



BOARD POLICY COMMITTEE

February 14, 2018

1:30 p.m.

BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room

(Directions on page 2)

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page#</u>
1. <u>Call To Order, and Roll Call</u>	(Larsson)	Pg 3
Roster of Committee Members (<i>Attachment</i>)		
2. <u>Comments by BPC Chair</u>	(Larsson)	
3. <u>Public Comment</u>	(Larsson)	
<i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee.</i>		
<i>Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>		
4. <u>Consent Calendar</u>	(Larsson)	
A. Approval of Minutes from the December 13, 2017 meeting (<i>Attachment</i>)		Pg 5
5. <u>Reports and Discussion Items</u>	(Sandkulla)	
A. Preliminary Fiscal Year 2018-19 Work Plan and Results to be Achieved (<i>Attachment</i>)		Pg 15
<u>Issue:</u> What critical results must be achieved in FY 2018-19 to accomplish BAWSCA's goals and water reliability objectives?		
<u>Information to Committee:</u> Memorandum presenting Preliminary Fiscal Year 2018-19 Work Plan and Results to be Achieved.		
<u>Committee Action Requested:</u> 1) Comments and suggestions concerning the preliminary Fiscal Year 2018-19 Work Plan and results to be achieved; 2) Feedback on presented responses from January 18 th work plan and budget preparation planning session; and 3) Suggestions concerning presentation of the preliminary Work Plan and Operating Budget to the Board of Directors in March.		
B. Discussion of Possible Establishment of a New Long-Term Planning Reserve (<i>Attachment</i>)		Pg 33
<u>Issue:</u> How should the General Reserve and surplus funds be managed given the ongoing legislative efforts, legal uncertainties in the upcoming and potentially subsequent fiscal years, and potential long-term planning studies that BAWSCA may need to fund?		
<u>Information to Committee:</u> Memorandum and oral report.		
<u>Committee Action Requested:</u> Comments and suggestions.		
6. <u>Reports</u>	(Sandkulla)	
A. Water Supply Update		
B. BAWSCA's SFPUC CIP Comparison Study		

- C. CEO/General Manager's Letter (*Attachment*)
- D. Board Policy Committee Calendar (*Attachment*)
- E. Correspondence Packet ([Under Separate Cover](#))

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7. Closed Session

- A. Conference with Legal Counsel – Existing Litigation pursuant to Paragraph (1) of subdivision (d) of Government Code Section 54956.9: *Restore Hetch Hetchy v. City and County of San Francisco, et al.* Case Number: F074107 (Schutte)
- B. Conference with Legal Counsel – Existing Litigation pursuant to Paragraph (1) of subdivision (d) of Government Code Section 54956.9 *Federal Energy Regulatory Commission Final License Application Proceedings for Don Pedro Hydroelectric Project, P-2299-082, and La Grange Hydroelectric Project, P-14581-002* (Schutte)
- C. Conference with Legal Counsel – Anticipated Litigation Initiation of litigation pursuant to paragraph (4) of subdivision (d) of Government Code 54956.9 (1 potential cases) (Schutte)

8. Comments by Committee Members

(Larsson)

- 9. Adjournment to the next meeting on April 11, 2018 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo.

(Larsson)

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*All public records that relate to an open session item of a meeting of the Board Policy Committee that are distributed to a majority of the Committee less than 72 hours before the meeting, excluding records that are exempt from disclosure pursuant to the California Public Records Act, will be available for inspection at **BAWSCA, 155 Bovet Road, Suite 650, San Mateo, CA 94402** at the same time that those records are distributed or made available to a majority of the Committee.*

Directions to BAWSCA

From 101: Take Hwy.92 Westbound towards Half Moon Bay. Exit at El Camino Northbound (move into the far left Lane) Left at the 1st stop light which is Bovet Road (Chase Building will be at the corner of Bovet and El Camino). Proceed West on Bovet Road past 24 Hour Fitness to two tall buildings to your left. Turn left into the driveway between the two buildings and left again at the end of the driveway to the "Visitor" parking spaces in front of the parking structure.

From 92: Exit at El Camino Northbound and follow the same directions shown above.



BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Committee Roster:

Gustav Larsson, City of Sunnyvale (Chair)

Tom Zigterman, Stanford University (Vice Chair)

Jay Benton, Town of Hillsborough

Randy Breault, GVMID (BAWSCA Immediate Past Chair)

Mike Kasperzak, City of Mountain View

Al Mendall, City of Hayward (BAWSCA Chair)

Barbara Pierce, City of Redwood City (BAWSCA Vice Chair)

Dan Quiqq, City of Millbrae

Greg Schmid, City of Palo Alto

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD POLICY COMMITTEE**

**December 13, 2017 – 1:30 p.m.
BAWSCA Offices – 155 Bovet Rd., San Mateo – 1st Floor Conference Room**

MINUTES

1. **Call to Order:** Committee Chair Gustav Larsson called the meeting to order at 1:30 pm. A list of Committee members who were present (8), participated via teleconference (1), and other attendees is attached.

The Committee took the following actions and discussed the following topics:

2. **Comments by Committee Chair:** Committee Chair Larsson welcomed members of the Committee.

3. **Public Comments:** There were no public comments.

4. **Consent Calendar:** Approval of Minutes from the October 11, 2017 meeting.

Director Quigg made a motion, seconded by Director Kasperzak, that the minutes of the October 11, 2017 Board Policy Committee meeting be approved.

Director Benton abstained. The motion passed by roll call vote.

5. **Action Items:**

- A. Proposed Fiscal Year 2018-19 Bond Surcharges: Financial Manager, Christina Tang, presented the proposed Bond Surcharges for FY 2018-19 for the Board's consideration and adoption. BAWSCA's bond indenture requires BAWSCA to impose a fixed surcharge to each member agency on an annual basis, to cover the debt service payments and bond administration expenses, as well as replenish the stabilization fund as necessary.

There are no changes to the methodology used last year. The total proposed surcharge for FY 2018-19 is \$24,686,376. Assuming SFPUC's projected wholesale water consumption is 115 mgd, the surcharge is equivalent to \$0.44/ccf or \$192/AF.

Ms. Tang noted the bond issuance to prepay the capital debt owed to San Francisco saves member agencies over \$3.5 million collectively each year, until 2034.

Director Quigg made a motion, seconded by Director Kasperzak, that the Committee recommend Board approval of the proposed FY 2018-19 bond surcharges.

Director Kasperzak commented that "imposing" a "surcharge" seems so draconian for what the purpose of the surcharge is. He noted that BAWSCA's bond issuance pre-paid the capital debt that agencies owed San Francisco, which provides the agencies substantial savings in the long-term. The surcharge is the annual process that BAWSCA member agencies have to do to meet the obligations which the agencies agreed upon.

The motion passed by roll call vote.

6. Reports and Discussion :

- A. Overview of Current Investment Strategy of BAWSCA's Bond Proceeds Associated with Revenue Bonds Series 2013A & 2013B: Ms. Tang reminded the Committee that BAWSCA's bond funds are invested in accordance with the Bond Indenture and the Investment Policy. As of October 31, 2017, the total bond funds of \$18,068,680 are held by the Trustee, the Bank of New York.

The bond funds are comprised of \$5.6 million in surcharges collected from member agencies that are used for the semi-annual debt service payments, and \$12.5 million in stabilization funds that are designed as a reserve fund.

Based on prior evaluations by staff and BAWSCA's investment advisor, the current investment strategy is determined to provide BAWSCA the most appropriate balance of safety, liquidity, and yield, which have been the primary objectives of BAWSCA's investment policy.

The bond indenture specifies the permitted investment options for BAWSCA's bond funds. In November 2012, during the establishment of the bond structure, the Board amended the investment policy to further restrict the investment options for the bond funds to three specific vehicles; Federal Securities, Money Market Mutual Funds, and Certificates of Deposit.

To ensure that BAWSCA has sufficient funds to make the required debt service payments, the current strategy assumes that only 80% of the necessary bond surcharge revenues are collected and available for scheduled debt service payments. In other words, 20% of the required debt service payments must be available to be paid through the stabilization fund.

The current strategy involves a rolling of \$3.6 million in 6-month securities to cover 20% of the debt service payments. This short-term portion of the portfolio provides BAWSCA with sufficient reinvestment opportunities in any upward or downward trend of short-term investment rates.

The remaining stabilization fund is invested in a ladder structure with maturities of every 6 months. This longer-term portion of the portfolio provides BAWSCA with exposure to higher yield in securities.

This current investment strategy is considered the most appropriate because it provides the agency significant upfront liquidity, diversified exposure to the yield curve provided by the ladder structure, and attractive current yield.

BAWSCA has evaluated the strategy on a regular basis to determine whether any change in the agency's circumstances, surcharge collection experience, or market conditions would justify modifications to the strategy to better align the agency's objectives and risk tolerance.

The evaluation made in September 2015 changed the on-time surcharge collection assumption from 70% to 80% based on the past collection experience.

The evaluation made in October 2017 re-affirmed the 80% assumption based on the limited history of the collection experience, and a recent delayed surcharge deposit to the trustee account.

As previously reported to the Board, San Francisco changed their 20-year old financial system to Peoplesoft effective July 1, 2017. BAWSCA's surcharge payment of \$2 million was deposited into the wrong trustee account for September, and caused a delay in the surcharge deposit. This event confirms BAWSCA's decision to keep the 80% assumption, and re-evaluate the assumption after San Francisco has completed a full fiscal year of accounting under Peoplesoft.

To further evaluate BAWSCA's investment performance, staff looked at the average market yield and weighted average maturity of four member agencies with varying size of investment portfolios as of the end of October 31, 2017. The comparison shows that investments with longer maturities generate higher yield. However, Ms. Tang noted that each agency has different circumstances, permitted investment vehicles, and approved maximum investment duration dictated by its own investment policy.

BAWSCA CEO will re-evaluate BAWSCA's circumstance and investment tools permitted by the Bond Indenture prior to October 2018, before the entire maturity structure is re-balanced and when San Francisco will have completed a full fiscal year with their new accounting system. The result of the evaluation will be reported to the Board as part of the quarterly surcharge collection report. Any changes will be implemented by the CEO in accordance with the current investment policy.

Committee discussions ensued on opportunities for higher rates of return for BAWSCA's stabilization funds.

Ms. Sandkulla explained that BAWSCA's stabilization fund is focused solely on the bonds and is dictated by a bond covenant that is associated with a bond indebtedness. BAWSCA's ability to invest its stabilization fund is dictated by what the Bond Indenture allows, and what the Board approves. The current investment policy's objectives are safety, liquidity, and yield.

Ms. Sandkulla stated that when the full list of permitted vehicles for investment purposes for the stabilization fund is examined and re-evaluated with the financial advisors prior to October 2018, BAWSCA will look into the long-term bond investments with AAA ratings that other municipalities are using, as part of the evaluation.

Director Mendall noted that the investment changes made 2 years ago is providing approximately \$100,000 per year in increased returns than if the investments were kept in the money market funds. The question he suggests for consideration in October 2018, when the strategy is re-evaluated, is whether the four "ladders" is the right number, or should there be added "ladders", with some going perhaps out to 2.5 years? How do we build on to what we currently have?

Director Benton suggested looking at investing in LAIF, which provides liquidity as well as access to investment vehicles with higher rates of return compared to money market funds.

Secondly, he suggested considering putting the \$12.5 million, the portion designed to function as a reserve fund, into a longer-term investment than 3-6 months, for a higher rate of return. The funds will always be accessible. The only disadvantage is the loss of short-term returns if the funds are tapped into prematurely.

Ms. Tang stated that BAWSCA will explore the possibilities of moving the money, which is required to be deposited into the Trustee account, into LAIF investments.

Ms. Sandkulla added that BAWSCA's investment advisors currently recommends not to tie the funds up too much for too long, because of rising interest rates. All indications suggests that rates will continue to rise up for the next few quarters, at which time BAWSCA will be re-evaluating the current investment structure.

Director Mendall noted that Hayward's financial advisors provide similar advise.

Ms. Sandkulla expressed appreciation for the discussion and stated that this item will be brought back to the Committee when BAWSCA begins the re-evaluation process in Fall of 2018.

Director Pierce noted that bond financing and having additional funds that can be put into investments to generate income is a new situation for BAWSCA. Investing is something BAWSCA did not previously do, and it is good to continue to evaluate BAWSCA's circumstances and look for opportunities. Balancing between safety and liquidity, which is what BAWSCA has done in its existence, is important. While she supports continuing to evaluate investment opportunities, it is also important to be aware of where the agency came from.

Director Kasperzak added that the preservation of capital is what is important. It's not about making money. The intention is not to lose money due to inflation. Any income is a hedge against the inflation or a loss, instead of making a net return on investment. Most governments are in the preservation of capital, that is why there are State restrictions.

- B. Mid-Year 2017-18 Work Plan and Budget Review: Ms. Sandkulla explained that the mid-year budget and workplan review process ensures that BAWSCA is on track to achieve the critical results set out for the current year and beyond. It is also an opportunity to update the Board on the agency's progress and to identify areas where change might be needed.

The staff memo provides a table that presents status reports on all areas of the FY 2017-18 work plan. There are two modest changes to the work plan scope that will be recommended to the Board. The changes have no impact to the budget. The committee is asked for direction on the recommended action.

Ms. Sandkulla presented the recent developments in the critical areas of the workplan.

BAWSCA has been working diligently for the past 2 years to increase its level of involvement with the SFPUC's development of its 10-year CIP. She was pleased to report that BAWSCA has had significant increased involvement with SFPUC staff on its CIP's early development stages which provides BAWSCA the opportunity to see early work products, ask questions and suggest modifications. The program will be

brought to the Commission in February 2018, where BAWSCA will be able to make comments.

As part of the ongoing discussion efforts with San Francisco on the 10-year CIP, BAWSCA have had a benchmarking study in its work plan since FY 2016-17 that is focused on SFPUC's operational efficiency and asset management. The SFPUC has recently expressed an interest in taking part in BAWSCA's benchmarking study as a way to look at their process of developing the 10-year CIP, and comparing it with other utilities. This opportunity presents a significant progress for BAWSCA's efforts to really be engaged in SFPUC's process and having the opportunity to provide input.

Ms. Sandkulla stated that the first recommended work plan modification is to adjust the current benchmarking study to be a CIP benchmarking study in coordination with the SFPUC. This effort is currently being scoped for completion in FY 2018-19.

Additional work plan progress includes pre-feasibility studies on potential purified water projects anticipated for completion this fiscal year. These projects were initiated and expedited during the drought. The next steps will be reflected in the work plan for FY 2018-19.

Progress of the pilot water transfer was impacted by the drought, and is now continuing development. Necessary agreements are in progress between BAWSCA, EBMUD, Hayward and SFPUC with the concept of doing a transfer during a planned shutdown at Hetchy Hetchy for work on Mountain Tunnel in FY 2018-19 or FY 2019-20.

Additionally, BAWSCA has been working with neighboring Bay Area agencies through the Bay Area Regional Reliability Partnership (BARR). BARR was recently awarded a Federal grant to test water supply efforts such as water transfers. While a decision has yet to be made, BAWSCA's pilot water transfer plan has a good chance of being used as the pilot for a larger regional water supply project. The effort expanding to larger agencies in the region has been a significant development for BAWSCA's pilot water transfer as it can provide the information needed to know what it would take to execute a water transfer.

Progress on the development of the Regional Water Supply Model is ongoing with the base model scheduled for completion this fiscal year.

The second recommended work plan modification is to postpone the development of the principles for Tiers 1 and 2 drought allocation plans.

The Tier 1 plan is the drought allocation between San Francisco and the wholesale customers. The Tier 2 Plan is the drought allocation among the member agencies. Tier 2 expires in December 2018, and the preparation for a temporary extension was in the work plan. However, both Tier 1 and Tier 2 plans must align with State new requirements that are not yet finalized.

Ms. Sandkulla reported that the Governor's "Making Water Conservation A Way of Life" requirements were encompassed in two pieces of legislations which failed to pass in September. It has now become a 2-year bill that will be picked up by the

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Legislature in January 2018. It is expected to move very quickly as the Governor, members of the Legislature, and the State Water Resources Control Board, are committed to it.

Efforts to develop principles for Tier 1 and Tier 2, and to identify the options for extending the Tier 2 plan will begin in Spring 2018 when further legislation information becomes available.

Ms. Sandkulla explained that one of BAWSCA's role in addressing "Making Water Conservation A Way of Life" is to do an assessment of how member agencies will meet the requirements. The assessment will be completed in January and will be discussed by BAWSCA and the member agencies in a workshop. Information gained from the workshop will be used in BAWSCA's outreach on the legislation, as well as in developing a Conservation Strategic Plan that will identify the roles and responsibilities of BAWSCA and the member agencies to meet the requirements.

As the final piece of the effort to learn from the recent drought, a workshop on Water Utility Financial Best Management Practices During Drought is being planned for Spring of 2018. The workshop will include discussions on rate structures in normal and drought years, issues with Prop 218, and what agencies would have done differently in hindsight. The output of the Spring Workshop will include a compilation of the reports and presentations given.

BAWSCA continues its efforts to effectively implement the Water Supply Agreement and administer BAWSCA's bond issuance.

The mid-year review also looks at expenditures and identifies budgetary issues. Ms. Sandkulla reported that all current and projected expenditures are within the approved budget. Expenses associated with legal activities are being closely monitored.

Ms. Sandkulla reported that the General Reserve is currently higher than the budgetary guideline of 35% of the operating budget. There are no recommended changes at this time. The information is being provided to the Committee and will be provided to the Board in January as it is anticipated to be important in the upcoming discussions on funding the FY 2018-19 work plan and budget.

The recommended workplan modifications are based on the developments in the areas of the workplan. The Committee was asked for direction and input on the recommendation.

Director Quigg commented that the current legal activities are the agency's biggest challenge for the budget and workplan development.

Director Schmid noted that since he has joined the Board in 2015, he has seen a shift from monitoring actions taken by the SFPUC to focusing on State activities and their impacts to the BAWSCA region. He asked whether BAWSCA should re-think its long-term outlook and need for expertise.

Ms. Sandkulla stated that each year, BAWSCA's development of its workplan and budget starts with an evaluation of long-term challenges and risks to the agency and

water customers. Of all the issues that were anticipated in each year's budget development process, only the conservation legislation came as a surprise.

BAWSCA's foresight in developing the annual budget and workplan has been helpful in bringing in and supporting the formation of certain expertise.

Ms. Sandkulla explained that the hiring of Adrienne Carr serves as an example. BAWSCA knew 10 years ago that it would need a hydrology expert for the FERC process. But as the FERC process was delayed, the need for a hydrology expert was put off until BAWSCA needed to hire a Senior Water Resource Analyst and found Adrienne Carr who fit the position qualifications along with having the hydrology expertise BAWSCA needed. Ms. Carr is now working directly with Legal Counsel on the FERC process.

In response to Director Larsson's question about the Tier 2 plan, Ms. Sandkulla explained that in the Water Supply Agreement (WSA), the process for adoption of the Tier 2 plan identifies the member agencies as the collective body that would originally adopt the plan in 2009. If the member agencies fail to adopt a plan, the BAWSCA Board can take action. If that fails, the SFPUC has the authority to act.

The WSA states no process for when the plan expires. BAWSCA will be working closely with Legal Counsel to identify the best plan of action. The analysis will be done during the balance of the current fiscal year because if the BAWSCA Board have to act, the action must occur in the beginning for FY 2018-19.

The existing Tier 2 plan was adopted by each individual member agency in 2009. The Board has never dealt with the Tier 2 plan, and therefore, will be provided with details of the necessary actions once they are identified. Ms. Sandkulla has briefed agencies' technical staff about the anticipated efforts.

In response to Directors Schmid and Benton's inquiries, Ms. Sandkulla stated that there will be a summary of the conservation legislation provided to the Board at the January meeting. She explained that having 2 competing bills; one from the Assembly and one from the Senate, was a contributing issue to its failure to pass in the legislature in September. Additionally, during the last few days of the legislative session, there were continual amendments to both bills to ensure that water agencies, like ACWA, were not opposed to the bills.

Ms. Sandkulla explained that while member agencies will be able to meet the per capita conservation requirements, the bills put a significant administrative burden on the member agencies. To date, BAWSCA's concerns with the administrative burden are strongly embedded in the governor's interests in the bill. Additionally, the SWRCB is convinced that the level of detail in the agencies' calculations and reporting to the State are necessary, and both the Governor and the State Board have sufficient support to put it through.

BAWSCA did provide input during the development of the legislations until July 2017. While some key issues were resolved, it was evident that BAWSCA's base concern with the bills were not going to change.

Ms. Sandkulla stated that BAWSCA's assessment on how agencies will meet the conservation requirements of "Making Water Conservation a Way of Life" will provide some very specific accounting and dollar value to what it is going to take for agencies to implement what the legislation proposes.

BAWSCA will use this information as part of its efforts with the legislations. However, Ms. Sandkulla is not hopeful for change because the calculations have been a part of the Governor's and SWRCB's core strategy from the very beginning. This was the foundation of the conservation legislation. The State believes that water agencies have to do a better job in calculating their water needs in a unified fashion, and managing and presenting the information to the State so that the agencies can be held accountable. In the absence of this information, the State is unable to hold agencies to a common standard, which they are unwilling to do.

The Committee supported the recommendations to:

1. Scope Reduction/Delay:

- a. Postpone development of principles for a new Tier 1 and Tier 2 drought allocation plan pending ongoing legislative activity with anticipated completion in FY 2018-19**

2. Scope Modification:

- a. Conduct benchmarking study of the SFPUC's CIP development process instead of evaluating the SFPUC's RWS operational efficiency and cost effectiveness**

7. Reports:

- A. Water Supply Conditions: Ms. Sandkulla reported that the region's water supply conditions are currently in a good position with both local and Tuolumne systems at above the normal percent of maximum storage for this time of the year. While it has been dry, it is too early to forecast the water year.

The member agencies' water use continue to be 12% less than it was in October of 2013.

- B. FY 2018-19 Work Plan and Operating Budget Preparation and Planning: Ms. Sandkulla reported that the January Board meeting will include a planning session for the development of the FY 2018-19 Work Plan and Budget. The long-term issues and objectives will be presented to the Board for discussion and feedback.

A draft preliminary work plan and budget will be presented to the Committee in February for Board consideration in March. A draft proposed Work Plan and Budget will be presented to the Committee in April, for Board consideration and approval at its meeting in May.

This sequence follows the same process that has been done in the past 2 years, which have been effective for both the Board and BAWSCA staff in going through the details.

Ms. Sandkulla noted that the work plan deliverables and preliminary budget information are presented to the member agency staff in March.

Director Pierce suggested to check with Board members on any concerns with the current General Reserve level, as there has been a push in the past to rigidly adhere to the policy guidelines. Having seen BAWSCA's practice on budget expenditures to achieve critical results, Director Pierce understands why the reserve is at the level that it is, given the uncertainties the agency faces at this time. It, however, might be worthwhile to re-evaluate what the appropriate General Reserve level should be, or the appropriate duration for the reserve to be at a certain level given the potential significant legal issues faced by the agency today.

8. **Closed Session:** The meeting adjourned to Closed Session at 2:52pm
9. **Open Session:** The meeting convened to open session at 3:06pm. Legal Counsel, Catherine Groves, reported that no action was taken during Closed Session.
10. **Comments by Committee Members:** There were no further comments from the Committee members.
11. **Adjournment:** The meeting was adjourned at 3:07 pm. The next meeting is February 14, 2018.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – December 13, 2017

Roster of Attendees:

Committee Members Present

Gustav Larsson, City of Sunnyvale (Chair)
Tom Zigterman, Stanford (Vice Chair)
Jay Benton, Town of Hillsborough
Mike Kasperzak, City of Mountain View
Al Mendall, City of Hayward (BAWSCA Chair)
Barbara Pierce, City of Redwood City (BAWSCA Vice Chair) *by teleconference*
Dan Quigg, City of Millbrae
Gregg Schmid, City of Palo Alto

Committee Members Absent:

Randy Breault, City of Brisbane/GVMID (Immediate Past BAWSCA Chair)

BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Adrienne Carr	Sr. Water Resources Specialist
Andree Johnson	Sr. Water Resources Specialist
Christina Tang	Finance Manager
Deb Grimes	Office Manager
Lourdes Enriquez	Assistant to the Chief Executive Officer
Catherine Groves	Legal Counsel, Hanson Bridgett, LLP
Bud Wendell	Management Communications

Public Attendees:

Michelle Novotny San Francisco Public Utilities Commission

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Agenda Title: **Preliminary Fiscal Year 2018-19 Work Plan and Results to be Achieved**

Summary:

This memorandum presents the preliminary Fiscal Year 2018-19 Work Plan and results to be achieved. Comments received from the Board at the January 18, 2018 Budget Planning Session have been reviewed and addressed. The preliminary Work Plan represents the CEO's recommendations for addressing comments received during the Budget Planning Session. As was discussed with the Board in January, this memorandum does not present a preliminary Operating Budget. Initial operating budget considerations will be included in the staff presentation. The Board will be presented with a preliminary Work Plan and Operating Budget at its March meeting.

The preliminary Work Plan remains aligned with BAWSCA's legislated authority and its three goals: a reliable supply of high quality water at a fair price. Major work areas include increased activity in implementing the recommended Long-Term Reliable Water Supply Strategy (Strategy) actions, scenario planning (i.e., climate change considerations, new supply integration options, etc.) through the use of the newly developed regional water supply reliability model for the BAWSCA service area, continuation of activities to support BAWSCA member agency efforts to meet new State of California "Making Water Conservation a Way of Life" requirements, participation in the State Water Resources Control Board (SWRCB) Bay Delta Water Quality Control Plan Update to ensure member agency interests are represented, participation as an intervenor on FERC proceedings associated with the licensing of New Don Pedro Reservoir, and participation in the Restore Hetch Hetchy litigation in which BAWSCA is a named party. BAWSCA also proposes to continue increasing its oversight of the SFPUC's capital improvement program and Regional Water System asset management program, as well as initiate an audit of SFPUC's asset management practices.

Recommendation:

That the Committee provide:

- 1. Comments and suggestions concerning the preliminary Fiscal Year 2018-19 Work Plan and results to be achieved;**
- 2. Feedback on presented results from January 18th Work Plan and Budget Planning Session; and,**
- 3. Suggestions concerning presentation of the preliminary Work Plan and Operating Budget to the Board of Directors in March.**

Discussion:

Preliminary Work Plan:

Next year's Work Plan addresses all of the forward-looking issues discussed with the Board Policy Committee in December and with the Board in January.

The preliminary FY 2018-19 Work Plan includes the following major efforts:

- Oversight of the SFPUC's WSIP, 10-Year Capital Improvement Program (CIP), and Regional Water System Asset Management Program, including the following actions:

- Secure legislative extension of State oversight on WSIP through program completion.
- Complete comparison study of long-term CIP development efforts of SFPUC and other major water utilities.
- Initiate an audit of the SFPUC's asset management practices per Section 3.10c of the 2009 Water Supply Agreement.
- Implementation of BAWSCA's Strategy, as documented in the Strategy Phase II Final Report, including the following actions:
 - Complete Phase 2 Pre-feasibility studies for two potential purified water projects in partnership with SFPUC, Silicon Valley Clean Water, Santa Clara Valley Water District and others. Engage with advocacy groups (e.g., WaterReuse) to access and exchange critical technical, legislative, and legal information to support these studies.
 - Finalize Pilot Water Transfer Agreements with EBMUD, Hayward, and others to implement BAWSCA's Pilot Water Transfer in FY 2019-20.
 - Participate in development of the Bay Area Regional Reliability Partnership (BARR) Bay Area Regional Water Market (Exchange/Transfer) Program, with inclusion of BAWSCA's Pilot Water Transfer.
 - Participate in Los Vaqueros Expansion Studies to ensure participation in upcoming project decisions.
 - Promote the continued sustainable use of San Mateo Plain Groundwater Basin (Basin) for long-term water supply reliability through the Groundwater Reliability Partnership, participation in San Mateo County's Basin Assessment, and other multi-party efforts.
- Evaluate potential water supply projects using BAWSCA's new regional water system and supply reliability modeling tool;
- Support BAWSCA member agency efforts to meet the new State of California "Making Water Conservation a Way of Life" requirements, including the following actions;
 - Implement a residential indoor-outdoor water use study.
 - Conduct a commercial/industrial account classification pilot study.
 - Facilitate development of regional source meter testing plan.
 - Implement a new Water Loss Control Subscription Program.
 - Implement a new Pilot Regional/Commercial/Industrial Audit Program.
- Implement regional conservation programs to support member agencies and their customers;
- Take actions to protect member agencies' water supply interests in administration of the 2009 WSA, including addressing the upcoming 2018 decisions and contractual drought allocation methods;
- Participate in the Restore Hetch Hetchy litigation in which BAWSCA is a named party;
- Participate in the SWRCB's Bay Delta Water Quality Control Plan Update to ensure member agency interests are represented;
- Participate in the New Don Pedro and La Grange FERC proceedings to protect regional

water supplies;

- Administer the 2009 Water Supply Agreement (WSA), including development and adoption of up to four amendments to the 2009 WSA; and
- Administer BAWSCA's bonds.

Table 1 presents the preliminary FY 2018-19 Work Plan and major results to be achieved. The activities are grouped according to the agency goals they support.

Table 2 lists the items that are not included in the preliminary Work Plan. Any of these items could be added at a later date, if needed, following further discussion with the Board concerning available resources and priorities.

New or Significantly Re-scoped Activities for FY 2018-19:

There are four new, significantly rescoped, or expanded activities included in the Preliminary FY 2018-19 Work Plan. In each case, these activities relate directly to ensuring water supply reliability for the customers served by the BAWSCA member agencies.

1. Initiate an audit of SFPUC's asset management practices for the Regional Water System (RWS)

Estimated FY 2018-19 Cost: \$55k

Through this task, BAWSCA would perform an audit of the SFPUC's asset management practices for the RWS. The 2009 Water Supply Agreement (WSA) anticipated this issue and requires San Francisco to cooperate with such an audit, consider findings and recommendations of such an audit, and provide written response within 90 days after receipt of final audit report. The scope and schedule for this audit is not complete at this time. Outside consultant services will be used to perform this audit with support and management provided by BAWSCA staff.

2. Implement BAWSCA's "Making Water Conservation a Way of Life" Phase 2 Plan

Estimated FY 2018-19 Cost: \$187k

The primary goal of this activity is to support BAWSCA member agencies in meeting the new water use efficiency targets as established by the "Making Conservation a California Way of Life" Executive Order and subsequent legislative actions. BAWSCA has been phasing critical tasks over three fiscal years, beginning in FY 2017-18, to align with the proposed State schedule for implementation.

Phase 1 will be completed in FY 2017-18. A report documenting the results of Phase 1 will be completed by June 2018 including the two key results:

- Assessment of member agency existing data and technical capabilities to complete required landscape area measurement calculations and to assess their existing processes and capabilities for necessary Commercial, Industrial, and Institutional (CII) account classifications.
- Development of a plan that identifies respective BAWSCA and member agency roles in developing information necessary for compliance with new State conservation requirements.

These early results have formed the basis for the development of a preliminary Phase 2 scope of work. The preliminary Phase 2 scope includes the following critical results:

- Implement a new Water Loss Control Subscription Program that will support BAWSCA member agencies in reducing water losses to an economically optimized level and in complying with State requirements.
- Implement a new Pilot Regional Commercial/Industrial Water Audit Program that will evaluate opportunities for cost-effective water use efficiency programs targeting commercial and industrial water use.
- Complete an Indoor-Outdoor Water Use Study that will determine current indoor and outdoor residential water use for BAWSCA member agencies and evaluate efficiency relative to proposed State standards.
- Develop and implement a Regional Source Meter Testing Plan that will support improved water loss management for BAWSCA member agencies.

The scope for Phase 2 will be finalized after further discussion with the BAWSCA member agencies at a workshop to be held on February 28th. The estimated cost included in the preliminary Work Plan is based on results and input received to date.

3. Participation in BARR Water Marketing Strategy Project with inclusion of BAWSCA's Pilot Water Transfer
Estimated FY 2018-19 Cost: \$57k

Eight of the Bay Area's largest public water agencies are working together through the Bay Area Regional Reliability (BARR) partnership toward regional solutions to improve water supply reliability. In September, the U.S. Bureau of Reclamation notified BARR agencies of a successful \$400,000 grant award for the Bay Area Regional Water Market (Exchange/Transfer) Program to test the concept of interagency water transfers and exchanges.

BAWSCA is promoting the inclusion of a potential BAWSCA pilot water transfer as part of this study. Indications are that BARR agencies are supportive of that possibility. The cost included in the preliminary Work Plan reflects inclusion of BAWSCA's pilot water transfer in BARR, support for necessary CEQA compliance, and completion of necessary agreements with transfer partners and other participating agencies. Implementation of the pilot water transfer is anticipated to occur in FY 2019-20, coincident with a shut down on the Hetch Hetchy system, and therefore, costs to implement the pilot water transfer (e.g., purchase of the water, any necessary storage) are not included at this time.

4. Develop and Implement Online Video Water-Efficient Landscape Education Classes
Estimated FY 2018-19 Cost: \$30k

BAWSCA began offering Water-Efficient Landscape Education Classes throughout the BAWSCA region in Spring 2006. Through Fall 2017, 12,747 water customers have participated in a BAWSCA supported landscape class. There have been no major changes to the structure of these classes since inception. During the drought, there was an increasing customer interest in accessing this education material, especially in support of BAWSCA's turf removal rebate program, the Lawn Be Gone Program. Updating BAWSCA's landscape education materials and developing educational videos to support BAWSCA's water-efficient landscape program will continue to promote water-efficient gardens throughout the service area. In addition, these materials and videos are made available to member agencies for their independent use and educational purposes.

Results of January 18, 2018 Work Plan and Budget Preparation Planning Session:

During BAWSCA's January 18, 2018 meeting, a work plan and budget planning session was held with the Board as part of its regular meeting agenda. The focus of the planning session was to receive input from Board members on possible work plan items for the coming fiscal year. Table 3 presents the detailed comments provided by Board members during the planning session and the staff response that was subsequently prepared. These comments and responses are reflected in the preliminary FY 2018-19 Work Plan and results to be achieved.

Background:

Each year, BAWSCA's Work Plan development process begins by reviewing and updating the major activities and long-term future challenges. This year, BAWSCA's planning horizon was expanded to 2050. These long-term activities require coordinated action by BAWSCA and its member agencies to ensure a reliable supply of high quality water at a fair price.

Table 4 lists these activities updated as part of the FY 2018-19 preliminary Work Plan development. In each case, the results identified in Table 4 will take the form of agreements, legislation, or other legally enforceable work products. Development of these documents will result from skilled negotiations based on rigorous investigations of impacts and alternatives, costs, cost allocation, and other matters.

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Table 1. FY 2018-19 Work Plan and Results to be Achieved (Preliminary)
(New/Expanded items shown in *blue italic font*)

RELIABLE WATER SUPPLY

1. Facility Reliability: Monitor the SFPUC's WSIP, 10-Year CIP, and Asset Management Program

- a. Monitor WSIP scope, cost, and schedule as San Francisco continues an aggressive construction schedule through to completion. Press the SFPUC and the city's political leadership to meet the adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. *Work with the legislature to extend State oversight of WSIP.*
- b. Review and monitor SFPUC's Regional 10-Year Capital Improvement Program to ensure that identified projects and programs meet the needs of the BAWSCA member agencies in a cost-effective and appropriate manner.
- c. Review and monitor SFPUC's Asset Management Program to ensure long-term protection of system assets.
- d. *Initiate audit of SFPUC's asset management practices per WSA Section 3.10.c.*

2. Long-Term Supply Solutions: Implement Long-Term Reliable Water Supply Strategy to Ensure a Reliable, High Quality Supply of Water is Available Where and When Needed

- a. *Complete Phase 2 pre-feasibility studies for two potential purified water projects in partnership with SFPUC, Silicon Valley Clean Water and Santa Clara Valley Water District.* Engage with advocacy groups (e.g. WaterReuse) to access and exchange critical technical, legislative, and legal information to support these studies.
- b. *Finalize Pilot Water Transfer Agreements with EBMUD, Hayward, and others necessary to implement a pilot water transfer in 2019-20.*
- c. *Participate in development of Bay Area Regional Reliability (BARR) Phase 2 (Water Marketing Strategy) in partnership with other Bay Area water agencies and promote implementation of BAWSCA's Pilot Water Transfer as a component of the Phase 2 work effort.*
- d. Participate in CCWD's Los Vaqueros Expansion Studies to ensure BAWSCA's interests are considered in upcoming project decisions.
- e. Promote the continued sustainable use of San Mateo Plain Groundwater Basin (Basin) for long-term water supply reliability through the Basin Partnership, participation in San Mateo County's Basin Assessment Program, and other multi-party groundwater efforts.
- f. Facilitate development of other local water supply options including monitoring/tracking member agency efforts.
- g. Perform up to three regional water supply reliability model scenario studies to analyze adequacy and flexibility of existing water supplies under various stresses (e.g., drought, climate change, etc.) and identify how additional regional water supplies can enhance reliability.

3. Near-term Supply Solutions: Water Conservation and Drought Response

- a. *Implement Phase 2 of BAWSCA's "Making Water Conservation a Way of Life" work plan:*
 - *Conduct an Outdoor Water Budget Pilot Program to evaluate member agency existing data and technical capabilities to complete required landscape area measurement calculations (as will be required under the state legislation).*
 - *Conduct a Regional Commercial, Industrial and Institutional (CII) Classification Pilot Program.*
 - *Implement a new subscription conservation program, the Water Loss Control Subscription Program, to assist member agencies in addressing requirements to measure and validate water loss estimates and identify necessary steps to reduce water losses.*
 - *Represent member agencies in regional and State-level discussions relative to the development of guidelines to implement the "Making Water Conservation a Way of Life" framework (assumes that regulations will pass in FY 2017-18).*

- b. Represent agencies in regional and State-level discussions related to water conservation-related regulations.
- c. Administer, implement, and expand core water conservation programs that benefit all customers.
- d. Administer subscription conservation rebate programs that benefit, and are paid for by, participating member agencies.
- e. *Organize and host a workshop on automated metering instrumentation (AMI) and/or innovative water conservation technologies.*

4. Take Actions to Protect Members' Water Supply Interests in the Administration of the 2009 Water Supply Agreement

- a. Prepare temporary extension of existing Tier 2 drought allocation plan that expires Dec. 2018.
- b. Develop principles for a new Tier 1 and Tier 2 drought allocation plan that aligns with the proposed State Water Shortage Contingency Plan requirements and new State conservation requirements.
- c. Protect members' water supply and financial interests in the SFPUC's upcoming 2018 decisions (*including possible extension(s) of said decisions*) and associated Water Management Action Plan (MAP).
- d. Protect members' water supply interests to ensure that the SFPUC meets its adopted Water Supply Level of Service Goals.

5. Protect Members' Interests in a Reliable Water Supply

- a. Participate in the Restore Hetch Hetchy litigation in which BAWSCA is a named party.
- b. Participate in SWRCB Bay Delta Plan Update to ensure member agency interests are represented.
- c. Participate in the Don Pedro Project/La Grange Project FERC licensing process, via legal intervention, to protect customers' long-term interests in Tuolumne River water supplies.

6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts

- a. Pursue and use grant funds for water conservation programs and for regional supply projects and programs, such as CCWD's Los Vaqueros Enlargement Project.
- b. Pursue, with regional partners, grant funding to support studies that aim to improve regional water supply reliability, such as possible future BARR Phase 3 effort(s).
- c. Investigate potential for grant funds to support the implementation of the Strategy, including possible opportunities that may be available in the event that a proposed 2018 California Water Bond vote is successful.

7. Reporting and Tracking of Water Supply and Conservation Activities

- a. Complete BAWSCA FY 2017-18 Annual Survey.
- b. Complete BAWSCA FY 2017-18 Annual Water Conservation Report.
- c. In partnership with member agencies, operate and maintain BAWSCA's Water Conservation Database.

HIGH QUALITY WATER

8. Support Member Agencies in Receiving Reliable Communication of Water Quality Issues

- a. Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs.
- b. Relay important water quality information (notices as received from SFPUC) to BAWSCA member agencies when made aware of changes that have the potential to impact water quality (taste, odor, blending particulars, etc.).
- c. Review and act on, if necessary, State legislation affecting water quality regulations.

FAIR PRICE

9. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement

- a. Administer the Water Supply Agreement with SF to protect the financial interests of member agencies.
- b. Support development and member agency adoption of up to four contract amendments to address resolution of several issues including FY 2010-11 WRR settlement, implementation of the Regional Groundwater Storage and Recovery Project and [San Francisco's anticipated 2018 decisions](#).
- c. Administer bonds issued by BAWSCA to retire capital debt owed to San Francisco.

AGENCY EFFECTIVENESS

11. Maintain Community Allies and Contacts with Environmental Interests

- a. Maintain close relationships with BAWSCA's local legislators and allies, and activate them if necessary, to safeguard the health, safety, and economic well-being of residents and communities.
- b. Maintain a dialogue with responsible environmental and other groups, who will participate in the permitting and approval process for efforts to maintain system reliability.
- c. Maintain effective communications with member agencies, customers, & others to achieve results and support goals.
- d. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants.

12. Manage the Activities of the Agency Professionally and Efficiently

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Table 2: Activities Not Included in Proposed Work Plan and Operating Budget for FY 2018-19
 (New/Expanded items shown in *blue italic font*)

<p>RELIABLE SUPPLY</p> <ol style="list-style-type: none"> 1. Engage in extended or complex applications for State or Federal grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council, or other agencies. 2. Introduce major new legislation or supporting/opposing legislation initiated by others including legislation related to the Bay-Delta and California Water Fix. If needed, the agency could support major legislative efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval. 3. Initiate new, unanticipated litigation or support/oppose new, unanticipated litigation initiated by others. If needed, the agency could support major litigation efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval. 4. <i>Implementation of a BAWSCA Pilot Water Transfer.</i>
<p>FAIR PRICE</p> <ol style="list-style-type: none"> 5. Develop alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to facilitating communication with SFPUC, development of goals and objectives relevant to Wholesale Customers, and addressing the potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues. 6. Arbitrate issues related to the 2009 Water Supply Agreement.
<p>HIGH WATER QUALITY</p> <ol style="list-style-type: none"> 7. Perform technical studies of water quality or San Francisco's treatment of the water it delivers to the BAWSCA agencies. 8. Advocate changes to water quality regulations or the manner in which San Francisco treats water for drinking and other purposes.
<p>AGENCY EFFICIENCY</p> <ol style="list-style-type: none"> 9. Add resources to support additional Board, Board committee, or technical committee meetings. 10. Conduct tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions, <i>other than tours done in coordination with San Francisco.</i>

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Table 3. FY 2018-19 Work Plan and Budget Planning Session – Comments and Suggested Work Plan Items for Further Consideration
(Questions presented in alphabetical order by Board Member)

#	Board Member	Board Member Comment	Staff Response
1	Kuta	BAWSCA should develop a plan or an approach that supports member agency resiliency to recover following an unforeseen event and or disaster	At this time, the preliminary FY 2018-19 Work Plan does not include a task to develop a regional emergency resiliency plan. BAWSCA actively supports the Regional Water System emergency exercises coordinated by the SFPUC with the member agencies. In April 2016, the SFPUC completed the Mountain Tunnel Emergency Response Plan which identifies specific actions to be taken by the SFPUC in the event of an extended Hetch Hetchy outage emergency. As part of that Plan, BAWSCA worked with the SFPUC and the member agencies to identify flexibility within the region for the use of local supplies to mitigate the impact of a Hetch Hetchy emergency situation. BAWSCA proposes to continue to look for opportunities to expand emergency preparedness among the member agencies.
2	Kuta	BAWSCA should evaluate and track SFPUC's Asset Management Program to ensure that assets are fully utilized and adequately maintained	Included in Task 1.d. BAWSCA continued to increase its oversight of the SFPUC's CIP in FY 2017-18. Task 1.d of the preliminary FY 2018-19 Work Plan includes BAWSCA initiation of an audit of SFPUC's asset management practices. BAWSCA's ability to audit said practices is provided for in Section 3.10.c. of the 2009 Water Supply Agreement.
3	Mendall	BAWSCA should, in the mid-term, extend the horizon for its Water Supply Planning studies (e.g., demand studies) through 2050, consistent with the timeline employed for BAWSCA's identified long-range challenges	Not included in the proposed FY 2018-19 Work Plan. BAWSCA is planning to update overall water demand and supply projections for the member agencies through 2050 in FY 2019-20. This timing will coincide with agency-specific schedules for updates of their Urban Water Management Plans. This task is not recommended for FY 2018-19 as the specifics of implementing "Making Water Conservation a California a Way of Life" will not be clear until next fiscal year. Updated water demand projections are a component of implementation of BAWSCA's Long-Term Reliable Water Supply Strategy.
4	Mendall	BAWSCA should plan for future budgetary needs associated with water supply planning to determine alternative funding mechanisms (e.g., one-time assessment, building and using financial reserve)	This fiscal year, BAWSCA is in discussion with legal counsel and others regarding potential alternatives available. One alternative is the creation of a new long-term planning reserve, into which surplus funds at the end of the year can be transferred for use on specified long-term planning studies per Board direction. A discussion item related to this potential new reserve is agendaized for the February 14, 2018 Board Policy Committee meeting.

5	Mendall	As “new” technologies are employed by member agencies (such as AMI), implement a means to improve knowledge and information sharing amongst member agencies (i.e., regular or recurring workshops) on emerging technologies	Included in Task 3.e. For FY 2018-19, BAWSCA is proposing to organize and host a workshop on advanced metering infrastructure (AMI) and innovative water conservation technologies. BAWSCA has held workshops in past years to foster knowledge sharing among our member agencies. BAWSCA has found such information sharing workshops to be highly effective at providing information to member agencies on new and emerging technologies and their implementation.
6	Mendall	Host a workshop or promote information sharing on the topic of “water loss audits and new state conservation requirements” such that member agencies can compare how individual agencies are addressing the topics	Included in Task 3.a. BAWSCA is taking a phased approach to the implementation of “Making Water Conservation a Way of Life”. Phase 1 will be completed in FY 2017-18 and Phase 2 will commence at the start of FY 2018-19. As part of Phase 2, BAWSCA is proposing to conduct two pilot projects (one on outdoor water budgeting and a second on commercial, industrial and institutional account (CII) classifications). BAWSCA is also proposing to implement a new subscription program to assist agencies in meeting the State’s new water loss control requirements. BAWSCA will continue to represent member agencies in regional and State-level discussions relative to the development of guidelines to implement the “Making Water Conservation a California Way of Life” framework.
7	Mendall	BAWSCA should develop and implement an approach to sharing information regarding new water utility related technologies that may be of interest to member agencies (e.g., biotechnologies and their use in water purification, AMI systems, etc.) – <i>voiced in support of Zigterman comment</i> (see comment #14 in this table)	Included in Task 3.e. Refer to the response to Question 5.
8	Pierce	Many of the comments by fellow Board Members appear to already be listed on the table provided by BAWSCA’s CEO / GM. As a “next step”, BAWSCA staff should point out whether these requests fall within the preliminary work plan and results to be achieved	Agreed. Responses in this table are formatted to speak to whether the requests are included in the preliminary work plan and results to be achieved.

9	Richardson	Collaborate with WaterNow Alliance on partnership opportunities that could prove mutually beneficial	Included in Task 11.b. As part of this task, BAWSCA staff will maintain a dialogue with responsible environmental and other groups, including WaterNow Alliance. In FY 2017-18, BAWSCA partnered with WaterNow Alliance on a grant proposal to the Santa Clara Valley Water District to secure monies to implement a pilot program to investigate emerging customer-focused automated water meter technologies. BAWSCA's CEO/GM will be attending the upcoming WaterNow Alliance annual summit on March 28 and 29, 2018, to continue to build a relationship with that organization.
10	Schmid	BAWSCA should have ongoing dialogue and continued involvement with the Association of Bay Area Governments (ABAG) and the Metropolitan Planning Commission (MPC) as it relates to their Plan Bay Area efforts	Included in Task 11.c. In FY 2018-19, BAWSCA proposes to continue the ongoing dialogue with ABAG as it relates to its Plan Bay Area efforts and the potential impact on regional water supplies and water reliability. In FY 2019-20, as part of the updated water demand studies, BAWSCA will work with its member agencies to identify how growth as proposed by Plan Bay Area 2040 is incorporated into the member agencies long-term plans and how it may impact predicted water needs.
11	Weed	BAWSCA should encourage the State to apply guidelines regionally (as it relates to water supply development efforts) akin to policies and procedures as proposed by ACWA	Included in Task 11.b. In FY 2018-19 and beyond, BAWSCA will continue to work to strengthen the relationship(s) with responsible groups in charge of the permitting and approval of BAWSCA's water supply initiatives and interests (e.g. State Water Resources Control Board, Department of Water Resources, California Fish and Wildlife Department). As part of that ongoing dialogue, BAWSCA will encourage regulators to promote regional approaches to water supply development.
12	Weed	BAWSCA should provide information regarding alternative rate structures that could enable member agencies to avoid (or lessen) the financial hardships incurred during times of drought (when water sales are reduced)	Included in Task 10.a in the current FY 2017-18 Work Plan. A member agency financial workshop is scheduled on March 22, 2018. Member agencies have provided input on desired topics, which will include alternative rate structures. No further work on this topic is proposed in the FY 2018-19 Work Plan at this time.
13	Weed	BAWSCA should foster relationships between and among the 26-member agencies such that when and if a disaster strikes, regional support can be provided to those most impacted for repairs, etc., following such emergencies	Included in Task 11.c. BAWSCA maintains effective communications with member agencies, customers, & others. For emergency planning and communications, BAWSCA will continue to support SFPUC sponsored Regional Water System emergency planning exercises. In addition, the SFPUC has recognized a role for BAWSCA as part of emergency situations for communication with the member agencies and others in the region.

14	Zigterman	Given BAWSCA's unique geographic presence (covering the heart of Silicon Valley), develop and implement an approach to share technological advances on topics such as water metering technologies, monitoring devices, control systems, etc. that are more "advanced" than those currently employed by water agencies	Included in Task 3.e. Refer to the response to Question 5.
15	Zigterman	Consider incorporating a "one water" approach toward management of water resources, and looking further out into the future to evaluate what key issues BAWSCA should be looking at closely as resource "opportunities" to meet BAWSCA's objectives (e.g., impacts of climate change, potential for storm water capture, improvements to groundwater management, expansion of recycled water)	Included in Task 2, which reflects BAWSCA's implementation of its Reliable Water Supply Strategy (Strategy). "One Water" is defined as an integrated planning and implementation approach to managing finite water resources for long-term resilience and reliability, meeting both community and ecosystem needs. While BAWSCA's Strategy predated the concept of One Water, BAWSCA's Strategy implementation to date is consistent with the One Water philosophy. For example, under Tasks 2.a and 2.b., BAWSCA is proposing to continue to participate in water reuse planning studies (both direct and indirect potable reuse) with other regional partner agencies. Under Task 2.c, BAWSCA is proposing its continued participating in the Bay Area Regional Reliability effort to investigate water marketing strategies. Task 2.e addresses groundwater opportunities. As part of Task 2.g, in FY 2018-19 BAWSCA is proposing to evaluate the water supply impact of adding new alternative water supplies into its water supply portfolio, using the BAWSCA Regional Reliability Model built in FY 2017-18.

Table 4: Future Challenges Facing BAWSCA, Member Agencies, and Their Customers (Preliminary - FY 2018-19)

BAWSCA Goal and Associated Challenges	FY 2018-19 (Near-Term)	2019-2035 (Mid-Term)	2035-2050 (Long-Term)
Reliable Supply: Ensure Long-Term Water Supply Reliability			
Protection of BAWSCA member agencies from normal and dry year supply shortages and resulting excessive economic impacts.	X	X	X
Reflection of member agencies' long-term water supply needs and investments in regional planning efforts.	X	X	X
Representation of member agencies in Federal relicensing of New Don Pedro to protect SF RWS water supply reliability.	X	X	
Representation of member agencies in Bay Delta Plan Update to protect RWS water supply reliability.	X	X	
Meeting the new Statewide "Making Water Conservation a California Way of Life" requirements thru 2030.	X	X	
Implementation of interim Tier 2 drought allocation plan before the existing one expires at the end of 2018.	X		
Protection of member agencies' interests in updating SF RWS drought year allocation plans, consistent with new State Guidelines.	X	X	
Protection of member agencies' interests in San Francisco's upcoming December 2018 decisions including deciding whether to make San Jose and Santa Clara permanent customers.	X	X	
Protection of member agencies' interests in long-term water supply reliability need from the SF RWS and 184 MGD Supply Assurance in light of climate change and future regulatory challenges.			X
Reliable Supply: Ensure SF RWS Facility Reliability			
Protection of water supply and financial interests of water customers in SFPUC's development and implementation of its 10-Year CIP.	X	X	X
Protection of water supply and financial interests of water customers in SFPUC's asset management program to ensure ongoing maintenance and protection of RWS assets.	X	X	X
Protection of water supply and financial interests of water customers in SFPUC's WSIP implementation.	X	X	
Protection of water customers' interest in SFPUC's decision on and implementation of final Mountain Tunnel Improvements.	X		
High Quality Supply & Fair Price: Enforce 2009 Water Supply Agreement			
Enforcement of the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting obligations.	X	X	X
Representation of member agencies' financial interests in negotiation with SFPUC on potential Water Supply Agreement amendments.	X		
Protection of member agencies' water supply reliability interests against threats by outside forces including efforts by others to drain Hetch Hetchy that disregard their interests in reliability, quality and cost.	X	X	X
Protection of water customers interests in ensuring SF maintains its Tuolumne River water rights.		X	X
Management of BAWSCA's revenue bonds in accordance with Bond Indenture and other applicable laws to ensure accountability and ultimately to reduce overall cost to regional water customers (thru 2034).	X	X	
Extension or renegotiation of the Water Supply Agreement before it expires in 2034		X	

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Discussion of Possible Establishment of a New Long-Term Planning Reserve**

Summary:

At the January 18, 2018 board meeting, Vice-Chair Pierce directed the CEO to examine options for managing the General Reserve. In particular, the request was to evaluate the potential for the creation of a new reserve fund that would be used to partially fund anticipated, long-term water supply reliability planning expenses. Such a reserve could potentially be funded by surplus operating funds at the end of the fiscal year in excess of BAWSCA's current General Reserve guideline level.

This item is for discussion only. A presentation on possible options and limitations will be provided to the Committee for discussion and further input.

Fiscal Impact:

There is no identified impact on BAWSCA's annual operating budget at this time. A decision on this issue could be an important component of funding source considerations for the FY 2018-19 Operating Budget including the annual assessments.

Recommendation:

This item is for discussion only. Committee members are asked to provide feedback on the information presented and identify areas for further information needed for future consideration of action by the Board.

Discussion:

The current General Reserve Policy is designed to protect the agency against unanticipated deviations in revenue and expenditures, and stabilize or attenuate variations in assessments to member agencies. As of November 30, 2017, BAWSCA's General Reserve balance was \$1,561,144, or 42% of the approved FY 2017-18 Operating Budget.

Given the current General Reserve balance, BAWSCA's current regulatory and legal challenges, and anticipated future one-time expenses for water supply planning projects, it was requested that options for managing BAWSCA's General Reserve and surplus funds be presented to the Committee and the Board for consideration.

Possible Options for Consideration of Potential New Reserve for Planning Purposes:

In reviewing possible options for the creation of a long-term planning set-aside fund that relies on surplus operating funds at the end of a fiscal year, BAWSCA so far has identified the following alternatives for consideration:

- **Amend Existing Policy for Long-Term Planning:** Modify the current General Reserve Policy to include language that provides guidelines for use of surplus funds in excess of the current specific upper limit budgetary guideline for the General Reserve

(35% of the Operating Budget). Such guidelines can speak to the intent to create a fund reserve beyond the General Reserve for anticipated long-term planning needs.

- **Additional New Policy to Establish Fund:** Adoption of an additional new reserve policy that is coordinated with the General Reserve Policy and provides for the creation of a new fund reserve to receive surplus funds for the purpose of providing funds for anticipated long-term planning studies.

In either of these options, it would be important for the Board to take action on the policy. In addition, a subsequent deposit of unspent funds into either or both reserve funds will be reflected in the specific board action and be consistent with the rules established in any new policy.

Anticipated Long-Term One-Time Water Supply Planning Expenses Have Been Identified:

BAWSCA's General Reserve Policy does not speak to planning for anticipated future expenditures that may be significant or may represent a one-time planning expense. In reviewing the future challenges for BAWSCA and preparing the FY 2018-19 budget, there are several future projects that can be identified now that have a known expense or the potential for a significant expense to BAWSCA. Two examples of such anticipated expenses are:

- **Updated Regional Water Demands:** In FY 2019-20, BAWSCA anticipates completing updated overall water demand and supply projections for the BAWSCA member agencies through 2050. This timing will coincide with agency-specific schedules for updates of their State required Urban Water Management Plans. The last demand study was completed in September 2014 at a cost of \$365,000. The project was completed over an 18-month period.
- **Expanded Los Vaqueros:** Consistent with implementation of BAWSCA's Long-Term Reliable Water Supply Strategy, BAWSCA continues to participate in Contra Costa Water District's (CCWD) studies of an Expanded Los Vaqueros Reservoir as the project provides a potential dry year water supply opportunity. For FY 2018-19, the preliminary BAWSCA budget includes a small cost share (\$10,000) that will be combined with SFPUC's commitment for the next level of planning, including the scoped supplemental environmental work. The next phase would be design and permitting, at which time, the project participants would be expected to share in those additional costs. If BAWSCA decides that participation in an Expanded Los Vaqueros is a preferred project moving forward, BAWSCA must anticipate paying its share of those larger design and permitting expenses. While it is unclear what those costs and the subsequent cost-allocation would be at this time, it is conceivable that BAWSCA's share will be several hundreds of thousands of dollars.

Past Use of BAWSCA General Reserve:

BAWSCA has a past practice of funding one-time project expenditures through the General Reserve. For example, the General Reserve was used to fund the Water Conservation Implementation Plan in 2009 for \$105,000 and to fund the most-recent Water Demand Study in 2014 for \$365,000. In addition, the General Reserve has been used at times to fund a portion of the operating budget. Table 1 presents the historical use of the BAWSCA General Reserve.

Table 1. Historical Use of the BAWSCA General Reserve

Date	Amount	Description of Use
3/19/2008	\$391,000	To fund FY 2007-08 Operating Budget
1/07/2009	\$349,000	To fund FY 2008-09 Operating Budget
2/09/2009	\$105,000	To fund Conservation Implementation Plan
1/13/2010	\$250,000	To fund FY 2009-10 Operating Budget
1/27/2011	\$163,394	To fund FY 2010-11 Operating Budget
11/30/2011	\$172,190	Refund to Member Agencies
9/30/2012	\$130,000	To fund Pilot Water Transfer Plan
3/31/2013	\$65,000	Initial funding for Water Demand Study
4/21/2014	\$300,000	Final funding for Water Demand Study
6/30/2014	\$98,000	To fund FY 2013-14 OPEB contribution
6/30/2014	\$66,000	To fund Pilot Water Transfer Plan
6/30/2015	\$296,436	To fund FY 2015-16 Operating Budget
6/30/2016	\$27,274	To fund FY 2016-17 Operating Budget
6/30/2017	\$160,615	To fund FY 2017-18 Operating Budget

Background:

The BAWSCA Board originally adopted Resolution 2004-07 that established a General Reserve Policy in September 2004. The Board adopted Resolution 2011-01 to amend the policy to change the guideline for the range in the General Reserve from 20%-25% to 20%-35% of the Operating Budget. The most recent review of the policy occurred on September 2015 and resulted in no changes to it. A copy of Resolution 2015-02 re-affirming the General Reserve Policy is attached.

BAWSCA's current General Reserve Policy states the following:

1. Revenue received by the Agency during a fiscal year that is not expended or obligated by June 30 of that year shall be transferred to the General Reserve, subject to the limitation on that reserve as discussed in Section 2 of the Policy.
2. For budgetary purposes, the guideline for the maximum balance in the General Reserve is thirty five percent (35%) of the budget year's operating expense.

Table 2 presents BAWSCA's historical annual assessments, year-end reserves, operating budget, and year-end reserves as a percentage of operating budget.

Table 2. Historical Annual Assessments and Year-End Reserves

Fiscal Year	Assessments	Year-End Reserves	Operating Budget	As a % of Operating Budget
2003-04	\$1,668,550	\$276,480	\$1,821,350	15.2%
2004-05	\$1,641,995	\$246,882	\$1,838,490	13.4%
2005-06	\$1,953,998	\$240,000	\$2,099,975	11.4%
2006-07	\$2,117,904	\$654,000	\$2,291,904	28.5%
2007-08	\$2,117,904	\$691,474	\$2,508,967	27.6%
2008-09	\$2,309,000	\$507,474	\$2,763,196	18.4%
2009-10	\$2,517,000	\$407,192	\$2,766,945	14.7%
2010-11	\$2,517,000	\$653,763	\$2,680,394	24.4%
2011-12	\$2,517,000	\$916,897	\$2,619,705	35.0%
2012-13	\$2,517,000	\$985,897	\$2,780,504	35.5%
2013-14	\$2,517,000	\$521,897	\$3,280,189	15.9%
2014-15	\$2,642,653	\$225,461	\$ 2,939,286	7.7%
2015-16	\$3,276,889	\$653,049	\$3,201,679	20.4%
2016-17	\$3,440,734	\$1,202,592	\$3,468,008	35%

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

RESOLUTION NO. 2015-02

RE-AFFIRM GENERAL RESERVE POLICY

WHEREAS, maintenance of a reserve to provide funds for urgent but unanticipated expenses is a prudent financial measure; and

WHEREAS, the Agency originally adopted a Reserve Policy in 2004, Resolution 2004-07, and revised such Policy by Resolution 2011-01 in 2011; and

WHEREAS, the CEO/General Manager and Board Policy Committee have reviewed the Reserve Policy and recommend re-affirmation.

BE IT RESOLVED by the Board of Directors of the Bay Area Water Supply & Conservation Agency as follows:

1. Revenue received by the Agency during a fiscal year that is not expended or obligated by June 30 of that year shall be transferred to the General Reserve, subject to the limitation on that reserve in Section 2.
2. For budgetary purposes, the guideline for the maximum balance in the General Reserve is thirty five percent (35%) of the budget year's operating expense.
3. For budgetary purposes, the guideline for the minimum balance in the General Reserve is twenty percent (20%) of the budget year's operating expense. Once that level is achieved, it is the policy of the Board to maintain the General Reserve at the minimum 20% level.
4. Each year the proposed budget submitted to the Board by the CEO/General Manager shall estimate the amount of the reserve at the end of the fiscal year covered by the budget. If the ending reserve balance is estimated to fall outside the guidelines established by this resolution, the budget shall include a prudent and practical schedule for restoring the reserve balance to within those guidelines.
5. Funds in the General Reserve may be used only for purposes approved by the Board of Directors.
6. Funds in the General Reserve are to be deposited in accordance with the Board's approved Investment Policy, but need not be deposited in a separate account.

PASSED AND ADOPTED, this 17th day of September 2015 by the following vote:

AYES: Anderson, Benton, Breault, Bronitsky, Chambers, Esteves, Guzzetta, Kasperzak, Keith Mendall, Mickelsen, O'Mahony, Piccolotti, Quigg, Richardson, Schmid, Vella, Zigterman

NOES:

ABSENT: Abrica, Guingona, Larsson, Liccardo, Marsalli, O'Connell, Pierce, Weed



Chair, Board of Directors

ATTEST:



Secretary

BAWSCA

Bay Area Water Supply & Conservation Agency

155 Bovet Road, Suite 650
San Mateo, California 94402
(650) 349-3000 tel. (650) 349-8395 fax

MEMORANDUM

TO: BAWSCA Board of Directors
FROM: Nicole Sandkulla, CEO/General Manager
DATE: February 9, 2018
SUBJECT: Chief Executive Officer/General Manager's Letter

SFPUC 10-Year Capital Budget Planning:

One of BAWSCA's primary role is to monitor the operation and long-term maintenance of the Hetch Hetchy Regional Water System (RWS) by the SFPUC. The SFPUC's 10-year Capital Improvement Plan (10-year CIP) contains the critical projects necessary to ensure long-term water supply reliability and can be seen as a roadmap that charts the RWS maintenance and facility needs in the coming years. BAWSCA has been closely tracking efforts currently underway at the SFPUC to develop the biannual update of their CIP. BAWSCA wants necessary projects and programs to be included in the CIP. Further, BAWSCA wants those projects to have an appropriate implementation schedule and budget with a robust and thorough cost estimate for the CIP.

SFPUC staff held five meetings with BAWSCA, beginning in August of 2017, providing BAWSCA the opportunity to discuss and comment on CIP priorities, individual projects, and proposed CIP expenditures. Budget workshops conducted by the SFPUC with its Commission were held on January 18, 2018; January 25, 2018; and February 1, 2018. BAWSCA staff were present at each budget workshop. The portion of the CIP that is of greatest interest to BAWSCA was discussed at the January 25th workshop. BAWSCA staff provided oral comments during the meeting, making specific requests regarding the content of the CIP and its development process. BAWSCA has since followed up the verbal statement with a comment letter, a copy of which is attached to this memorandum. The Commission is scheduled to consider adoption at its upcoming February 13, 2018 meeting.

BAWSCA's comment letter presented the following four comments:

1. BAWSCA supports the inclusion of the Daly City Recycled Water Project in the Capital Program budget request.
2. BAWSCA recommends that two critical pipeline rehabilitation projects, the San Antonio Pipeline PCCP Replacement Project (\$48.8M) and the Crystal Springs Pipeline #3 PCCP Rehabilitation Project (\$60M), be put back into the 10-year CIP.
3. BAWSCA supports the allocation of funds for the new Priest-Moccasin Water Transmission pipeline, however more information will be necessary before BAWSCA can agree that this project is appropriate or necessary.
4. BAWSCA recommends that the SFPUC expand its 10-year CIP to consider related topics such as work force sufficiency, project delivery approaches, and financing mechanisms during its next bi-annual 10-year CIP update.

BAWSCA is in discussions with SFPUC's General Manager, Harlan Kelly, and his management staff, about future oversight for the SFPUC's 10-year CIP, and we will keep the Board informed about developments.

Attachments:

- February 5, 2018 BAWSCA Letter to President Kwon, SFPUC

Minimum Purchase Discussions with BAWSCA's Water Management Representatives:

Background

Four BAWSCA agencies are subject to a minimum purchase requirement from the SFPUC as part of the 2009 Water Supply Agreement (WSA): ACWD, Milpitas, Mountain View, and Sunnyvale. During the drought, the SFPUC provided a waiver of that requirement, which ended on July 1, 2017. A July 3, 2017 letter from Mountain View to the SFPUC requested that the minimum requirement continue to be waived. In its August 11, 2017 letter response to Mountain View, the SFPUC noted a continued waiver would create financial repercussions for the other Wholesale Customers, as well as San Francisco Retail Customers, and would require a contract amendment. SFPUC suggested that more detailed discussion was therefore needed to consider the request.

In Fall 2017, BAWSCA initiated meetings with the four minimum purchase agencies to help facilitate the development of a unified proposal for consideration by SFPUC and the BAWSCA member agencies. They in turn came together and proposed a limited-term (3-year) drought rebound waiver. At the January 11, 2018 BAWSCA Water Management Representatives (WMR) meeting, the four minimum purchase agencies presented their joint proposal.

Drought Rebound Waiver Concept

The four minimum purchase agencies proposed that the remaining 22 BAWSCA agencies, together with the SFPUC (retail), provide relief from the minimum purchase requirements in consideration of the fact that a rebound period is needed to recover from the reduction of water use that occurred during the recent drought and requested by SFPUC.

A 3-year rebound period was proposed, such that the base year corresponded to FY 2016-17 (year 0) and that rebound completed before the start of FY 2020-21 (year 4). The waiver would impact each minimum purchase agency uniquely, based on how close that agency is to meeting its respective minimum purchase requirement.

The waiver concept included a unique component proposed by ACWD. ACWD proposed to conduct a pilot project to evaluate their water system flexibility to use less SF RWS water and thereby create potential future opportunities for water transfers of outside supplies to other member agencies.

BAWSCA performed an initial analysis of the potential economic impact of the proposal. That information was presented to the member agencies at the January 11, 2018 meeting and also shared with the SFPUC. Member agencies were asked to have further discussions within their agencies on this proposal in order to provide feedback at the following WMR meeting which took place on February 1, 2018.

Feedback from Remaining BAWSCA Agencies

Member agencies discussed the proposal during the February 1, 2018 WMR meeting. Feedback provided during that discussion includes the following:

- Several agencies expressed sympathy with those that have a minimum purchase requirement and the impact of the drought and drought rebound being experienced in the region, while recognizing that this is a current contractual requirement agreed to most recently in the WSA;
- Most agencies expressed concerns about the associated impacts of a waiver to their own ratepayers, specifically increased costs;
- Most agencies expressed belief that this proposal would require approval by their governing body as an amendment to the 2009 Water Supply Agreement;
- Several agencies identified a need for more analysis, including quantification of how the proposal would benefit the other 22 member agencies;
- Several agencies encouraged agencies such as Mountain View to consider a transfer of their Individual Supply Guarantee (ISG) coupled with a transfer of the minimum purchase requirement;
- Several agencies voiced opposition to the joint proposal as currently written; and
- Several agencies recognized that this topic will continue to come up following future droughts and suggested that the topic be revisited in a few years (3 +/- years).

Feedback from the SFPUC

No formal feedback from the SFPUC has been received on the proposal to date.

Next Steps

This issue relates to the requirements of the WSA, to which BAWSCA is not a party. BAWSCA's role to date has been to facilitate the discussion of the issue and provide technical and legal assistance where necessary and requested. There is no defined role for the BAWSCA Board at this time.

Since the majority of the agencies had significant reservations and concern regarding the proposal, the next steps for this proposal are unclear. The topic will likely be revisited in the future if water demands remain low at the minimum purchase agencies. The discussion of minimum purchases may also play a role as BAWSCA and its member agencies (1) consider long-term opportunities for increased water supplies and (2) further discuss the role of ISG transfers among the BAWSCA agencies

BAWSCA Member Agency Finance Workshop:

BAWSCA will be hosting a Member Agency Finance Workshop on Thursday, March 22, 2018 from 10 am to 3 pm at the Silicon Valley Community Foundation's meeting facilities in San Mateo. BAWSCA Member Agency staff are invited to attend the workshop. A workshop of this topic is included in BAWSCA's work plan for FY 2017-18.

As part of developing the agenda for the workshop, a web-based survey was sent to BAWSCA Member Agencies in late January, 2018. Feedback was also requested during the WMR meeting held on February 1, 2018. From the survey and discussion that took place, topics of most interest included:

- Legal environment in developing water rates
- Water rate design options
- Cost of service allocations
- Choosing the right fixed/volumetric rate structure for your community

- Financial plan development

Speakers will be confirmed later this month, and the final agenda will be mailed at that time to BAWSCA Member Agencies via the water management representatives.

Water Conservation Legislation:

There are two legislative efforts underway at this time that are of interest to BAWSCA as they relate to water conservation.

SWRCB's Proposed Permanent Water Use Prohibitions

In late 2017, the State Water Resources Control Board (SWRCB) proposed rulemaking that would make certain prohibitions permanent that are related to water use that were originally stipulated in emergency regulations passed by the State during the most recent drought and have been modified somewhat in response to comments received to date.

Initial comments on the SWRCB proposal were due on December 26, 2017. BAWSCA submitted comments to the proposed rules. Revised regulatory text and notice of rulemaking was issued on January 31, 2018 by the SWRCB. Comments to the proposed revised text are due back to the SWRCB by February 14, 2018, at noon. The SWRCB plans to adopt the rule at a hearing to take place on February 20, 2018.

Feedback on the revised text from the member agencies have been requested. Several member agencies continue to have concerns with how recycled water would be regulated under the proposed rule.

BAWSCA intends to submit a comment letter to the SWRCB to capture the concerns of the BAWSCA agencies on the edited rule prior to the February 20, 2018 hearing. In addition, BAWSCA will coordinate with the SFPUC on any comment letter that they may elect to provide to the SWRCB.

Making Conservation a California Way of Life

BAWSCA continues to track two pieces of legislation related to "Making Water Conservation a California Way of Life," SB 606 and AB 1668. At this time, there is no update on the status of each bill and no information is being reported out as to what language changes, if any, are being considered to address concerns that arose during the 2017 legislative session.

BAWSCA will continue to update the Board and member agencies as more information becomes available.



February 5, 2018

The Hon. Ike Kwon, President
San Francisco Public Utilities Commission
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102

**SUBJECT: BAWSCA Comments on the SFPUC's Capital Budget Requests
Associated with the Bi-annual Update of the 10-Year Capital
Improvement Program**

Dear President Kwon:

Created by the California Legislature through AB2058 in 2002, the Bay Area Water Supply & Conservation Agency (BAWSCA) represents the interests of 24 cities and water districts, and two private utilities that serve 1.8 million residential customers and 40,000 businesses in Alameda, San Mateo, and Santa Clara Counties. A primary role of BAWSCA is to monitor the San Francisco Public Utilities Commission's (SFPUC) operation and long-term maintenance of the Hetch Hetchy Regional Water System (RWS) that provides two-thirds of the water supply delivered by BAWSCA's 26 member agencies. The SFPUC's 10-year Capital Improvement Program (10-year CIP) presents the critical projects necessary to ensure long-term water supply reliability for the BAWSCA service area. BAWSCA wants necessary projects and programs to be included in the 10-year CIP. Further, BAWSCA wants those projects to have an appropriate implementation schedule and robust cost estimates and budget.

During this most recent 10-year CIP update, SFPUC staff have held five meetings with BAWSCA, beginning in August of 2017. BAWSCA appreciates the level of engagement it has been provided by the SFPUC in the early development of the program. These meetings have given BAWSCA the opportunity to discuss and comment on the 10-year CIP priorities, individual projects, and proposed program expenditures.

BAWSCA urges the Commission to consider the comments presented below prior to the formal adoption of the CIP, currently scheduled to take place at the February 13, 2018 Commission meeting.

Comments on the 10-Year CIP Under Consideration for Adoption

- **Comment #1 – BAWSCA supports the inclusion of the Daly City Recycled Water Project in the Capital Program budget request.** It had originally been earmarked for deletion. This project will develop additional recycled water supply to increase the overall RWS yield.
- **Comment #2 – BAWSCA recommends that two critical pipeline rehabilitation projects, the San Antonio Pipeline PCCP Replacement Project (\$48.8M) and the Crystal Springs Pipeline #3 PCCP Rehabilitation Project (\$60M), be put back into the 10-year CIP.** Concerns associated with the risk of failure of these two

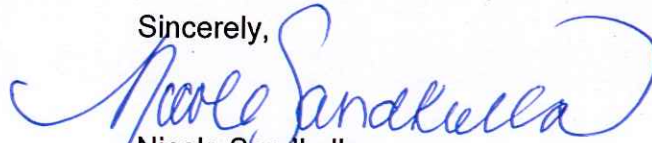
pipeline segments have been known for some time, and both segments are critical to the continued delivery of water.

- **Comment # 3 – BAWSCA supports the allocation of funds for the new Priest-Moccasin Water Transmission pipeline, however more information will be necessary before BAWSCA can agree that this project is appropriate or necessary.** BAWSCA recognizes that this new facility may be needed as an alternative conveyance for water supply in the event that the existing Moccasin Penstocks, which are a joint facility used for both water supply delivery and power generation, are not maintained for future water supply delivery purposes. This new facility has potential significant implications for the long-term operation of the RWS, and BAWSCA will need more information to fully understand and potentially approve of that concept. As a water-side only project in the Hetchy Water portion of the 10-year CIP, the overall cost implications of this project are significant as well.
- **Comment # 4 – BAWSCA recommends that the SFPUC expand its 10-year CIP to consider related topics such as work force sufficiency, project delivery approaches, and financing mechanisms during its next bi-annual 10-year CIP update.** The SFPUC continues to make strides in improving its process for developing a 10-year CIP. However, the capital planning effort heavily focuses on funding needs. Expanding the scope of related topics evaluated as part of the long term planning effort will benefit the SFPUC's overall 10-year CIP and its eventual successful implementation.

The SFPUC's willingness to allow BAWSCA to observe and comment on the CIP during its development has provided an opportunity for discussions that have been constructive for both BAWSCA and SFPUC, and beneficial to the water customers.

Lastly, BAWSCA is pleased with the SFPUC's collaboration in BAWSCA's comparison study of long-term CIP development efforts of several major water utilities. BAWSCA views this comparison study will prove useful to all parties taking part, and will produce best-practice considerations that all participant agencies, including the SFPUC, will find valuable.

Sincerely,



Nicole Sandkulla
CEO/General Manager

cc: SFPUC Commission
H. L. Kelly, Jr., SFPUC General Manager
S. Ritchie, SFPUC Assistant General Manager, Water Enterprise
K. How, SFPUC Assistant General Manager, Infrastructure
D. Wade, SFPUC Director, Water System Improvement Program
BAWSCA Board of Directors
BAWSCA Water Management Representatives
A. Schutte, Hanson Bridgett

Board Policy Committee

Policy Calendar Through June 2018

Meeting Date	Purpose	Issue or Topic
February 2018	R&D R&D R R	Presentation of Preliminary FY 2018-19 Work Plan and Budget Discussion of Possible Options for Changes to BAWSCA's Reserve Policy to Consider Establishment of a Long-Term Reserve Fund Review of Water Supply Forecast BAWSCA's CIP Comparison Study
April 2018	D&A D&A R R R	Consideration of Proposed FY 2018-19 Work Plan and Budget Consideration of Annual Consultant Contracts Review of Water Supply Forecast SFPUC WaterMAP and 2018 Decisions Update on BAWSCA's Phase I "Making Conservation a Way of Life" Strategic Plan
June 2018	D&A R R	Review of Agency Personnel Handbook Update on BAWSCA's Regional Water Supply Modeling Tool Development Update on Long-Term Reliable Water Supply Strategy Implementation