summary**

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The beginning cash balance in the DCFA Trust at July 1, 2020 was \$621,471. Receipts for the three months ended September 2020 totaled \$2,510, consisting of interest receipts. Disbursements totaled \$6,693 during the three months ended September 2020. The ending cash balance at September 30, 2020 was \$617,288.

Attached is a schedule of Budget versus Actual through September 30, 2020. Year-to-date actual expenses were \$204,554 lower than budget due to limited opportunities to move forward with financing transactions.

### **Detailed Report**

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See attached Statements

### **Recommended Action**

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For information only

### **ATTACHMENTS:**

Attachment 1: DCFA Quarter Ended September 30, 2020 Financial Statements and Budget versus Actual





**DELTA CONVEYANCE FINANCE AUTHORITY**

Statement of Net Position

As of September 30, 2020

Assets:

|                     |    |             |
|---------------------|----|-------------|
| Cash                | \$ | 617,288     |
| Interest receivable |    | 739         |
| Prepays             |    | 783         |
|                     |    | <hr/>       |
| Total assets        | \$ | 618,810     |
|                     |    | <hr/> <hr/> |

|              |    |             |
|--------------|----|-------------|
| Net position | \$ | 618,810     |
|              |    | <hr/> <hr/> |



**DELTA CONVEYANCE FINANCE AUTHORITY**  
Statement of Cash Receipts and Disbursements

|                            | Quarter Ended<br>Sep '20 |
|----------------------------|--------------------------|
| Receipts:                  |                          |
| Interest receipts          | \$ 2,510                 |
| Total receipts             | <u>2,510</u>             |
| Disbursements:             |                          |
| Executive director         | 5,363                    |
| Professional services      | <u>1,330</u>             |
| Total disbursements        | <u>6,693</u>             |
| Net change in cash         | (4,183)                  |
| Cash at July 1, 2020       | <u>621,471</u>           |
| Cash at September 30, 2020 | <u><u>\$ 617,288</u></u> |



**DELTA CONVEYANCE FINANCE AUTHORITY**  
Statement of Revenues, Expenses, and Changes in Net Position

|                                    | Quarter Ended<br>Sep '20 |
|------------------------------------|--------------------------|
| Revenues:                          |                          |
| Interest income                    | \$ 2,444                 |
| Total revenues                     | <u>2,444</u>             |
| Expenses:                          |                          |
| Executive director                 | 1,138                    |
| Insurance premiums                 | 3,003                    |
| Professional services              | 805                      |
| Total expenses                     | <u>4,946</u>             |
| Changes in net position            | (2,502)                  |
| Net position at June 30, 2020      | <u>621,312</u>           |
| Net position at September 30, 2020 | <u><u>\$ 618,810</u></u> |

\* Balances may include prior quarter accruals that were not previously captured due to timing.

**DELTA CONVEYANCE FINANCE AUTHORITY**Schedule of Invoices Paid  
for the Three Months Ended September 30, 2020

| <b>Vendor</b>                                  | <b>Invoice #</b> | <b>Invoice Date</b> | <b>Payment Date</b> | <b>Period of Expense</b> | <b>Amount</b>   | <b>Disbursement Category</b> |
|--|------------------|---------------------|---------------------|--------------------------|-----------------|------------------------------|
| 1 Michael Bell Management Consulting           | 518              | 06/24/20            | 07/01/20            | 05/01/20-05/31/20        | \$ 4,225        | Executive director           |
| 2 Olivarez Madruga Lemieux O'Neill, LLP (OMLO) | 11271            | 06/30/20            | 08/03/20            | 06/01/20-06/30/20        | 525             | Professional services        |
| 3 Olivarez Madruga Lemieux O'Neill, LLP (OMLO) | 11409            | 07/31/20            | 08/14/20            | 07/01/20-07/31/20        | 805             | Professional services        |
| 4 Michael Bell Management Consulting           | 524              | 07/31/20            | 08/14/20            | 06/01/20-06/30/20        | 1,138           | Executive director           |
|  |                  |                     |                     |                          | <u>\$ 6,693</u> |                              |
|  |                  |                     |                     |                          |                 |                              |
| Executive director                             |                  |                     |                     |                          | \$ 5,363        |                              |
| Professional services                          |                  |                     |                     |                          | 1,330           |                              |
|  |                  |                     |                     |                          | <u>\$ 6,693</u> |                              |

\*Totals may not foot due to rounding.



**Delta Conveyance Finance Authority**

Budget versus Actual

FY 2020/21

| <b>Item</b>             | <b>Actual Through<br/>Sept 30, 2020</b> | <b>Budget<br/>FY 2020/21</b> | <b>Budget<br/>Remaining</b> | <b>Percent of<br/>Budget Used</b> |
|-------------------------|---|------------------------------|-----------------------------|-----------------------------------|
| Executive director      | \$ 1,138                                | \$ 60,000                    | \$ 58,862                   | 1.9%                              |
| Professional services   | 805                                     | 78,500                       | 77,695                      | 1.0%                              |
| Treasury and accounting | —                                       | 30,000                       | 30,000                      | 0.0%                              |
| Insurance               | 3,003                                   | 13,000                       | 9,997                       | 23.1%                             |
| Travel and meeting      | —                                       | 2,000                        | 2,000                       | 0.0%                              |
| Materials and supplies  | —                                       | 1,000                        | 1,000                       | 0.0%                              |
| Contingency             | —                                       | 25,000                       | 25,000                      | 0.0%                              |
| <b>Total</b>            | <b>\$ 4,946</b>                         | <b>\$ 209,500</b>            | <b>\$ 204,554</b>           | <b>2.4%</b>                       |