

**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.

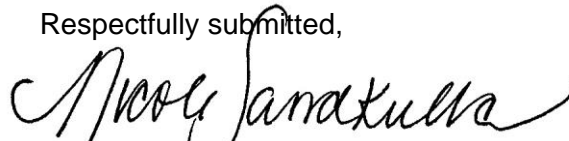
The SFPUC will be submitting the adopted changes to the State oversight agencies, which includes the California Seismic Safety Commission and the SWRCB Division of Drinking Water. The State oversight agencies will prepare reports to the Joint Legislative Audit Committee, identifying any impacts of the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

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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