

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

June 13, 2018
1:30 p.m.

BAWSCA Office Building, 155 Bovet Road, San Mateo, 1st Floor Conference Room
(Directions on page 3)

(One member of the Board may participate in this meeting by Teleconference. Locales shall be: 1025 Strawberry Ln., Boise ID. and 155 Bovet Rd., San Mateo, 1st floor conference room. If any member of the board participates by teleconference, all votes taken at this meeting will be by roll call vote.)

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page#</u>
1. <u>Call to Order, and Roll Call</u> Roster of Committee members (<i>Attachment</i>)	(Larsson)	Pg 5
2. <u>Comments by Chair</u>	(Larsson)	
3. <u>Public Comment</u> <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. 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>	(Larsson)	
4. <u>Consent Calendar</u> A. Approval of Minutes from the April 11, 2018 meeting (<i>Attachment</i>)	(Larsson)	Pg 7
5. <u>Action Calendar</u> A. Review and Amendment of BAWSCA's General Reserve Policy (<i>Attachment</i>)(Sandkulla) <u>Issue:</u> How should BAWSCA financially plan for ongoing legislative efforts and legal uncertainties in the upcoming and potentially subsequent fiscal years, as well as anticipated long-term planning studies that BAWSCA may need to fund? <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> That the Committee recommend Board approval of the proposed action.	(Sandkulla)	Pg 21
B. Establish a List of Potential Long-Term Planning Fund Projects and Adopt the Maximum Balance of the Long-Term Planning Fund (<i>Attachment</i>) <u>Issue:</u> What is the process for managing the Long-Term Planning Fund. <u>Information for Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> That the Committee recommend Board approval of the proposed action.	(Sandkulla)	Pg 27

- C. Process and Schedule for CEO Annual Evaluation (Attachment) **(Mendall/Sandkulla)** Pg 31

Issue: What is the process and schedule for completing the CEO Annual Evaluation and what benchmarks should be considered for the CEO's FY 2018-19 evaluation?

Information for Committee: Staff memo and oral report.

Committee Action Requested: (1) provide input on the procedure and draft evaluation form for the CEO/GM FY 2017-18 performance evaluation, (2) provide input on possible new personal benchmarks for the CEO's FY 2018-19 evaluation to be considered by the Chair and (3) recommend that the Board review the evaluation form during its July meeting for subsequent use as part of the CEO/GM performance evaluation. .

6. Reports

(Sandkulla)

- A. Water Supply Update
- B. WSA Amendments
- C. CEO 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 case) **(Schutte)**

8. Comments by Committee Members

(Larsson)

9. Adjournment to the next meeting:

August 8, 2018 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo.

Upon request, the Board Policy Committee of the Bay Area Water Supply and Conservation Agency (BAWSCA) will provide for written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. Please send a written request, including your name, mailing address, phone number and brief description of the requested materials and the preferred alternative format or auxiliary aid or service at least two (2) days before the meeting. Requests should be sent to: **Bay Area Water Supply & Conservation Agency, 155 Bovet Road, Suite 650, San Mateo, CA 94402** or by e-mail at [**bawasca@bawasca.org**](mailto:bawasca@bawasca.org)

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 Board 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

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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

Rob Kuta, California Water Service Co.

Al Mendall, City of Hayward (BAWSCA Chair)

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

Greg Schmid, City of Palo Alto

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

**April 11, 2018 – 1:30 p.m.
BAWSCA Offices – 155 Bovet Rd., San Mateo – 1st Floor Conference Room**

MINUTES

1. **Call to Order:** Committee Vice Chair Tom Zigterman called the meeting to order at 1:32 pm. A list of Committee members who were present (8), absent (1), and other attendees is attached.

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

2. **Public Comments:** There were no public comments.
3. **Consent Calendar:** Approval of Minutes from the February 14, 2018 meeting.
Director Pierce made a motion, seconded by Director Kasperzak, that the minutes of the February 14, 2018 Board Policy Committee meeting be approved.
The motion passed unanimously.
4. **Comments by Committee Chair:** Committee Vice-Chair Zigterman welcomed members of the Committee.

5. **Action Items:**

Item #5D was moved up as the first item for discussion and action.

- D. **General Reserve Management:** This item is a follow up to the Committee's discussion at the February 14, 2018 meeting regarding potential modifications to the General Reserve Policy to accommodate long-term planning.

CEO/General Manager, Nicole Sandkulla, explained that the General Reserve Policy is designed to protect the agency against unanticipated deviations in revenue and expenditures, specifically, unpaid quarterly assessments and/or unplanned litigation/arbitration. Ms. Sandkulla noted that this has been the focus of the General Reserve from the very beginning, as well as to stabilize variations in assessments to member agencies.

The current budgetary guideline for the General Reserve is 20% - 35% of the current operating budget. The current General Reserve balance is at 42%.

Ms. Sandkulla stated that the General Reserve Policy provides a budgetary guideline that is permissive rather than being a requirement. The current balance being above the upper end of 35% is not in violation of the General Reserve Policy. The policy also provides that if the General Reserve falls outside the guideline, then the budget shall include a prudent and practical schedule for restoring the reserve balance to within those guidelines.

Ms. Sandkulla reported that there are identified long-term water supply planning efforts that will need additional funds in the future. The most significant effort is updating the Regional Water Demand Projections in FY 2019-20. Ms. Sandkulla reported that BAWSCA's last update of the Regional Water Demand Projections was completed in September 2014 at a cost of \$365,000. It was a significant task that was funded by the General Reserve, and which will have a similar, if not higher, cost when updated in FY 2019-20.

The proposed modification to the current General Reserve Policy establishes a Long-Term Planning Fund (Planning Fund), in which, unexpended or unobligated budgetary funds in excess of the 35% maximum in the General Reserve, can be transferred to.

Ms. Sandkulla stated that given current litigation activity and anticipated long-term planning expenditures, the proposed establishment of a Planning Fund would provide BAWSCA additional funding to support necessary tasks.

The recommended action is for the Committee to recommend Board adoption of Resolution 2018-02 to amend the General Reserve Policy establishing, within the General Reserve, a Long-Term Planning Fund.

Committee discussions ensued following completion of the CEO's prepared remarks.

Ms. Sandkulla clarified that the policy states that unexpended or unobligated funds will not be transferred into the Planning Fund until the General Reserve balance is at the maximum of 35%. However, the Board has the discretion to manage the General Reserve balance within the Policy's range of 20%-35%, and transfer funds it deems prudent from the General Reserve to the Planning Fund before the General Reserve reaches the maximum 35%.

While the policy is written so that the "default" action would not transfer available monies to the Planning Fund until the General Reserve balance is at the maximum of 35%, the language permits the Board to transfer unexpended or unobligated funds into the Planning Fund, if and when the Board chooses to do so, in accordance with the General Reserve Policy.

Director Mendall stated that the projects (including estimated project costs), which the Planning Fund is being used for, would need to be identified, thereby establishing a target amount for the Planning Fund. There should be language in the Policy that would indicate "when" the Planning Fund is considered "full", which should be when the projects that have been authorized by the Board to be funded by the Planning Fund, are fully funded.

Director Mendall noted that previous discussions, which he believes deserve further evaluation, have included the consideration of refunding money back to the member agencies. Whether it be to add a project to save up for, or to rebate money back to the member agencies, both of which would require action by the Board, Director Mendall stated that there must be a plan for what happens when both the General Reserve and Planning Fund are at the maximum.

Director Kasperzak expressed concern that the Planning Fund seems open-ended.

Director Kuta concurred with the need to have a cap on the Planning Fund. In response to his question, Ms. Sandkulla stated that the Board has the flexibility to fund projects and efforts with the General Reserve, which it has done in the past. However, given the current litigation activity, Ms. Sandkulla recommends keeping the General Reserve robust for the Board to have the funding capabilities it may need in the next couple of years.

Ms. Sandkulla supported having an identified maximum value for the Planning Fund and a plan for when both the General Reserve and Planning Fund are full. She recommends for the plan to be permissive in the language than being required, so that the Board can consider various options.

Ms. Sandkulla clarified that currently unspent budgetary funds at the close of the fiscal year are transferred into the General Reserve in accordance with the General Reserve Policy and without separate Board action. With the proposed modifications to the General Reserve Policy, any unspent budgetary funds at the end of the fiscal year, in excess of the maximum 35% in the General Reserve, would be transferred into the Planning Fund without separate Board action. The Board, however, can choose to manage the funds differently, and make that determination at Mid-year Budget review or anytime during the year.

Director Benton suggested consideration of managing a long-term fund where a specified amount is allocated towards the Planning Fund.

Director Kasperzak cautioned against introducing the opportunity to budget more than necessary. He emphasized that BAWSCA's assessments are monies from member agencies that they can be using for their jurisdiction as opposed to sitting with BAWSCA.

Director Breault does not oppose having a Planning Fund, but questions what the proposed Policy can do that the Board is not already able to do, other than automatically transfer money to the Planning Fund when the General Reserve reaches 35%. The Board has discretion to do what it deems prudent whether or not the maximum General Reserve balance of 35% is reached.

Director Breault did not see how the Planning Fund could save up for long-term planning projects more efficiently than the Board's ability to discuss and consider funding mechanisms for long-term projects annually or biannually, if and when necessary.

Director Pierce stated that the establishment of a Planning Fund is to address two matters: maintain a robust General Reserve due to litigation risks, and save up for anticipated long-term planning projects. In the past, BAWSCA has been able to use the General Reserve to fund special projects. However, because of litigation activities, the General Reserve must be maintained at its maximum level. Instead of continuing to increase the General Reserve balance, establishing a Planning Fund would allow the Board to maintain a robust General Reserve within the policy guideline, and have the ability to save up for upcoming long-term planning projects that would otherwise be funded by the General Reserve.

Ms. Sandkulla explained that the Committee does not have to take action on the proposed modification of the General Reserve Policy.

Director Mendall made a motion, seconded by Director Breault, to direct the CEO/General Manager to bring back a revised staff recommendation to the Committee for further review and discussion that includes the following modifications:

- 1. Language that defines when the Planning Fund is full; and**
- 2. A plan, for Board consideration, on what happens when the General Reserve and the Planning Fund are full.**

In response to a question from Director Kasperzak, Ms. Sandkulla noted that the proposed policy states that; "...the Agency will transfer revenue received by the Agency during a fiscal year, that is not expended or obligated by June 30 of that year, and that is in excess of the maximum balance guideline of 35% of the budget year's operating expense, to the Planning Fund."

Director Benton acknowledged the litigation risks BAWSCA has to anticipate which has contributed to the growing reserve.

There being no further discussions, the motion passed unanimously.

- A. Proposed Fiscal Year 2018-19 Work Plan and Results to be Achieved: Ms. Sandkulla reminded the Committee that the proposed work plan is aligned with BAWSCA's legislated authority and three goals of a reliable supply of high quality water at a fair price. The work plan addresses critical issues identified between now and the year 2050, and produces results to protect the water interests of the region.

Ms. Sandkulla noted a slight change from the preliminary budget to the proposed budget of 1% less due to OPEB fluctuations. The proposed operating budget for FY 2018-19 is \$3,901,085. It is 5.2% more than the current budget, and is \$2.16 per residential customer, an \$0.8 cent increase per residential customer.

At the request of the Board, alternative combinations of assessment increases and use of the General Reserve to fund the budget were examined.

Ms. Sandkulla stated that the current operating budget was funded with an increase in assessments and a transfer from the reserve. To date, the known year-end General Reserve balance, which takes into account what was carried over from FY 2016-17, is \$1.6 million, or 42% of the current operating budget. Based on that information, four funding alternatives were developed for the Committee's discussion and consideration.

Alternative #1 presents no assessment increase, and a transfer of \$357,128 from the General Reserve to fund the Budget. Assuming that there are no unexpended funds carried over from FY 2017-18, this alternative puts the known year-end General Reserve balance at 31% of the FY 2018-19 Operating Budget.

Alternatives 2, 3 and 4 present subsequent increases in assessments of 1%, 2%, and 3%. Each alternative provides a gradual reduction of the amount transferred from General Reserve, therefore maintaining a General Reserve Balance between 32% - 34%.

Ms. Sandkulla noted that unlike a city or water district, BAWSCA does not operate a utility with a large number of staff and other fixed costs. Rather, with a relatively small staff, BAWSCA uses consultants as an extension of staff to provide technical and other expertise for very specific scope of services at a not-to-exceed budget. Ms. Sandkulla reported that the FY 2017-18 operating budget is anticipated to be 95% expended. This provides potentially \$185,000 that could be transferred into the General Reserve after all receivables are processed. Under this circumstance, the potential year-end General Reserve balance for FY 2018-19 will be between 36%-38%.

At BAWSCA's meeting with the agencies' Water Management Representatives, a range of 0-5% assessment increase was reported and received well by the representatives. Ms. Sandkulla recommends Alternative #4 with a 3% assessment increase and a transfer of funds from the General Reserve that would result in an estimated FY 2018-19 year-end General Reserve balance at 38% of the operating budget.

Committee discussions ensued with the completion of the CEO's presentation.

Director Benton supported the CEO's recommendation of a 3% increase in assessments. He noted that the budget is increasing by 5% because there is a need. There are potential litigation activities that unfortunately creates a sizable "unknown" in the horizon. From a financial perspective, it is appropriate to have an increase in assessments because a 0% increase would suggest that there is no budget increase when there is one. While a 0% increase may alleviate the impact to agencies, it takes money away from the reserves to fund the FY 2018-19 budget, which may be more essential in FY 2019-20 or the following years. Furthermore, Director Benton stated that even at the risk of having more money at the end of the fiscal year, he prefers to smooth out the curve of assessment increases and decreases.

Director Kasperzak stated his hesitation with an assessment increase when there will be unexpended funds that can be rolled back into the General Reserve to fully fund the operating budget and still have a balance that is well within the 20%-35% policy guideline. He acknowledged the money member agencies save from BAWSCA's audit of SFPUC's wholesale rates. In response to his question, BAWSCA Financial Manager Christina Tang stated that BAWSCA's review of the wholesale revenue requirements have saved \$44.2 million in the past 15 years, and \$3.5 million on an annual basis from the issuance of the bonds. Director Kasperzak emphasized his concern with whether BAWSCA is funding its operations in excess of its reserves.

Director Mendall agreed with Director Benton's sentiment about smoothing out the curve of increasing or decreasing assessments, but noted that the same sentiment has led to a trend in raising assessments and a growth in the reserves that is beyond the agency's policy guideline. The Planning Fund would have established a mechanism for managing unexpended or unobligated funds that 1) is put towards long-term planning needs, and 2) would have put the General Reserve balance within

the policy guideline. However, establishment of the Planning Fund has not moved forward yet.

Director Mendall stated his opinion that the Board needs to either change the existing policy according to what the agency needs, or bring the General Reserve within the policy guideline. Having said that, there would need to be a compelling reason for him to support an increase in assessments.

Director Schmid noted BAWSCA's efforts towards protecting the member agencies' interests in long-term water supply. They include the extension of the Tier 2 plan, the Governor's Executive Order on Making Conservation a Way of Life, threats on the Hetch Hetchy Reservoir, and collaboration with the Bay Area Regional Reliability (BARR) partnership. Additionally, he referenced the number of Bay Area water agencies directly affected by the Governor's Water Fix. All of which are growing concerns affected by external forces from the State, the SFPUC, and others. He would like BAWSCA to be in a position to address the growing issues, and have sufficient resources to do so.

Nicole stated that the proposed operating budget is sufficient to address those issues in the FY 2018-19 work plan. Because the threats are outside of BAWSCA's control, BAWSCA must remain forceful in protecting the interests of the member agencies. The Board has been very supportive of BAWSCA's efforts to deal with the uncertainties of litigation activities. BAWSCA will continue its efforts to ensure the SFPUC meets its water supply commitments to its wholesale customers, as well as in identifying options for new sources of supply. Combined, these efforts are designed to, despite the threats and unknown resolution, put the region in a secure spot with a reliable supply of high quality water at a fair price.

Director Kasparzak made a motion to recommend Alternative #1, 0% increase in assessments. Director Breault seconded.

Further discussions ensued.

Director Kuta stated his support for Alternative #1, but recognized the need for a Planning Fund for long-term planning and the importance of staying within the policy guideline. He noted the importance for his constituents that BAWSCA is not increasing assessments when there are unexpended funds.

Director Breault asked if the CEO/General Manager could provide a 3-5 year outlook on what can be expected regarding potential costly efforts that BAWSCA might need to implement, so that if a 10% increase in the budget is anticipated in the next 5 years, the Board can apply incremental increases to reach that. Ms. Sandkulla agreed, provided that unknown litigation activities are set aside. Director Kuta expressed his support for that effort.

Director Kasperzak suggested the Board's consideration of a revolving fund that is part of the budget instead of the proposed Planning Fund.

In support of Director Schmid's comments, Director Benton pointed out BAWSCA's efforts on the FERC, Bay Delta Plan, and the Governor's Executive Order; "Making Conservation A California Way of Life." BAWSCA continues to face new challenges

that require BAWSCA to modify its work plan and overall operation. In addition, all of these challenges are from an external source.

Director Mendall noted that addressing what is foreseen and issues as they develop is the nature of the agency and how the work plan and operating budget is developed.

The Committee took a vote:

Ayes: Kasperzak, Kuta, Breault, Mendall

Nayes: Pierce, Benton, Schmid, Zigterman

Director Schmid made a motion to recommend Alternative #2, 1% increase in assessments. Director Benton seconded.

The Committee took a vote:

Ayes: Schmid, Benton, Pierce, Mendall, Zigterman

Nayes: Kasperzak, Breault, Kuta

The motion for Alternative #2 passed by a vote of 5:3

- B. Tier 2 Drought Allocation Plan: Water Resources Manager, Tom Francis, explained that the 2009 Water Supply Agreement (WSA) included the Tier 1 and Tier 2 Water Shortage Allocation Plans that take effect in the event of a systemwide shortage due to a drought or an emergency water supply shortage. The Tier 1 Plan allocates water between the SFPUC's retail and the collective wholesale customers. The Tier 2 Plan allocates water between the 26 wholesale customers through a detailed methodology.

The existing Tier 2 Plan was developed by a BAWSCA-facilitated workgroup comprised of member agency representatives. The plan was adopted by the governing body of each member agency between Winter 2010 and Spring 2011.

The plan was purposely given the expiration of December 31, 2018, in anticipation of the SFPUC's 2018 decision, anticipated increased purchases from wholesale customers, interim supply limitations, and resolution of the FERC process.

The recent drought and its overriding influences have caused the delay in the efforts to update the Tier 2 Plan. As previously reported to both the Committee and the Board, the Governor's Executive Order on "Making Water Conservation a California Way of Life" issued in 2016, superseded the Tier 2 Plan during the drought. If passed in the Legislature, it will substantially impact the normal and dry year water use within the BAWSCA member agencies' service area. Until those impacts are known, the development of a new Tier 2 Plan is postponed.

The BAWSCA Board has the ability to adopt the existing Tier 2 Plan with a revised end date, in accordance to Section 3.11(C)(3) of the WSA. The proposed Board action is to extend the Tier 2 plan by one year, to December 31, 2019. This approach would allow the BAWSCA agencies to develop a plan that incorporates new State requirements.

Updating the Tier 2 Plan is included in the work plan for FY 2018-19. BAWSCA has discussed the upcoming effort with the Water Management Representatives, and will work closely with them on the principles for developing a new Tier 2 Plan.

In response to Director Schmid, Ms. Sandkulla explained that the Tier 2 Plan applies to systemwide shortages up to 20%. The Tier 2 Plan provides a method of how the BAWSCA agencies will share the wholesale share of available supply during a drought or other systemwide shortage.

Ms. Sandkulla explained that the Tier 1 and Tier 2 plans were not put into place during the most recent drought because the region responded well to San Francisco's call for 10% voluntary water use reduction such that the SFPUC never needed to ask for mandatory water use reductions. In addition, as the drought continued, the State drought restrictions became the regulatory requirement and superseded SFPUC's actions.

Developing a new Tier 2 plan does not affect the SFPUC's decision to make San Jose and Santa Clara permanent customers. The function of the plan is to provide a method of how, during a drought or systemwide shortage, the existing supply will be shared among the agencies, including San Jose and Santa Clara, as agreed upon by the agencies. However, the State can supersede the Tier 2 plan with its own Executive Order.

Ms. Sandkulla explained that if the Board does not extend the Tier 2 Plan, it will expire on December 31, 2018. At this point, member agencies cannot develop a new Tier 2 Plan before the expiration date. Extending Tier 2's expiration date puts a plan in place in the event that next year is a drought year.

In response to questions from Director Mendall and Director Kuta, Ms. Sandkulla stated that the Board is not limited to a single 1-year extension. The Board can extend the policy year after year, if needed and if that is the best option for the agencies. A 1-year period, as opposed to a 2 or 3-year period provides the Board flexibility in case the agencies develop a new Tier 2 Plan within a period of 12-months or less.

Director Pierce made a motion, seconded by Director Kasperak, to recommend Board adoption of Resolution 2018-01 to adopt the Tier 2 Plan drought allocation methodology for 1 year beginning January 1, 2019 through December 31, 2019.

The motion passed unanimously.

- C. Authorize the CEO/General Manager to enter into a contract with a selected Consultant for the Water Loss Management Program: Sr. Water Resources Specialist, Andree Johnson reported that as part of BAWSCA's FY 2018-19 work plan, BAWSCA is implementing a new regional water conservation program to support member agencies in meeting the State's water loss regulatory requirement that is currently in place. This effort is part of BAWSCA's "Making Water Conservation a Way of Life" Strategic Plan.

Ms. Johnson clarified that “water loss” regulation refers to water lost within an agencies’ distribution system. It is the difference between water that an agency would pump from the ground or purchase from San Francisco, and the water that is sold to customers. It is not water lost to leaks on the customer’s side of the meter.

Water Loss represents a significant volume of water that amounts to approximately 9% of total water production from both BAWSCA agencies and statewide.

BAWSCA member agencies’ water loss performance is in line with current statewide averages. However, there are some significant opportunities to improve water audits and water loss management practices.

Water Loss Management is one of the items under the proposed State legislation, SB 555, and therefore brings significant interests from member agencies for a regional program in the near-term that would support their water loss management efforts.

SB 555, signed into law in October 2015, requires urban water suppliers to submit validated water audits to DWR annually beginning October 1, 2017, and for the State Board to adopt Water Loss performance standards by July 1, 2020.

The proposed water loss regulatory requirements in the “Making Water Conservation a California Way of Life” legislation are complementary to the existing regulations.

Most of the member agencies who submitted their first validated water audits in October 2017 received assistance from the State Water Board through a one-year program that provided technical assistance and a 3rd party validation, as required by the legislation.

To continue the support member agencies need for compliance, BAWSCA is proposing a 2-part program. First is a Technical Assistance Program (TAP) that would provide member agencies individual support in completing audits, validating the audits, and improving their water loss management. This will be offered as a subscription program and will have a multi-year, phased implementation, which would allow agencies to pick and choose the assistance they need. The second is a one-year Pilot for a Regional Water Loss Control (RWLC) Work Group which will provide member agencies water loss control as well as peer to peer learning opportunities. This will be implemented as core conservation program funded by BAWSCA’s Making Conservation A Way of Life strategic plan at a cost of up to \$30,000.

Because water loss is handled by different staff members within the agencies, there is no existing regional coordination to date. The hope is for the pilot to allow agencies to learn from each other and keep them apprised of the regulations as they develop. Continuation of the program will depend on how successful the pilot program proves to be.

BAWSCA seeks one consultant to implement both programs. A Request for Proposals (RFP) was issued on March 21st, and are due April 20th. Staff anticipates presenting a recommendation to the Board on the selected consultant at the May Board meeting.

The consultant contract will reflect BAWSCA's multi-year implementation approach. It will be a one-year contract with four options to extend. The program will be phased over multiple years to allow agencies to 1) improve their data quality, (2) to identify cost-justified actions for reducing water loss, and (3) to implement the identified actions.

Ms. Johnson reported that there is a high level of interests among member agencies to participate in the program. Twenty-one (21) agencies indicated their interest on all of the components of the core and subscription programs.

Director Breault asked that the scope of work for the RWLC component of the program including language clarifying that cost of the work group will come out of the \$30,000 consultant budget.

With the recommended amendment to the recommendation, Director Breault made a motion, seconded by Director Pierce, to recommend the Board to:

- 1) Authorize the CEO/General Manager to negotiate and execute an agreement with the selected consultant, for a BAWSCA contract cost share not to exceed \$30,000 to fund the Regional Water Loss Control Work Group, subject to legal counsel review, for implementation of the Water Loss Management Program-in FY 2018-19; and**
- 2) Offer participation in the Water Loss Management Technical Assistance Program to interested BAWSCA agencies on a subscription basis.**

The motion passed unanimously

6. Reports:

- A. Water Supply Conditions: Ms. Sandkulla reported that the Regional Water System is in a good position at this point in the water year. As of April 1, 2018, the water bank is at 99%, and SFPUC was lowering Hetch Hetchy in anticipation of incoming storms. SFPUC notified the BAWSCA agencies on April 10th that the system is projected to fill.

Precipitation as of April 1st is slightly above the median, but snowpack remains below median. The March precipitation for Tuolumne and local watersheds was significant. The service area's monthly water use is slightly above 2017 water use for the same month, but remains at 10% below the pre-drought year of 2013.

Ms. Sandkulla reported that out of 16 California agencies that continued to use less than 50gpcpd in 2017, 6 were BAWSCA member agencies. As a region, it was a largest grouping of agencies in the State.

- B. SFPUC WaterMAP and 2018 Decisions: Ms. Sandkulla reminded the Committee that the 2009 WSA anticipates the SFPUC's completion of necessary CEQA decisions by the December 2018. This has been referred to by the Board as "SFPUC's 2018 decisions."

The SFPUC Water Management Action Plan (WaterMAP) is essentially SFPUC's planning study related to the deferred water-supply decisions that will support SFPUC's 2018 decisions.

The anticipated decisions are part of the environmental approval for the WSIP. The decisions include 1) whether to make San Jose and Santa Clara permanent customers, 2) how much water, if any, in excess of the Wholesale Customers' contractual 184 mgd supply assurance, San Francisco will supply to others to meet projected future water demands until 2030, and 3) whether to offer a corresponding increase in the supply assurance.

Ms. Sandkulla noted that if the SFPUC makes San Jose and Santa Clara permanent customers, or provides water in excess of the 184 mgd supply assurance, it is critical that SFPUC is able to determine that long-term water supplies are available for San Jose and Santa Clara without compromising the reliability of water supply to its Retail and Wholesale Customers with permanent status.

Since the adoption of the 2009 WSA, several unexpected events have developed that are affecting SFPUC's 2018 decisions, and are raising the question of whether those decisions should be made now.

Specifically, wholesale demands are low and are projected to remain below the 184 mgd through 2040.

There are regulatory risks, brought on by the Executive Order, "Making Water Conservation a California Way of Life, the Bay-Delta Water Quality Control Plan Phase 1 Update, and the ongoing FERC relicensing process, that are yet to be defined, but can impact SFPUC's supply reliability.

Population growth, as projected by ABAG's Plan Bay Area 2040, presents uncertainties on future water demands, and challenges that continue to delay the implementation of a pilot water transfer leave voids in the evaluation of transfers.

BAWSCA, along with San Jose and Santa Clara, have been working closely with the SFPUC in the investigation and assessment of alternatives.

Discussions are ongoing with the goal of looking at all possibilities for getting San Jose and Santa Clara what they need without putting the rest of the wholesale customers at risk.

SFPUC and BAWSCA legal counsels will work on a WSA amendment if a proposal is developed for consideration. Ms. Sandkulla noted that this is one of the amendments included in the workplan for FY 2018-19. Developments are expected in May or July of 2018. Consideration of a WSA amendment is expected in the Fall of 2018.

In response to Director Schmid, Ms. Sandkulla stated that any member agency can purchase more than its supply assurance from San Francisco, when supply is available. The Supply Assurance of 184 mgd is allocated among the existing permanent member agencies. San Jose and Santa Clara are not included in the 184 mgd Supply Assurance.

Ms. Sandkulla explained that the Interim Supply Guarantee (ISG) is 265 mgd; 81 mgd for San Francisco, and 184 mgd for the collective permanent member agencies. San Jose and Santa Clara have been able to purchase water from the Regional Water System because overall purchases are less than 265 total and less than 184 mgd for the wholesale customers, including San Jose and Santa Clara.

Director Benton asked if San Jose and Santa Clara can purchase water directly from San Francisco, outside of BAWSCA. Ms. Sandkulla explained that San Francisco, per the Water Supply Agreement, must determine that the Regional Water System has long-term water supplies available beyond the 184 mgd Supply Assurance in order to sell water permanently to San Jose and Santa Clara

Ms. Sandkulla reported BAWSCA is working with San Jose and Santa Clara in negotiating San Francisco's 2018 decisions.

In response to Director Kuta, the advanced water treatment plant is a potential supply source for San Jose and Santa Clara, however, that option is not fully developed yet.

- C. Water System Improvement Program: Ms. Sandkulla reported that the SFPUC adopted the proposed WSIP scope, schedule and budget changes, in compliance with AB 1823, at its meeting on April 10th. The changes included scope refinements to seven projects, a 24-month extension to the completion date, and a budget revision that has a \$42M increase for regional projects.

BAWSCA provided comments on the proposed revisions and made seven recommendations. Ms. Sandkulla was pleased to report that the Commission included all seven of BAWSCA's recommendation into their adopted action.

BAWSCA's comments and recommendations noted 2 major concerns. The first was with the Regional Groundwater Storage and Recovery Project, where the SFPUC deleted 2 permanent wells that resulted to the reduction of drought yield by 1mgd. With SFPUC's installation of additional test wells and extended tests, BAWSCA's recommendation is for SFPUC staff to provide written reports on the analysis of the test wells, its potential impact on the yield, and options to make the test wells permanent.

The second concern was related to how a forecasted \$100M cost reduction in the program was presented. BAWSCA recommended clarification of the source of the savings, as this is not a project savings but rather forecast reduction in finance costs.

The SFPUC will be submitting the adopted changes to the State oversight agencies, which includes the California Seismic Safety Commission and the SWRCB Division of Drinking Water. The State oversight agencies will prepare reports to the Joint Legislative Audit Committee, identifying any impacts of the changes to the public's health and safety.

BAWSCA provided copies of its recommendations to the State oversight agencies and will provide further assistance if requested.

7. **Closed Session**: The meeting adjourned to Closed Session at 3:25pm

8. **Open Session:** The meeting convened to open session at 3:31pm. Legal Counsel, Nathan Metcalf reported that no action was taken during Closed Session.
9. **Comments by Committee Members:** There were no further comments from the Committee members.
10. **Adjournment:** The meeting was adjourned at 3:31 pm. The next meeting is June 13, 2018.

Respectfully submitted,

Nicole Sandkulla, CEO/General Manager

NS/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – April 11, 2018

Roster of Attendees:

Committee Members Present

Tom Zigterman, Stanford (Vice Chair)

Jay Benton, Town of Hillsborough

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

Mike Kasperzak, City of Mountain View

Al Mendall, City of Hayward (BAWSCA Chair)

Barbara Pierce, City of Redwood City (BAWSCA Vice Chair) *by teleconference*

Gregg Schmid, City of Palo Alto

Committee Members Absent:

Gustav Larsson, City of Sunnyvale (Chair)

BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Tom Francis	Water Resources Manager
Adrienne Carr	Sr. Water Resources Specialist
Andree Johnson	Sr. Water Resources Specialist
Christina Tang	Finance Manager
Lourdes Enriquez	Assistant to the Chief Executive Officer
Deborah Grimes	Office Manager
Nathan Metcalf	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 MEETING

Agenda Title: **Review and Amendment of BAWSCA's General Reserve Policy**

Summary:

This item presents a review of BAWSCA's General Reserve Policy. The previous review occurred on September 17, 2015 and resulted in no changes to the Policy. 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. The current guideline for the general reserve balance for budgetary purposes is a range of 20% to 35% of the annual operating expense. The recommendation is to establish within the General Reserve a Long-Term Planning Fund, and to permit the Agency to transfer surplus funds in excess of the maximum reserve balance of 35% of the annual operating expense to the Long-Term Planning Fund. Funds will only be transferred into the Long-Term Planning Fund upon approval of a separate resolution by the Board establishing the anticipated long-term projects. The maximum balance of the Long-Term Planning Fund will not exceed the amount approved by the Board in such a resolution. Lastly, the Policy now codifies BAWSCA's review and evaluation of the General Reserve balance, and any refunds to member agencies, during the mid-year budget review.

Fiscal Impact:

No impact on BAWSCA's annual operating budget.

Recommendation:

That the Board Policy Committee recommend the Board adopt Resolution 2018-02 to amend the General Reserve Policy establishing within the General Reserve a Long-Term Planning Fund.

Discussion:

BAWSCA's general reserve serves two primary functions to achieve its goal to protect the agency:

1. Enables the agency to apply resources to urgent needs that were not foreseen at the time the annual budget was adopted. Using the reserve allows the needs to be met without imposing special assessments and avoid imposing additional burdens on the agency's budget during a fiscal year.
2. Fund one-time, non-recurring expenses to moderate variations in annual assessments.

The current budgetary guideline for the range in the general reserve balance is from 20% to 35% of the Operating Budget. At this time, BAWSCA anticipates potential water planning projects associated with implementation of BAWSCA's Long-Term Reliable Water Supply Strategy implementation and long-term planning purposes (e.g. updating Regional Water Demand Projections) with costs that have the potential to greatly increase BAWSCA's overall annual Operating Budget.

The recommendation is to revise BAWSCA's General Reserve Policy to establish a designated fund for long-term planning purposes and to permit the transfer of surplus funds available following the end of the fiscal year that are in excess of the maximum reserve balance guideline to the Long-Term Planning Fund.

Funds will only be transferred into the Long-Term Planning Fund upon approval of a separate resolution by the Board establishing the anticipated long-term projects. The maximum balance of the Long-Term Planning Fund will not exceed the amount approved by the Board in such a resolution. Lastly, the Policy now codifies BAWSCA's review and evaluation of the General Reserve balance, and any refunds to member agencies, during the mid-year budget review.

Background:

The BAWSCA Board originally adopted a General Reserve Policy in 2004. The Board adopted a resolution in 2011 to amend the policy to change the budgetary guideline for the range in the general reserve from 20%-25% to 20%-35% of the Operating Budget. On September 17, 2015 the Board reviewed the General Reserve Policy and that review resulted in no changes to the policy.

Attachments:

1. Resolution 2018-02, Amending the General Reserve Policy, showing recommended modifications
2. Resolution 2018-02, Amending the General Reserve Policy, clean version as recommended

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

RESOLUTION NO. 2018-02

AMENDING THE GENERAL RESERVE POLICY

WHEREAS, it is a prudent financial measure to maintain surplus funds in a reserve in order to provide funds for urgent but unanticipated expenses and for one-time, non-recurring expenses to moderate variations in annual assessments~~maintenance of a reserve to provide funds for urgent but unanticipated expenses is a prudent financial measure~~; and

WHEREAS, the Bay Area Water Supply & Conservation Agency (Agency) originally adopted a General Reserve Policy in 2004, Resolution 2004- 07; and

WHEREAS, the Agency revised the General Reserve Policy in 2011, Resolution 2011-01, and now determines that the Policy should again be revised; and

WHEREAS, the CEO/General Manager and Board Policy Committee have so recommended.

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. The Agency anticipates potential long-term planning needs with costs that have the potential to greatly increase BAWSCA's overall annual Operating Budget. As such, within the General Reserve, the Agency desires to establish the Long-Term Planning Fund and, notwithstanding the guideline for the maximum balance in Section 2, upon approval of a resolution establishing anticipated long-term projects, the Agency will transfer revenue received by the Agency during a fiscal year, that is not expended or obligated by June 30 of that year and that is in excess of the maximum balance guideline of thirty five percent (35%) of the budget year's operating expense, to the Long-Term Planning Fund. The maximum balance in the Long-Term Planning Fund will not exceed amount approved by the Board in a

resolution establishing anticipated long-term projects.

5. 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 ~~General R~~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.

In the event the General Reserve balance is in excess of the guidelines established by this resolution, the development of such practical and prudent schedule may include Board consideration of the following:

- a) using the excess reserve balance to fund the new budget,
- b) retaining the excess funds reserve balance in the General Reserve, or
- c) refunding the member agencies a proportionate share of the excess reserve balance.

The Board will consider the options set forth above as part of the mid-year budget review, as appropriate.

- 4.6. Funds in the General Reserve may be used only for purposes approved by the Board of Directors.
- 5.7. 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 ____ day of _____ 2018 by the following vote:

AYES:

NOES:

ABSENT:

Chair, Board of Directors

ATTEST:

Secretary

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

RESOLUTION NO. 2018-02

AMENDING THE GENERAL RESERVE POLICY

WHEREAS, it is a prudent financial measure to maintain surplus funds in a reserve in order to provide funds for urgent but unanticipated expenses and for one-time, non-recurring expenses to moderate variations in annual assessments; and

WHEREAS, the Bay Area Water Supply & Conservation Agency (Agency) originally adopted a General Reserve Policy in 2004, Resolution 2004- 07; and

WHEREAS, the Agency revised the General Reserve Policy in 2011, Resolution 2011-01, and now determines that the Policy should again be revised; and

WHEREAS, the CEO/General Manager and Board Policy Committee have so recommended.

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. The Agency anticipates potential long-term planning needs with costs that have the potential to greatly increase BAWSCA's overall annual Operating Budget. As such, within the General Reserve, the Agency desires to establish the Long-Term Planning Fund and, notwithstanding the guideline for the maximum balance in Section 2, upon approval of a resolution establishing anticipated long-term projects, the Agency will transfer revenue received by the Agency during a fiscal year, that is not expended or obligated by June 30 of that year and that is in excess of the maximum balance guideline of thirty five percent (35%) of the budget year's operating expense, to the Long-Term Planning Fund. The maximum balance in the Long-Term Planning Fund will not exceed amount approved by the Board in a resolution establishing anticipated long-term projects.

5. 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 General 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.

In the event the General Reserve balance is in excess of the guidelines established by this resolution, the development of such practical and prudent schedule may include Board consideration of the following:

- a) using the excess reserve balance to fund the new budget,
- b) retaining the excess funds reserve balance in the General Reserve, or
- c) refunding the member agencies a proportionate share of the excess reserve balance.

The Board will consider the options set forth above as part of the mid-year budget review, as appropriate.

6. Funds in the General Reserve may be used only for purposes approved by the Board of Directors.
7. 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 ____ day of _____ 2018 by the following vote:

AYES:

NOES:

ABSENT:

Chair, Board of Directors

ATTEST:

Secretary

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Establish a List of Potential Long-Term Planning Fund Projects and Adopt the Maximum Balance for the Long-Term Planning Fund**

Summary:

This item establishes the list of potential projects that may be funded by the Long-Term Planning Fund and sets forth the maximum balance for the Long-Term Planning Fund based on the estimated costs of such projects. This item presumes that the Board has previously acted to establish within the General Reserve a Long-Term Planning Fund, and to permit the Agency to transfer funds in excess of the maximum reserve balance of 35% of the annual operating expense to the Long-Term Planning Fund. Funds may only be transferred into the Long-Term Planning Fund upon approval of a separate resolution by the Board establishing the anticipated long-term projects. The maximum balance of the Long-Term Planning Fund will not exceed the amount approved by the Board in such a resolution. The recommendation at this time is to establish the list of potential projects that may be funded by the Long-Term Planning Fund and to adopt the maximum balance for the Long-Term Planning Fund consistent with the list of potential projects.

Fiscal Impact:

No impact on BAWSCA's annual operating budget.

Recommendation:

That the Board Policy Committee recommend the Board adopt Resolution 2018-03 to establish the list of potential projects that may be funded by the Long-Term Planning Fund and to adopt the maximum balance for the Long-Term Planning Fund.

Discussion:

Funds may only be transferred to the Long-Term Planning Fund within the General Reserve upon approval of a resolution by the Board establishing the anticipated long-term projects. The maximum balance of the Long-Term Planning Fund will not exceed the amount approved by the Board in such a resolution and will be consistent with the estimated cost of such projects. The current list of potential long-term projects is as follows:

	Project	Potential Cost Range
1.	Update to Regional Demand Projections	\$500,000 - \$750,000
2.	Implement Pilot Water Transfer	\$1,000,000 - \$1,500,000
3.	Expanded Los Vaqueros: Design	\$500,000 - \$1,000,000
4.	PREP Phase 3	\$500,000 - \$1,000,000

Based on this list of potential projects, the maximum balance of the Long-Term Planning Fund is \$1,500,000. Any specific project funded by the Long-Term Planning Fund will require approval of the Board or the CEO/General Manager, as required by BAWSCA's Procurement Policy. Specific projects funded by the Long-Term Planning Fund of the General Reserve are subject to any necessary environmental review and regulatory approvals. Any necessary review under the California Environmental Quality Act (CEQA) is a condition precedent to any approval of projects funded by the Long-Term Planning Fund.

Background:

As part of a separate action, it is anticipated that the Board will act to establish within the General Reserve a Long-Term Planning Fund, and to permit the Agency to transfer funds in excess of the maximum reserve balance of 35% of the annual operating expense to the Long-Term Planning Fund. Funds may only be transferred into the Long-Term Planning Fund upon approval of a resolution by the Board establishing the anticipated long-term projects. The maximum balance of the Long-Term Planning Fund will not exceed the amount approved by the Board in such a resolution.

Attachments:

1. Resolution 2018-03, Establishing a list of potential long-term planning projects and adopting the maximum balance for the Long-Term Planning Fund

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

RESOLUTION NO. 2018-03

**ESTABLISHING A LIST OF POTENTIAL LONG-TERM PLANNING
PROJECTS AND ADOPTING THE MAXIMUM BALANCE
FOR THE LONG-TERM PLANNING FUND**

WHEREAS, the Bay Area Water Supply & Conservation Agency (Agency) originally adopted a General Reserve Policy in 2004, Resolution 2004-07; and

WHEREAS, the Agency revised the General Reserve Policy in 2018, Resolution 2018-02, to establish within the General Reserve the Long-Term Planning Fund; and

WHEREAS, the Agency desires to establish the potential projects that may be funded by the Long-Term Planning Fund and to adopt the maximum balance for the Long-Term Planning Fund; and

WHEREAS, the CEO/General Manager and Board Policy Committee have so recommended.

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

1. The Long-Term Planning Fund of the General Reserve will potentially be used for the following projects:

	Project	Potential Cost Range
1.	Update to Regional Demand Projections	\$500,000 - \$750,000
2.	Implement Pilot Water Transfer	\$1,000,000 - \$1,500,000
3.	Expanded Los Vaqueros: Design	\$500,000 - \$1,000,000
4.	PREP Phase 3	\$500,000 - \$1,000,000

2. Specific projects funded by the Long-Term Planning Fund of the General Reserve will require approval by the Board or CEO/General Manager, as required by the Agency's Procurement Policy.
3. Specific projects funded by the Long-Term Planning Fund of the General Reserve are subject to any necessary environmental review and regulatory approvals.
4. Any necessary review under the California Environmental Quality Act (CEQA) is a condition precedent to any approval of projects funded by the Long-Term Planning Fund.
5. The maximum balance of the Long-Term Planning Fund will not exceed \$1,500,000.

PASSED AND ADOPTED, this ____ day of _____ 2018 by the following
vote:

AYES:

NOES:

ABSENT:

Chair, Board of Directors

ATTEST:

Secretary

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Process and Schedule for CEO Annual Evaluation**

Summary:

The Chair has reviewed the process and evaluation procedure for the CEO's Annual Performance Evaluation. The design of the evaluation procedure continues to be based on the participation by the full Board and a written set of performance objectives. Prior to the evaluation, the CEO will prepare a report to the Board on her performance during the prior year.

At the July 19th Board meeting, Chair Mendall will present the procedure and evaluation form to the Board of Directors for input. The CEO's performance report and the evaluation form will be e-mailed to each Director following the July 19th Board meeting. The Closed Session performance evaluation will take place at the September 20th Board meeting.

In addition, the Chair will work with Ms. Sandkulla to develop new personal benchmarks to be included in her FY 2018-19 performance plan. Input from the Committee on possible personal benchmarks for the CEO is requested.

Recommendation:

That the Committee (1) provide input on the procedure and draft evaluation form for the CEO/GM FY 2017-18 performance evaluation, (2) provide input on possible new personal benchmarks for the CEO's FY 2018-19 evaluation to be considered by the Chair and (3) recommend that the Board review the evaluation form during its July meeting for subsequent use as part of the CEO/GM performance evaluation.

Attachments:

1. CEO Evaluation Procedure
2. Draft CEO Annual Performance Evaluation Form

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CHIEF EXECUTIVE OFFICER ANNUAL PERFORMANCE REVIEW: EVALUATION PROCEDURE July 2018

Evaluation procedure design

- a. Based on prescribed objectives.
- b. Conducted by the Board Chair.
- c. Includes the full Board's participation and review.
- d. Summarized in the CEO's personnel file.
- e. At any time, the Board Chair may access legal counsel guidance on legal questions and procedures.

Evaluation steps

1. CEO Activities

- CEO provides a copy of the evaluation criteria for the current year.
- CEO produces a summary of annual activities and a copy of the CEO's job description.

2. Preliminary Board Chair activities

- Board Chair sends evaluation criteria, evaluation form, CEO summary report, and CEO job description to all Board members on July 20th.

3. Directors submit forms and written comments

- Board members to return completed evaluation forms and written comments to BAWSCA Chair by August 8th.

4. Board Chair activities following receipt of completed forms and written comments

- Board Chair compiles scores and compiles all written comments.
- Board Chair may edit if director comments are inappropriate under law.
- Board Chair may ask CEO to clarify or fact-check information referenced in directors' comments.
- Board Chair should exercise caution to avoid the fact or appearance of serial communications with directors.
- Board Chair produces a written draft report (in collaboration with legal counsel) consisting of:
 1. Tabulated scores and totals.
 2. Compilation of directors' comments.
 3. Summary CEO evaluation.
- Board Chair distributes these products to directors in advance of closed session discussion.

- Legal counsel should be asked to provide a cover letter that sets the context for, and prudent reminders related to closed session discussions and personnel performance reviews.

5. The Board meets in closed session

- Board Chair presents the written materials for discussion:
 1. Board Chair notes any comments deleted or revised, and the reasons for doing so.
 2. Board Chair discusses with the Board other potential quantifiable benchmarks that could be included in evaluation process for FY 2018-19 if desired.
 3. Board Chair may ask that any significant new information be put in writing, perhaps as an amendment to the director's original input, so as to ensure the input is accurately reproduced.
 4. The Chair may ask the CEO to join the closed session for clarification or discussion of matters.
 5. The Chair may ask legal counsel to join the closed session for legal guidance.

6. Board Chair activities following closed session

- Following the closed session, the Board Chair finalizes the written materials, including the summary evaluation.
- Board Chair meets with the CEO to go over and discuss the materials.
 1. The packet is signed by both the Board Chair and CEO to signify that the meeting and discussion took place.
 2. The CEO should acknowledge whether he/she accepts the report or wishes to provide written responses to specific statements.
- All of the written material will be retained in the CEO's personnel file.
- Board Chair shares the finalized evaluation with the Board, or makes it available to them.

7. Board Chair activities for subsequent year's evaluation

- Following the evaluation process, the Board Chair considers suggestions from directors and establishes the evaluation criteria and other potential quantifiable benchmarks for the coming evaluation period.
- Board Chair and the CEO meet to discuss and agree on the revised criteria.
- The Board Chair reviews the revised criteria with the Board of Directors.

BAY AREA WATER SUPPLY & CONSERVATION AGENCY
CEO/GENERAL MANAGER
ANNUAL PERFORMANCE REVIEW: EVALUATION FORM

Employee: _____ Date of Evaluation: _____ Evaluator: _____

Instructions:

Please return to the Chair of the Board by August 8, 2018.

☐ Please mark here if you would like your name as associated with your comments to not be shared by Chair with CEO/GM at conclusion of review

Check the appropriate box for each factor. Provide specific comments or examples in the comment section on page 2.

<u>LEADERSHIP OBJECTIVES</u>	Exceeds Objectives	Meets Objectives	Meets Minimal Objectives	Does Not Meet Objectives	Don't Know
A. Leads BAWSCA, its agencies, Board, staff, SF policy makers, legislators, media and others to understand and support BAWSCA's goals.					
B. Identifies major issues, assigns appropriate priorities and determines appropriate annual results for meeting agency goals.					
C. Applies resources effectively to achieve results.					
D. Defines, and proposes how to address, policy issues and provides clear information for Board to make timely, informed decisions.					
E. Anticipates and recognizes when external actions impact our ability to achieve our goals, and helps the agency respond accordingly.					
F. Relates effectively with diverse audiences to achieve results.					
G. Listens to and objectively considers comments by the Board, staff and agencies and responds appropriately to achieve the agency's goals.					

<u>MANAGEMENT OBJECTIVES</u>	Exceeds Objectives	Meets Objectives	Meets Minimal Objectives	Does Not Meet Objectives	Don't Know
H. Prepares and presents annual work plan by May board meeting.					
I. Prepares and presents annual budget and funding plan by May board meeting.					
J. Maintains expenses within budget and manages reserve.					
K. Recruit, screen, hire and train new staff members and maintain an effective work force.					

**BAY AREA WATER SUPPLY & CONSERVATION AGENCY
CEO/GENERAL MANAGER
ANNUAL PERFORMANCE REVIEW: EVALUATION FORM**

COMMENTS ABOUT THE CEO'S PERFORMANCE DURING THE EVALUATION PERIOD*

What does the CEO do very well?

What could the CEO do better?

Other comments?

On what performance issues do you suggest the CEO focus during the coming year?

**** Comments related to annual work plans, the conduct of Board meetings or other matters regarding the effectiveness of the agency and Board will be solicited separately from the CEO's performance evaluation.***

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: June 8, 2018
SUBJECT: Chief Executive Officer/General Manager's Letter

SFPUC CIP Update – Moccasin Reservoir Repairs

The SFPUC's Moccasin Reservoir suffered extensive flood damage following a heavy rainfall event that took place on March 22, 2018. In the days following the event, SFPUC engaged GEI Consultants (GEI) to perform a geotechnical assessment of the damage to structures including the embankment. The SFPUC also hired another consultant, Stantec Inc. (Stantec), to perform a hydrologic study to assess the condition and flood conveyance capacity of the reservoir's spillway. Further, SFPUC engaged a third consultant, Black & Veatch (B&V), to prepare a cost estimate for flood damage repairs.

SFPUC has received draft reports from both GEI and Stantec as well as the draft cost estimate provided by B&V. BAWSCA has requested copies of those reports and the cost estimate but they have not yet been made available to BAWSCA. At this time, the SFPUC has verbally shared some findings.

GEI recommends the following interim repairs to address the immediate geotechnical matters:

- 1) The existing seepage cutoff wall (i.e., a concrete wall located along the dam's embankment center line) should be extended vertically such that it meets the top of the dam crest ;
- 2) Repair of the upstream diversion dam and associated trash rack;
- 3) Repair of the erosion at the toe of the Moccasin Dam embankment;
- 4) Clean-up of debris and sedimentation; and
- 5) Construction of a new flood dike along one bank of the downstream channel to protect the downstream fish hatchery against any future flood damage.

Stantec's draft hydrologic study finds that the existing spillway (sized in the 1980s using the best available information and appropriate methodology of the time) is inadequate for passing the Probable Maximum Flood as estimated via current methods and data. That finding implies that a major dam upgrade, that goes beyond simply repairing the reservoir to its pre-flood damage conditions, is likely.

B&V's report estimates that the cost to perform flood damage and interim repairs is approximately \$42 Million. The cost to make permanent facility upgrades, as may be required by California's Dam Safety Program, are unknown at this time but can be expected to be considerable, as those may require construction of a new spillway and potentially significant embankment work.

BAWSCA will continued to closely monitor all aspects of this project including the interim repair work and the plans for both interim and long-term repairs (including but not limited to reviewing reports generated, documentation prepared, and correspondence to and from the State's Dam Safety Program).

SFPUC CIP Update – Mountain Tunnel

SFPUC continues its work related to the repairs for Mountain Tunnel. SFPUC will soon be issuing a Notice to Proceed (NTP) for work to be performed in the winter of 2018-19. That work will include continuing the patching and contact grouting that was partially completed in January through March of 2017. SFPUC's contractor for the effort is Mountain Cascade, the same contractor that performed tunnel repairs in 2017.

As suggested by BAWSCA, the SFPUC has expanded the Technical Advisory Panel (TAP) to include a member with expertise that allows the TAP to evaluate tunnel hydraulic needs, including the SFPUC's proposal to build a downstream flow control structure at the terminus of Mountain Tunnel. Dr. Michael C. Johnson, a fluid mechanics Professor with Utah State Univ., was selected.

Dr. Johnson has proposed several engineering considerations and provided guidance for the design of the proposed downstream control facility. BAWSCA has requested and will receive a copy of his findings in the coming weeks.

The project is now at the 35% design stage. SFPUC anticipates that it will be at the 65% design stage in October of 2018. A TAP meeting will be held at that time to receive 65% design documentation (engineering drawings, technical reports / updates, etc.) and to share any thoughts or concerns regarding the design and how the project is proceeding. BAWSCA will participate in the October TAP meeting and will be provided with relevant documents generated as part of the 65% design.

Various documents associated with "recommendations" for the repairs for Mountain Tunnel (work that was at a draft stage in 2017) have now been finalized. BAWSCA has requested copies of all finalized documents, and SFPUC has agreed to make that information available to BAWSCA in the coming weeks.

BAWSCA will continue to update the Board of the progress on Mountain Tunnel as appropriate, including any significant findings resulting from review of the documents requested from the SFPUC.

Alameda Creek Recapture Project

The Alameda Creek Recapture Project (ACRP) is a component of the SFPUC's Water System Improvement Program (WSIP). ACRP proposes to re-capture water that is released by Calaveras Dam to comply with fishery flow requirements. When completed, the project will yield on average 7,187 acre-feet of water per year.

Re-capture will take place at a downstream location on the creek where the creek lies adjacent to an existing quarry operation. The creek's bank is quite permeable in that location, resulting in seepage from the creek into the quarry pond. From the pond, re-captured water would be pumped into existing SFPUC storage sites within the Sunol Valley.

The initial Draft Environmental Impact Report (EIR) and associated analyses prepared for the project were called into question by outside parties, including Alameda County Water District and the National Marine Fisheries Service, in 2017. A hearing was held by the San Francisco Board of Supervisors to certify the EIR. At the hearing, the Supervisors directed staff to revisit certain aspects of the environmental study. Further, they required that an outside expert on groundwater be hired to review key hydrologic matters.

The revised environmental effort is being performed by the San Francisco Planning Department. A work schedule was proposed in late 2017 which identified release of the Draft Revised EIR by June 8, 2018.

On June 6, 2018, BAWSCA contacted SFPUC's Planning Department requesting a status update. Per Chris Kern, the City's Principal Planner, the schedule for the release of the revised draft EIR has slipped a bit. In addition, a stakeholder meeting with the Alameda Creek Fisheries Workgroup has also shifted. As currently envisioned, the Planning Department hopes to meet with the workgroup in late summer of 2018 and to publish the Revised Draft EIR in the fall of 2018.

2018 SGMA Basin Prioritization

On May 18th, 2018, the California Department of Water Resources (DWR) Sustainable Groundwater Management Program released a draft reprioritization of groundwater basins as required by the Sustainable Groundwater Management Act (SGMA). The 2018 SGMA reprioritization is scheduled to be finalized by fall 2018 after a 60 day public comment period that runs through July 18, 2018.

Select BAWSCA Member Agencies overlies portions of basins that were re-ranked from "very low priority" to "medium priority." Three basins in San Mateo County—the Westside basin, the San Mateo Plain sub-basin, and the Half Moon Bay Terrace basin—are now proposed as medium-priority. Medium-priority basins are subject to regulation under California's Statewide Groundwater Management Act (SGMA). Regulatory requirements include the mandate to establish a Groundwater Sustainability Agency (GSA) and a Groundwater Sustainability Plan (GSP). BAWSCA will continue to stay informed and help member agencies understand the regulatory requirements.

New Long-Term Water Efficiency Requirements

On May 31st, 2018, Governor Brown signed into law Senate Bill 606 (SB 606) and Assembly Bill 1668 (AB 1668). These bills require the State Water Resources Control Board (SWRCB), in coordination with the Department of Water Resources (DWR), to adopt long-term standards for the efficient use of water. The bills also establish specified standards for per capita daily indoor residential use, to be incorporated into each agency's water use objective.

Beginning in 2023, each urban retail water supplier is required to calculate and report an urban water use objective (water use target) and compare its actual water use to its target for the same period. The urban water use objective will be calculated as the sum of (1) efficient indoor residential use, (2) efficient outdoor residential use, (3) efficient outdoor use at sites with dedicated irrigation, (4) efficient water loss, and (5) variances and credits as appropriate. Over the next four years, the SWRCB, with guidance from DWR, will be developing the standards for efficient water use in each of these areas. These standards will be developed through public processes in which BAWSCA intends to participate.

BAWSCA has been closely following this legislation for the past year, and the final legislation includes many of the elements for which BAWSCA and other water agencies advocated during the legislative process. In anticipation of these new requirements, BAWSCA began its “Making Conservation a Way of Life” Strategic Plan (Strategic Plan) to understand the impacts of the legislation on the BAWSCA agencies and develop a plan for supporting BAWSCA agencies in complying with the new requirements. BAWSCA is currently reviewing the Draft Report for Phase 1 of the Strategic Plan to ensure that the document fully aligns with the adopted legislation.

Based on the preliminary findings from the Strategic Plan, BAWSCA is implementing several actions in FY 2018-19 to prepare the BAWSCA agencies for compliance with the new requirements. These actions include (1) implementation of a Regional Water Loss Management Program, (2) completion of an indoor-outdoor residential water use study to assess current efficiency levels as compared to the new standards, and (3) implementation of a pilot water audit program for commercial/industrial customers.

FERC Update

The Modesto and Turlock Irrigation Districts (Districts) are in the process of (1) renewing their operating license with the Federal Energy Regulatory Commission (FERC) for the Don Pedro Hydroelectric Project and (2) obtaining a new license for the operation of the La Grange Hydroelectric Project on the Tuolumne River. The multi-year licensing processes include multiple operational, environmental and economic studies and involve multiple parties including the Districts, FERC, SFPUC and BAWSCA, other federal and state resource agencies, local governments, non-governmental organizations, and members of the public.

BAWSCA has monitored the licensing processes, paying particular attention to issues that have the greatest potential to shape release flow requirements under the terms of the new FERC license. Changes to the license requirements for release flows from the Don Pedro Hydroelectric Project could increase the amount of water required to be released from Don Pedro Reservoir for environmental purposes. San Francisco has rights to store exchange water in Don Pedro Reservoir and may potentially have responsibility for a portion of any increased flows required by FERC, thereby potentially affecting water supplies available to BAWSCA agencies.

On May 22, 2018, BAWSCA filed supplemental comments to FERC in response to the seven alternative flow proposals submitted in comments by regulatory agencies and environmental groups. BAWSCA coordinated its comments with the SFPUC. BAWSCA’s comments included an analysis of the water supply impacts to the BAWSCA service area. These comments are supplemental to BAWSCA’s intervention and comments filed on January 29, 2018 and BAWSCA’s reply comments filed on March 15, 2018.

Status of FY 2016-17 Wholesale Revenue Requirement Review

Pursuant to Section 7.06A of the 2009 Water Supply Agreement, BAWSCA conducted its review of SFPUC’s calculation of the annual Wholesale Revenue Requirement (WRR) and the changes in the balancing account for FY 2016-17, which was submitted by the SFPUC to BAWSCA on March 30, 2018.

As a result of the WRR review, BAWSCA sent some questions and concerns to the SFPUC on May 30, 2018. BAWSCA is waiting for the SFPUC’s response, which typically takes several months. The deadline for both parties to enter into a settlement agreement or for the Wholesale Customers to file a demand for arbitration on any unresolved issues for FY 2016-17 is March

29, 2019. Typically, BAWSCA and the SFPUC can resolve any concerns through a detailed settlement agreement before the deadline.

Hetch Hetchy Tour – September 26 and 27, 2018

The SFPUC will host a Hetch Hetchy Tour for BAWSCA Board of Directors and Water Management Representatives on **September 26 and 27, 2018**.

Space is limited and priority will be given to Board members attending for the first time. Board Members and agency staff who have not attended a Hetch Hetchy tour are encouraged to participate given the current water supply reliability challenges our region faces.

Tour highlights and logistics include:

- Behind-the-scenes look at some of the system's key facilities, such as Calaveras Dam, Moccasin Powerhouse, and Hetch Hetchy Reservoir.
- A private tour bus that departs at 8:00am on September 26th from BAWSCA offices, 155 Bovet Rd, San Mateo, and returns to the same location at approximately 5:30pm on September 27th.
- Lodging overnight at the Hetch Hetchy Reservoir in one of three cabins owned by the SFPUC.
- All food and transportation will be provided.

The SFPUC requires all participants to register for safety and security purposes. BAWSCA will email registration information in July that interested participants will need to respond to.

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Board Policy Committee

Policy Calendar Through December 2018

Meeting Date	Purpose	Issue or Topic
June 2018	D&A	Review and Consideration of Modifications to BAWSCA's General Reserve Policy
	D&A	Discussion and possible action on CEO Performance Evaluation
	R	Procedure
	R	Update on BAWSCA's Regional Water Supply Modeling Tool Development Update on Long-Term Reliable Water Supply Strategy Implementation
August 2018	D&A	Review of Agency Personnel Handbook
	D&A	CEO/General Manager Evaluation
	D&A	Resolution Approving Temporary Appointment of A. Jensen as Special Counsel to the CEO/General Manager
October 2018	D&A	Annual Review and Consideration of BAWSCA's Statement of Investment Policy
	D&A	Review and Consideration of BAWSCA's General Reserve Policy
December 2018	D&A	Mid-Year Budget Review and Management of General Reserve

Key: R=Report, D = Discussion, S = Study Session, A = Action