

Exhibit A

POLICY OF THE ORLAND-ARTOIS WATER DISTRICT REGARDING THE CALCULATION OF OPERATIONS, VOLUMETRIC, AND LOAN CONVERSION CHARGES

1. Purpose of the Policy

The purpose of this policy is to ensure that Orland-Artois Water District's (OAWD) Operations, Volumetric, and Loan Conversion Charges for water service are calculated in a consistent manner before the beginning of each United States Bureau of Reclamation (USBR) water year and imposed consistently throughout the District. This policy describes how each charge is calculated and imposed. This policy also explains what parcels within the District are subject to these charges.

2. The Operations Charge

2.1 Purpose of the Operations Charge

The purpose of the Operations Charge is to recover OAWD's fixed expenses that are not dependent on the amounts of water that OAWD delivers to its customers (the "Fixed Expenses"). These Fixed Expenses include: (1) OAWD's budgeted overhead expenses; (2) the Tehama-Colusa Canal Authority's ("TCCA") assessment; (3) the State Water Resources Control Board's ("SWRCB") water rights fee; and (4) as determined by the Board, an amount to accrue one or more prudent reserves for major planned and unanticipated future operational and capital expenses. If, during any year, OAWD uses its financial reserve funds to pay any major OAWD expenses, then OAWD will include in its Fixed Expenses for the next year a reasonable amount to replenish OAWD's financial reserves. The Water Code authorizes OAWD to collect charges to pay for these Fixed Expenses. (Water Code, §§ 35401, 35470-35482.)

2.2 Components of the Operations Charge

OAWD Overhead Expenses

OAWD's overhead expenses include staff salaries and benefits, operations expenses, supply and equipment costs, maintenance costs, and other fixed costs. The OAWD budget for the ensuing year shall be used in order to calculate the OAWD overhead expenses for that year.

TCCA Assessment

The TCCA charges OAWD an assessment to pay for certain canal-related expenses. The TCCA imposes an annual assessment on OAWD for this purpose, based on a five-year running average of OAWD water use. This expense is therefore like a fixed expense because it does not directly vary based on the amount of water that USBR delivers to OAWD during any single year. OAWD Fixed Expenses for the ensuing year shall include the actual or estimated TCCA assessment for that year.

SWRCB Water Rights Fee

The SWRCB imposes an annual water rights fee on OAWD based on OAWD's USBR water service contract amount of 53,000 acre-feet of CVP water. The amount of the SWRCB water rights fee does not depend on how much CVP water USBR actually delivers to OAWD. OAWD's Fixed Expenses for the ensuing year shall include the actual or estimated SWRCB water rights fee for that year.

Funding for OAWD Reserves

OAWD maintains financial reserves in order to pay unexpected capital expenses, make catastrophic repairs, replace equipment, and pay other major operational expenses of the District. If, during any year, OAWD uses its reserve funds for any such expenses, then OAWD may include in its Fixed Expenses for the ensuing year a reasonable amount to replenish OAWD's financial reserves. If OAWD needs to build up its reserves, then OAWD may include in its Fixed Expenses a reasonable amount to build up those reserves.

2.3 Calculation of the Operations Charge

In order to calculate the Operations Charge, OAWD staff shall calculate the Fixed Expenses that are described in Section 2.2. OAWD imposes an assessment on each of the 28,918.01 acres within the district, regardless of whether OAWD makes water service immediately available to that land (the "Assessment"). The maximum assessment that the District is authorized to collect is \$24.94 per acre. Previously, the Board reduced the amount of the Assessment collected by five dollars and that amount was collected as a component of the Operations Charge. In 2021 and future years, OAWD will not include the five dollars in the Operations Charge and will instead collect the full amount in the assessment in order to repay in full the outstanding amount of the USBR's 9(d) loan to build the District water system as part of converting OAWD's existing 25-year water service contract to a permanent agreement.

If the OAWD Board of Directors so determines in an ordinance or resolution approving water rates, the components of the Operations Charge other than the TCCA Assessment and SWRCB Water Rights Fee may be increased due to inflation on April 1st of each year based on the previous year's change in the U.S. Consumer Price Index for All Urban Consumers, San Francisco Region, as calculated by the U.S. Department of Labor, Bureau of Labor Statistics. Any automatic adjustment to the Operations Charge will be limited so that, in any year, Operations Charge revenue will not exceed the amount of OAWD's Fixed Expenses.

2.4 Excess Lands

Under the Reclamation Reform Act of 1982 ("RRA"), landowners are limited to using CVP water on a maximum of 960 acres of land. If a landowner owns more than 960 acres of land, then, under the RRA, the landowner is required to designate acreage beyond the 960-acre limit as "excess." CVP water may not be used on these "excess" acres. With the District's conversion of its water service contract, which is expected to be completed by the end of 2020, the RRA acreage limitation will terminate and there will no longer be any excess lands in the District. As a result,

CVP surface water delivery at normal rates will be available to all acres served by the District water system or annexed into OAWD in the future under the terms of the Annexation Policy and landowner agreement.

3. The Volumetric Charge

3.1 Purpose of the Volumetric Charge

The purpose of the Volumetric Charge is to recover: (1) USBR’s water service charges for water that it delivers to OAWD through the Tehama-Colusa Canal; (2) OAWD’s costs to pump CVP water from the Tehama-Colusa Canal and to make that water available to OAWD customers; (3) OAWD’s groundwater pumping costs; and (4) OAWD’s imported water costs (the “Variable Expenses”). OAWD’s Variable Expenses vary based on the amount of water that landowners within the District purchase from OAWD.

The Volumetric Charge shall be calculated to ensure that OAWD customers pay one uniform per-acre-foot rate for OAWD-delivered water, regardless of the source of that water or the time during the year when the customer purchases the water. In order to calculate a uniform Volumetric Charge, OAWD staff shall estimate the expenses for each component of OAWD’s Variable Expenses for the ensuing year. If necessary, OAWD staff shall: (1) add any estimated unfunded expenses for that component that were not included in the Variable Expenses for the current year, or that were unanticipated and will not be funded by the Volumetric Charges collected during the current year; and (2) subtract any estimated surplus revenue for that component charge that OAWD staff estimates will be collected during the current year.

3.2 Components of the Volumetric Charge and Calculation of Each Component

USBR Water Service Charge Component

USBR and OAWD entered into a CVP water service contract, which provides that USBR may deliver to OAWD up to 53,000 acre-feet of water through the Tehama-Colusa Canal. USBR’s water service charges are tiered based on the amount of water that USBR delivers to OAWD. USBR imposes its tiered water service charges as follows: (1) USBR imposes a Tier 1 charge on each acre-foot of delivered water, up to 80% of OAWD’s CVP contract amount; (2) USBR imposes a Tier 2 charge on each acre-foot of delivered water that exceeds 80%, but is 90% or less, of OAWD’s CVP contract amount; and (3) USBR imposes a Tier 3 charge on each acre-foot of delivered water that exceeds 90% of OAWD’s CVP contract amount. The amount of USBR water service charges that OAWD pays therefore depends on the amount of water that USBR allocates to OAWD. USBR’s water allocation varies from year to year based on demands on the CVP, storage in CVP reservoirs and climatologic and meteorological conditions or expected conditions. OAWD staff shall confirm with USBR or estimate the amount of CVP water that OAWD should receive during the ensuing year.

If USBR confirms, or OAWD staff estimates, that USBR will deliver 80% or less of OAWD’s CVP water service contract amount, then the USBR water service charge component of the Volumetric Charge shall be only the USBR Tier 1 charge for that year. If USBR confirms, or OAWD staff estimates, that USBR will deliver between 81% and 90% of OAWD’s CVP water

service contract amount, then Tier 1 and Tier 2 charges would apply to that amount of water. Under these circumstances, OAWD will calculate a “blended” USBR water service charge component as follows: (1) multiplying the Tier 1 and Tier 2 charges by the amounts of water that would be subject to each charge; (2) adding the resulting total amounts of Tier 1 and Tier 2 charges; and (3) dividing the sum of the charges by the number of acre-feet of water that USBR allocates to OAWD. This calculation is illustrated below:

$$\begin{array}{rcl}
 \text{Tier 1: } \$ \underline{\hspace{1cm}} \times 42,400 \text{ acre-feet (80\% of 53,000 acre-feet)} & = & \$ \underline{\hspace{1cm}} \\
 \text{Tier 2: } \$ \underline{\hspace{1cm}} \times \underline{\hspace{1cm}} \text{ acre-feet (up to 5,300 acre-feet,} & & \\
 \text{10\% of 53,000 acre-feet)} & = & \$ \underline{\hspace{1cm}} \\
 \\
 \text{Total} & = & \$ \underline{\hspace{1cm}} \\
 \\
 \$ \underline{\hspace{1cm}} \text{ divided by } \underline{\hspace{1cm}} \text{ acre-feet of allocated water} & = & \$ \underline{\hspace{1cm}} \text{ per acre-} \\
 \text{foot USBR water service charge component of the Volumetric Charge.} & &
 \end{array}$$

If USBR confirms, or OAWD staff estimates, that USBR will deliver more than 90% of OAWD’s CVP water service contract amount, then Tier 1, Tier 2 and Tier 3 charges would apply to that amount of water. Under these circumstances, OAWD will calculate a “blended” USBR water service charge as follows: (1) multiplying the Tier 1, Tier 2 and Tier 3 charges by the amounts of water that would be subject to each charge; (2) adding the resulting total amounts of Tier 1, Tier 2 and Tier 3 charges; and (3) dividing the sum of the charges by the number of acre-feet of water that USBR allocates to OAWD. This calculation is illustrated below:

$$\begin{array}{rcl}
 \text{Tier 1: } \$ \underline{\hspace{1cm}} \times 42,400 \text{ acre-feet (80\% of 53,000 acre-feet)} & = & \$ \underline{\hspace{1cm}} \\
 \text{Tier 2: } \$ \underline{\hspace{1cm}} \times 5,300 \text{ acre-feet (10\% of 53,000 acre-feet)} & = & \$ \underline{\hspace{1cm}} \\
 \text{Tier 3: } \$ \underline{\hspace{1cm}} \times \underline{\hspace{1cm}} \text{ acre-feet (up to 5,300 acre-feet,} & & \\
 \text{10\% of 53,000 acre-feet)} & = & \$ \underline{\hspace{1cm}} \\
 \\
 \text{Total} & = & \$ \underline{\hspace{1cm}} \\
 \\
 \$ \underline{\hspace{1cm}} \text{ divided by } \underline{\hspace{1cm}} \text{ acre-feet of allocated water} & = & \$ \underline{\hspace{1cm}} \text{ per acre-foot} \\
 \text{USBR water service charge component of the Volumetric Charge.} & &
 \end{array}$$

OAWD Pumping Cost Component

OAWD operates pumps that pump water out of the Tehama-Colusa Canal and into OAWD’s water delivery system. The pumping cost component of OAWD’s Volumetric Charge would pay for these costs. OAWD’s pumping costs vary based on the amount of water that it pumps from the Tehama-Colusa Canal for delivery to OAWD customers. OAWD staff shall estimate OAWD’s pumping costs for the ensuing year and: (1) add any pumping costs that were or will be incurred but not collected during the current year; and (2) subtract any estimated pumping cost revenue that exceeds OAWD’s pumping costs for the current year. The resulting amount shall be divided by the amount of water from all sources that OAWD expects to sell and deliver to customers during the ensuing year.

Groundwater Pumping Cost Component

In some years OAWD supplements its surface water supply with groundwater in order to satisfy customers' water demands. If OAWD staff determines that the District will need to pump groundwater to supplement its surface water supplies during the ensuing year, then, if possible, OAWD staff shall estimate the amount of groundwater that OAWD will need to pump and the pumping costs for that amount of groundwater. OAWD staff shall: (1) add any groundwater pumping costs that were incurred, or will be incurred, but not collected during the current year; and (2) subtract any estimated groundwater pumping cost revenue that will exceed OAWD's groundwater pumping costs for the current year. The resulting amount shall then be divided by the amount of water from all sources that OAWD expects to sell and deliver to customers during the ensuing year.

Imported Water Cost Component

In some years, OAWD purchases water from willing sellers in order to supplement its CVP water allocation and groundwater supplies, and makes that water available to all OAWD customers. If OAWD staff determines that the District will need to purchase imported water to supplement its surface water and groundwater supplies during the ensuing year, then, if possible, OAWD staff shall estimate the amount of imported water that OAWD will need to purchase and the cost of that water. OAWD staff shall: (1) add any imported water costs that were incurred but not collected during the current year; and (2) subtract any estimated surplus imported water cost revenue that will exceed OAWD's imported water costs for the current year. The resulting amount shall then be divided by the amount of water from all sources that OAWD expects to sell and deliver to customers during the ensuing year.

Supplemental Water (Not a Component of Volumetric Charge)

In some years, certain OAWD landowners request that OAWD purchase water from willing sellers and then sell that water to those landowners at OAWD's cost for the water, plus any wheeling and administrative charges incurred by OAWD. This supplemental water is not generally made available to all District customers and therefore it is not subject to the Volumetric Charge. These are voluntary transactions facilitated by OAWD that are entered into by contract between interested District landowners, willing sellers and OAWD. As a result, the District's charges for this water are not subject to Proposition 218.

USBR Capital and Restoration Charge Component

USBR has been imposing Capital and Restoration Charges on each acre-foot of water that USBR delivers to OAWD. After OAWD enters into its new permanent water service contract with USBR, the Capital Charge, which is currently \$34.37, will be permanently terminated. However, USBR will continue to impose the Restoration Charge for surface water that USBR delivers to OAWD in 2021 and subsequent years. Therefore, OAWD will continue to include in its proposed Volumetric Charge the estimated or actual USBR Restoration Charge Component for that year.

If USBR’s actual Restoration Charge is more than what OAWD estimated that charge would be, then OAWD may: (1) upon 30-days’ notice to OAWD landowners (see section 4, below), automatically adjust the Volumetric Charge to account for the additional amount of the Restoration Charge; or (2) pay for the additional amount from its reserves and then replenish the reserves through increasing the USBR Restoration Charge Component by a similar amount for the following year. If the actual USBR Restoration Charge is less than what OAWD estimated that charge would be, or if USBR does not impose that charge, then OAWD may: (1) use the excess revenue it collected to pay the charge in future years; or (2) offer refunds to its customers. OAWD staff will make a separate accounting of the Restoration Charge revenue.

Other USBR Cost Components

Other USBR cost components include a Trinity Public Utilities Remittance fee and a Public Energy Use fee. These fees are charged by the USBR on each acre-foot of Contract water the District delivers. From time to time the USBR adds and/or removes charges and fees, and these changes will be reflected in the Volumetric Charge Calculation.

3.3 Calculating the Volumetric Charge

All components of the Volumetric Charge shall be added in order to calculate the Volumetric Charge for the ensuing year, as follows:

USBR Water Service Charge Component	\$__ per acre-foot
Pumping Cost Component	\$__ per acre-foot
Other PUE Cost Component	\$__ per acre-foot
Trinity PUD Cost Component	\$__ per acre-foot
Groundwater Pumping Cost Component	\$__ per acre-foot
Imported Water Cost Component	\$__ per acre-foot
USBR Restoration Charge Component	\$__ per acre-foot
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Volumetric Charge	\$__ per acre-foot

4. Loan Conversion Charge

4.1 Purpose of the Loan Conversion Charge

The purpose of the Loan Conversion Charge is to obtain revenues sufficient to cover OAWD’s annual principal, interest, and reserve-funding payments on a 20-year bank loan that it will obtain to pay off the accrued CVP construction debt allocated to OAWD by USBR. CVP construction is for the building of the CVP water infrastructure necessary to divert, store, and convey water to the District’s diversions on the Tehama-Colusa Canal. The CVP Construction Loan has a current balance of about \$8,100,000. Benefits to all landowners and water users from paying off the CVP Construction Loan debt include; lower long-term water rates, obtaining a permanent CVP water service contract in the amount of 53,000 acre-feet, and termination of the RRA acreage and ownership restrictions. The Loan Conversion Charge will be imposed equally on each of the 28,888.59 acres of land to which OAWD can currently make water available. If

additional lands are annexed into the District, this charge would be imposed on those parcels, thus lowering the charge on a per-acre basis.

4.2 Components of the Loan Conversion Charge

The Loan Conversion Charge consists of: (1) the principal amount of the loan, which is estimated to be \$8,100,000; (2) a bank-required debt service reserve fund of \$654,176; and (3) interest at a maximum rate of 4.1 percent. On an annualized basis over the 20-year life of the loan, this will equate to a maximum fixed annual payment of \$817,719.

4.3 Calculation of the Loan Conversion Charge

To calculate the Loan Conversion Charge, the District will allocate the maximum annual loan payment of \$817,719 on each of the 28,888.59 acres to which OAWD makes irrigation water service immediately available. This will result in a Loan Conversion Charge of \$28.31 per-acre. This charge is intended to be fixed and will not be subject to annual inflationary or other adjustments. It therefore will remain in place until the pay-off of the bank loan in 20 years, any earlier repayment of the loan, or any need for an adjustment of this charge, which will require new Proposition 218 proceedings.

5. Procedures for Adopting Operations, Volumetric, and Loan Conversion Charges

OAWD staff shall estimate the Fixed Expenses and Variable Expenses for the ensuing year and shall calculate the proposed Operations and Volumetric Charges for that year. If the Operations Charge or Volumetric Charge for the ensuing year will be higher than the respective charge for the current year, then OAWD shall proceed to adopt the new, higher Operations and/or Volumetric charges in a manner that complies with Article XIII D, section 6 of the California Constitution, and any other applicable laws.

Unless terminated by an early repayment, the Loan Conversion Charge will be a fixed amount of no more than \$28.31 per-acre per-year for 20 years starting in 2021. If the Loan Conversion Charge would need to be increased, any such increase also would be subject to compliance with Article XIII D, section 6 of the California Constitution. Pursuant to Government Code section 53756, subdivision (c), the Board of Directors' resolution to adopt the proposed charges shall specify that OAWD will pass through any USBR adopted increases or decreases in CVP water, and shall satisfy the requirements that are specified in that Government Code section.

The Board of Directors shall adopt a resolution to adopt proposed Operations, Volumetric and/or Loan Conversion Charges at a regular or special board meeting by an affirmative vote of a majority of the Board members. The resolution to impose the charges shall specify the manner by which OAWD customers shall pay the charges.