

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

**June 13, 2018 – 1:30 p.m.
BAWSCA Offices – 155 Bovet Rd., San Mateo – 1st Floor Conference Room**

MINUTES

1. **Call to Order:** Committee Chair Gustav Larsson called the meeting to order at 1:33 pm. A list of Committee members who were present (9) and other attendees is attached.

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

2. **Comments by Committee Chair:** Committee Chair Larsson welcomed members of the Committee. He announced that one member of the Committee is joining the meeting by conference, and that all votes will be taken by roll call. One of the items on the agenda is the modification to the General Reserve Policy which incorporates the comments received from committee members at the previous meeting. He thanked the members of the Committee for their comments and appreciates the constructive discussions thus far.

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

4. **Consent Calendar:** Approval of Minutes from the April 11, 2018 meeting.

Director Kasperzak made a motion, seconded by Director Benton, that the minutes of the April 11, 2018 Board Policy Committee meeting be approved.

The motion passed by roll call vote, with one abstention.

5. **Action Items:**

- A. **Review and Amendment of BAWSCA's General Reserve Policy:** CEO/General Manager, Nicole Sandkulla restated that the current General Reserve is designed to protect the agency against unanticipated deviations in revenue and expenditures. Some past examples of these are unplanned litigation or arbitration. The reserve was also designed and has been used to stabilize variations in assessments to member agencies. The current policy guideline is to have a range of 20% - 35% of the operating budget.

The reserve is currently at 42% of the FY 2017-18 operating budget. Depending upon the expenditures by the end of the fiscal year, the reserve will be at a range of 32% - 35% coming into FY 2018-19.

As part of implementing the Long-Term Reliable Water Supply Strategy (Strategy), staff has identified several potential projects for long-term planning purposes that have been part of reports and discussions with the Board during the budget development. One of those projects is updating the Regional Water Demand Projections (Demand Study) in FY 2019-20. The project is a significant effort with results that are critical for the member agencies' and BAWSCA's long-term planning.

With the discussions of potential long-term projects in the horizon, and in recognizing the current balance of the general reserve, the Board, with its guidance and ideas,

asked the CEO to look at possible modifications to the General Reserve Policy to accommodate the management of additional funds for long-term planning projects.

The idea is to establish a Long-Term Planning Fund within the General Reserve. The proposed modification includes two changes in the current policy. First is to expand the stated purpose of the General Reserve to clearly reflect past practice of funding urgent, but unanticipated expenses. Proposed language will be added to the policy to reflect that both the General Reserve and the Long-Term Planning Fund are for the purposes of maintaining surplus funds to finance urgent but unanticipated expenses, and for one-time non-recurring expenses to moderate variations in annual assessments.

The second change adds language to establish the Long-Term Planning Fund (Fund) within the General Reserve. New language in Section 4 of the proposed revision to the policy, states the agency's ability to transfer surplus funds that is not expended or obligated at the end of the fiscal year, and that is in excess of the maximum general reserve balance guideline of 35%.

The new language also states that before any transfer to the Fund can occur, a separate Board action is required to adopt a list of potential long-term projects that will be paid for by the Fund, and to identify a maximum balance for the Fund. This is a subsequent action if the Committee votes to recommend adoption of the proposed amendment to the General Reserve Policy to establish the Fund.

The current policy states that, as part of the annual budget development process, the General Reserve will be reviewed and considered as part of funding the operating budget. Ms. Sandkulla added that, while it is not a policy, it has been BAWSCA's practice to do a mid-year budget review to provide the Board an opportunity to assess work plan progress and budget expenditures including the General Reserve. This process is valuable for the management of funds as it allows the Board to provide input, which helps the CEO understand what is important to the Board.

The proposed language now codifies the process of reviewing the General Reserve with the Board at mid-year. The language also identifies options that the Board may consider for restoring the General Reserve balance within the guidelines. While the Board already has these options currently available to it, the new language explicitly includes these options in the policy. The Board can use the General Reserve to fund the budget, retain the excess in the General Reserve, or refund the member agencies, all of which the Board has done in the past. Ms. Sandkulla noted that the language is permissive and does not require the Board to do one thing or the other. The management of the General Reserve is at the discretion of the Board.

The floor was opened for questions and Committee discussions ensued.

Director Kuta stated that it seems that the prospective projects identified for the use of the Fund will be funded by excess funds. He asked whether a funding mechanism should be in place since there are known costs.

Ms. Sandkulla explained that establishing the Fund within the General Reserve will be the mechanism to create the funds needed to pay for the potential projects coming in the horizon. She added that the list of projects is a combination of "for sure" projects

such as the demand study, and “potential” projects such as the Los Vaqueros Expansion Project (LVE). While BAWSCA’s involvement in the LVE project is appropriate, no decision has been made by the Board. However, it should be the expectation of the Board that the CEO/General Manager is able to present ideas on how to fund these potential projects that are critical to BAWSCA’s long-term water supply reliability.

This mechanism seems sufficient given the current General Reserve balance and the proposed modification to the policy, which is reflective of the agency’s past practice of using the General Reserve to fund a one-time project versus increasing agency assessments.

While the Fund will be within the General Reserve Policy, it will have its own balance that is approved by the Board.

In response to Director Benton, Ms. Sandkulla explained that the transfer of unexpended or unobligated funds to the General Reserve at the end of the fiscal year will occur automatically when the books are closed. The surplus funds will go to the General Reserve up to 35% of the Operating Budget. Excess, if any, of the 35% will go to the Fund. Financial documents will show the General Reserve and the Fund separately.

Director Benton asked whether the agency needs 35% of the operating budget in the General Reserve.

Ms. Sandkulla explained that the 35% was built around the risks surrounding the agency at the time the policy was amended in 2011. With 3 potential lawsuits, Ms. Sandkulla stated that 35% is appropriate. She added that the proposed policy is written so that the Board has discretion to the use of the money in the Fund.

At the request of Director Pierce, Ms. Sandkulla explained that there are two other funding mechanisms, set up through the WSA, that are available to BAWSCA. One is potential access to the Balancing Account set up through the Water Supply Agreement, which allows BAWSCA access to surplus funds for certain uses under specified conditions including water conservation or water supply projects administered by BAWSCA. The other mechanism is the Water Management Charge, which member agencies utilized in 2010 to pay for Phase IIA of the Strategy.

BAWSCA member agencies have not used the Balancing Account as a source of funds for BAWSCA’s water management purposes to date. In discussions with legal counsel and BAWSCA’s Water Management Representatives, member agencies would like to leave the Balancing Account as is for rate stabilization.

Director Kasperzak asked what the alternative would be to address the pending issues and long-term projects without the Fund. Could they be planned out?

Ms. Sandkulla explained that the demand study is a project that BAWSCA controls the schedule to best serve the member agencies. One of the things the study will be used for is to help agencies with their urban water management plans that are required every 5-years. BAWSCA knows when the study should happen and the value it offers to the agencies, and therefore can plan for it.

Projects like the LVE and the Pilot Water Transfer plan, however, are projects that are not controlled by BAWSCA. But they are significant projects that have potential benefits to the BAWSCA region, and therefore, recognizing when they may arise, and what to do when they come up is a discussion that is important for the Board to have.

Director Kasperzak recognized the intentions for the Fund and referenced it to cities' capital improvement programs which have, for example, a 5-year spending plan for a specific project that sometimes gets postponed. However, he expressed his overall concern on whether the budget is kept tight enough, and whether the board has had enough discussions around what the agency 'have to' versus 'want to' accomplish.

He cautioned against budgeting for anticipated expenses that if deferred or postponed year after year, leads to a growing reserve and careless budgeting.

Ms. Sandkulla stated that while monitoring the SFPUC's WSIP was one of BAWSCA's major focus when it was established in 2002, the enabling legislation speaks to BAWSCA as a regional water supply reliability agency. The Strategy was developed because of BAWSCA's role as a multi-county agency authorized to plan for and acquire supplemental water supplies, and to encourage conservation and use of recycled water on a regional basis. The Board adopted the Strategy's recommendations in 2015, which included a Pilot Water Transfer to determine if that is the next best way to ensure the supply of high quality water, investing in storage with other partners to see if that is the next best option for drought year supplies, and investing in studies to assist in all these efforts to make sure they happen.

Ms. Sandkulla stated that each of the long-term projects proposed for the Fund go back directly to the Strategy's dry year reliability goal to ensure BAWSCA agencies and its water customers have sufficient supplies both in normal years and dry years.

Director Mendall recommended a grammatical change on section 4, and made a motion to move the staff recommendation.

Director Schmid seconded.

The grammatical change was to include a "the" or "an" in the last sentence of section 4 so that it reads; "...Fund will not exceed "the" amount approved..."

Further committee discussion ensued.

Director Mendall stated that the Board has full discretion on managing funds in the general reserve. Having a specific guideline to establish the Fund within the general reserve as a way to manage funds in excess of the maximum 35% is a very good thing. He anticipates the Fund to be funded over several years and if anything changes, the Board can evaluate its course of action year after year.

The recommended modification to the existing General Reserve policy acknowledges in writing what the reserve, in accordance with the 20%-35% guideline, can be used for knowing what is coming in the horizon.

Director Kasperzak suggested the Committee consider the condition of having no assessment increase in the year that money will be transferred to the Fund. He stated

that the money being transferred to the Fund is money the agency has as opposed to money the agency needs, and raising assessments would appear that BAWSCA is raising fees to increase surplus. He added that if the agency is saving money for future projects, then they should be included in the budget.

Director Schmid expressed his support for establishing the Fund and urged the Committee to recommend it to the Board. But he noted that the language on Section 4 suggests that the transfer can only occur when the general reserve is above 35% of the maximum guideline.

Director Schmid made a friendly amendment to the motion to clearly state that the Board has the option to transfer money into the Fund from the General Reserve when it is in excess of 30% or above.

Nicole explained that the language provides the Board discretion to decide at what level, 35% or below, it wants the General Reserve balance to be. As currently proposed, 35% is the trigger to automatically transfer money into the Fund.

Director Benton shared the same interpretation. He added that management of the General Reserve balance to ensure it does not get too high, places more obligation on the Board and ensures the Board is making wise decisions. Ultimately, no project that the Fund will finance, occurs unless approved by the Board. This places responsibility on future Boards to carefully examine the value of the projects to the region before approving to fund it. Director Benton stated his support for some stipulation that states once the General Reserve balance hits a percentage, the Board or CEO has discretion to transfer money in the Fund.

Following comments from Committee members, Director Mendall suggested against listing a specific percentage.

Director Mendall countered the friendly amendment to the motion; that the policy state, using appropriate legal wording, that the Board has the authority to transfer funds into and out of both the General Reserve and the Long-Term Planning Fund through Board action, regardless of the percentages in each.

Director Schmid accepted.

Additional comments were expressed by Committee members.

Director Kasperzak emphasized his struggle with raising dues and putting surplus into a fund, even if there is a list of projects approved by the Board which the Fund will be allocated for. He would prefer putting long-term projects, like the LVE, in the normal budgeting process and recognizing that it is forthcoming in the next 2 years. While this process will exceed the budget, it provides a specifically identifiable fund for a specifically identifiable project that the money is to only be spent on.

Director Breault offered two comments. The purpose of the proposed policy is to provide a general guidance to staff so that administrative processes are not brought back to the Board. The General Reserve funds and the proposed Long-Term Planning Fund serve as BAWSCA's best planning efforts. The CEO, Legal Counsel, and

BAWSCA staff have, and will continue to closely monitor and navigate through the developments of activities affecting the BAWSCA service area to know when issues are coming forward, so they can report to the Board when action is needed. The Committee maybe expending a lot of energy thinking that this policy is the one and only policy that can never be changed. That is not the case.

Secondly, the Board needs to make sure that it is crystal clear with the customers, if and when BAWSCA need to fund the reserves and the long-term planning fund out of excess amounts, in addition to raising the assessments. That is part of the process with staff to evaluate the situation every year to execute whatever is necessary with the proper communication.

Director Benton stated that he would support the policy stating, "not greater than 35%" because if the General Reserve is above, and the Fund is filled, he would be inclined to refund the agencies.

Ms. Sandkulla stated that the policy anticipates that situation and is the reason why the policy codifies the mid-year budget review which is a process that is separate from the development of the budget.

Director Pierce appreciated the thorough conversation and that the proposed policy provides Board discretion on how to address long-term projects, and keep the reserve under control while maintaining transparency. She noted that the intent is not to gouge the water customers but to take care of their needs.

Director Larsson echoed Director Pierce and expressed his appreciation for the separation between the Long-Term Planning Fund and the General Reserve, the flexibility that is built in to the policy, and the responsibility it puts on the Board to understand and to keep track of each of the reserves and their potential uses.

Director Benton stated that he will vote for the motion as it stands, but noted that he believes the proposed language is soft in terms of the 35%.

The motion passed as amended by an 8:1 roll call vote

Ayes: Larsson, Zigterman, Benton, Breault, Kuta, Mendall, Pierce, Schmid

Nayes: Kasperzak

- B. Establish a List of Potential Long-Term Planning Fund Projects and Adopt the Maximum Balance of the Long-Term Planning Fund: Ms. Sandkulla reported that the modification to the General Reserve Policy to establish a Long-Term Planning Fund requires a separate action by the Board to establish a list of projects and adopt a maximum balance for the Fund before money can be transferred to the Fund from the General Reserve.

Ms. Sandkulla presented a list of potential projects for consideration, each relating directly back to the recommendations from the Strategy which the Board acted to direct staff to pursue in 2015. Staff has been working on these specific projects over a period of time, and at this point, can identify a range of cost. The projects listed are the most developed and appropriate for the needs of the BAWSCA agencies. But

because they are in different stages of development, Ms. Sandkulla stated that it is premature to recommend moving forward with any of them at this time.

As previously stated, the demand study is a project that is critical to the agencies and will be implemented in FY 2019-20.

The pilot water transfer plan is an ongoing effort that was started in 2014. BAWSCA will continue to pursue this project as it develops in the next 2 years.

BAWSCA has been a direct participant in the LVE project, and while it has yet to be determined, BAWSCA anticipates participating in the design phase, which is the next step for the project.

The PREP Phase 3 is the Peninsula Potable Reuse Exploratory Project with Silicon Valley Clean Water in Redwood City. BAWSCA has been participating in Phases 1 and 2 of the project. Phase 2 will be completed at the end of the current fiscal year. While BAWSCA has not yet determined its participation in Phase 3, the project is included on the list.

The pilot water transfer, the LVE, and PREP Phase 3 speak to the member agencies' drought year reliability need. The demand study supports the member agencies' regional planning efforts.

The recommended action is to adopt a resolution that establishes a list of projects and a maximum balance of \$1.5 M for the Long-Term Planning Fund. The proposed maximum cap amount of \$1.5 M came from the largest cost of a single project on the list.

Ms. Sandkulla emphasized that adoption of the resolution does not approve the projects included on the list. Projects will be brought to the Board for consideration, either as part of the operating budget, or as a separate action with the recommendation to fund it through the General Reserve or the Fund. Ms. Sandkulla stated that this process fosters ongoing conversation with the Board. Having a separate process required by the General Reserve Policy speaks to the Board's need to review the projects, the projects' status, and its value to the service area.

In response to Committee member questions, Ms. Sandkulla stated that the Board's review of the General Reserve Policy at mid-year will encompass the review of the list of projects and the amount in the Fund.

Ms. Sandkulla explained that the list of projects was included in the resolution at the request of the Chair for the purpose of supporting the existence and amount of the Fund. While each project has previously been discussed with the Board before and during the budget development, the list helps in making the projects more concrete.

Director Benton noted that the list of projects should be a support to the resolution rather than being a part of the resolution because the fund may be used for a project that is not on the list.

In response to Director Kasperzak, Ms. Sandkulla noted that BAWSCA's Pilot Water Transfer plan and LVE can potentially be eligible for grant funding. BAWSCA is a participant in the Bay Area Regional Reliability (BARR) partnership which received federal grant to test water markets. BAWSCA is positioning the pilot water transfer to be funded by this grant.

The LVE is on the list of projects that can potentially be funded by Prop 1. It has made it through the last round with a significant score, and if awarded, BAWSCA will benefit from that grant funding.

The PREP is not far enough along to prove eligible for grant funding.

Ms. Sandkulla explained that BAWSCA has no grant money in its revenue. BAWSCA serves as a conduit for grant money that goes directly to the agencies for their conservation efforts.

Directors Zigterman, Kuta, Kasperzak and Schmid noted that the use of the term "long-term planning" needs clarification to better reflect BAWSCA's purpose of addressing anticipated activities that are not quite ready yet, but are worthy efforts when they solidify. As opposed to "long-term planning" that refers to identifying projects or strategies.

In response to Director Kuta's question about the process for allocating funds to projects as they materialize, Ms. Sandkulla stated that while a process has not been established yet, it should be the Board's expectation of the CEO and Staff to provide a report on a project forecast during the mid-year review and budget development.

She added that any project that materializes from the list, or in general, will require the Board's approval of the project and project funding, in whatever combination it chooses between the operating budget, general reserve and the Fund, such that the total funding needed is achieved.

Ms. Sandkulla further explained that the working capital of the ongoing efforts with the pilot water transfer, LVE and PREP have been, and are currently funded as part of the annual operating budget. The Fund is specifically for the significant step of implementing the project.

Director Kuta appreciated how the \$1.5 million maximum cap was identified, but suggested having a recital to serve as an explanation that the amount was determined on a risk adjusted basis.

Director Pierce noted that she views the Fund as BAWSCA's initial preparation for potential efforts that are not far developed enough to be budgeted for, and a mechanism for managing the General Reserve so that funds can be set aside prudently. She believes the method allows the Board to be thrifty and effective so that an assessment refund, which member agencies do not have an accounting process for, are avoided.

Director Benton commented that the Committee has gone into a lot of details and noted that essentially, the intent is to find a prudent mechanism to manage the General Reserve and put the money towards anticipated activities.

Director Breault stated that he expects further conversation on this with the full board when staff brings forward the first project that materializes. The proposed recommendation provides 1) good policy for staff to work with, 2) allows the Board to identify and allocate the use of the money so that the Board is not complacent that there is a robust general fund when there is not, and 3) avoids spikes in the assessments to the member agencies.

Director Breault made a motion to approve the staff recommendation.

Director Pierce seconded.

The motion passed unanimously by roll call vote.

- C. Process and Schedule for CEO Annual Evaluation: Director Mendall presented the current process and schedule for the CEO's Annual Performance Evaluation. The Committee is requested to review the proposed schedule and evaluation form which will be presented to the Board for approval at its meeting in July.

The evaluation form is designed to solicit Board opinions and feedback. Following the Board's approval at the July 19th meeting, the evaluation form and an annual report from the CEO, which will specifically identify what was achieved based on the work plan, will be distributed for Board Members to complete and return to the Chair who will compile the responses. A summary report from the Chair will be provided to the Board in the agenda packet for the September meeting, in which the Board will consider a recommendation under Closed Session.

Chair Mendall has no recommended changes to the current process, unless suggestions are provided by the Committee.

In response to Director Kuta, Chair Mendall stated that 65% of the Board responded last year, which is an increase from previous years.

Director Breault added that while there has never been a 100% response from the Board, the general reason has been lack of time for completion or their newness on the Board to provide a substantial evaluation. Timing plays a factor since the process is done between July and August.

Director Kuta stated that in fairness to the CEO and the level of work entailed, he suggested being more explicit in the management and leadership objectives to speak to the important role of the CEO. It is high-level work which are important to call out.

In response to Director Zigterman, Director Mendall stated that the open-ended questions in the evaluation form provides feedback from Board members which the Chair and the Vice-Chair of the Board reviews and discusses with the CEO. In the last couple of years, this process has allowed the identification of specific actions and improvements the Board wants the CEO to meet in the coming year.

Director Benton noted that the questions seem narrow, particularly on the subject of management objectives. The questions do not go into the quality of the work completed. For example, how well-received the proposed work plan was by the Board and how many revisions did it need. The answers may be coming out of the narrative responses in the open-ended questions but Director Benton expressed concern with the lack of an easy check on whether the CEO meets or exceeds the essential qualities of some of the line items.

Director Kasperzak noted the importance of trends and suggested including the acknowledgement of whether areas for improvements identified in the previous year were fulfilled.

Director Mendall thanked the Committee for their input. He noted his flexibility to improve the process and evaluation form. He would appreciate receiving the specific language from committee members for his consideration to include in the form.

Director Kasperzak made a motion that the Committee recommend Board review of the revised form, as discussed by the Committee, during its July meeting for subsequent use as part of the FY 2017-18 CEO/GM performance evaluation.

Director Benton seconded.

The motion passed unanimously by roll call vote

6. Reports:

- A. Water Supply Conditions: Ms. Sandkulla was pleased to report that overall water supply conditions are good. As of June 9th, Hetch Hetchy was spilling and snow remains in the mountains. Cherry Reservoir underwent valve repairs in Fall 2017, which have been successfully completed and the reservoir is now up to 83% of capacity.

While it was a median year for precipitation and a less than median year for snowpack, the regional water system benefitted from last year's storage that carried over in the reservoirs this year, which enabled the systems to fill back up.

BAWSCA member agency monthly water use in 2018 is lining up with 2016 and 2017, and remains 26% below 2013.

Calaveras is 30 feet from being at the top level. SFPUC expects to be able to start filling Calaveras by next winter (2019), in compliance with existing Safety of Dams (SOD) regulations. But if 2018 is a wet year, it can fill this coming season, notwithstanding the regulations.

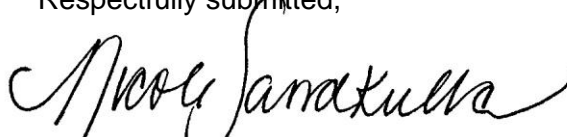
- B. Water Supply Agreement Amendments: Ms. Sandkulla reminded the Committee that the adopted FY 2018-19 work plan anticipated negotiations for amendments to the WSA. They are administrative amendments that deal with specific items including the settlement of the FY 2010-11 Wholesale Revenue Requirement, revised completion

date of the WSIP, and implementation of the Regional Groundwater and Storage Recovery Project.

BAWSCA has initiated discussions with the SFPUC and meetings are now happening regularly. While BAWSCA is working with the SFPUC to represent the member agencies' interests, the WSA is a contract between the member agencies and San Francisco. BAWSCA is coordinating with the member agencies through the appointed Water Management Representatives (WMR) as each agency have a significant role in the results of the negotiations. BAWSCA will continue to work with the WMRs and keep the Board apprised of developments

7. **Closed Session:** The meeting adjourned to Closed Session at 3:23pm
8. **Open Session:** The meeting convened to open session at 3:29pm. Legal Counsel, Allison Schuttee, 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 3:20 pm. The next meeting is August 10, 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 – June 13, 2018

Roster of Attendees:

Committee Members Present

Gustav Larsson, City of Sunnyvale (Chair)
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
Rob Kuta, California Water Service Co.
Al Mendall, City of Hayward (BAWSCA Chair)
Barbara Pierce, City of Redwood City (BAWSCA Vice Chair) *by teleconference*
Gregg Schmid, City of Palo Alto

BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Tom Francis	Water Resources Manager
Adrienne Carr	Sr. Water Resources Specialist
Christina Tang	Finance Manager
Lourdes Enriquez	Assistant to the Chief Executive Officer
Deborah Grimes	Office Manager
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
Bud Wendell	Management Communications

Public Attendees:

Taylor Chang San Francisco Public Utilities Commission