

# BAWSCA

Bay Area Water Supply & Conservation Agency

## BOARD POLICY COMMITTEE

April 10, 2019  
1:30 p.m.

BAWSCA Offices, 155 Bovet Road, San Mateo, 1<sup>st</sup> Floor Conference Room  
(Directions on page 2)

(One Member of the Board will participate in this meeting by Teleconference. Locale shall be: 36 E. 4th St. Cincinnati, OH 45202, Renaissance Cincinnati Downtown Hotel, Lobby. When any member of the board participates by teleconference, all votes taken at this meeting will be by roll call vote.)

### REVISED 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> )	(Zigterman)	Pg 3
2. <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>	(Zigterman)	
3. <u>Consent Calendar</u> A. Approval of Minutes from the February 13, 2019 meeting ( <i>Attachment</i> )	(Zigterman)	Pg 5
4. <u>Comments by Chair</u>	(Zigterman)	
5. <u>Action Items</u> A. Proposed Fiscal Year 2019-20 Work Plan and Operating Budget Achieved ( <i>Attachment</i> ) <u>Issue:</u> What critical results must be achieved in FY 2019-20 to accomplish BAWSCA's goals and water reliability objectives? <u>Information to Committee:</u> Memorandum presenting proposed FY 2019-20 Work Plan and Operating Budget incorporating comments from the February 13 <sup>th</sup> 2019 BPC meeting, and March 21 <sup>st</sup> , 2019 Board meeting. <u>Committee Action Requested:</u> That the Committee recommend Board approval of the: 1. Proposed FY 2019-20 Work Plan and Results to be Achieved; 2. Proposed Operating Budget of \$4,569,750; and 3. Proposed funding plan of a 3% assessment increase, transfer of \$77,971 from the General Reserve, and a transfer of \$805,000 from the 2009 Water Supply Agreement Balancing Account.	(Sandkulla)	Pg 21
6. <u>Reports and Discussion</u> A. Review of Water Supply Agreement Balancing Account ( <i>Attachment</i> ) <u>Issue:</u> What is the purpose of the Balancing Account under the Water Supply Agreement? <u>Information to Committee:</u> Memorandum and Oral Report <u>Committee Action Requested:</u> Questions and Comments		Pg 49

## B. Los Vaqueros Expansion (LVE) Project – Update

Issue: What is the current status of BAWSCA’s planning efforts related to the LVE Project.

Information to Committee: Oral report.

Committee Action Requested: Provide feedback regarding the information presented and further information needed to support future Board discussions and decisions on BAWSCA’s potential participation in the LVE project

7. Reports

(Sandkulla)

- A. Water Supply Conditions
- B. Bay Delta Plan Update
- C. CEO’s Letter (*Attachment*)
- D. Board Policy Committee Calendar (*Attachment*)
- E. Correspondence Packet ([Under Separate Cover](#))

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8. Closed Session

- A. 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*
- B. Conference with Legal Counsel – Existing Litigation pursuant to Paragraph (1) of subdivision (d) of Government Code Section 54956.9 *San Joaquin Tributaries Authority, et al. v. California State Water Resources Control Board (Tuolumne County Superior Court Case No. CV62094).*

(Schutte)

8. Comments by Committee Members

(Zigterman)

9. Adjournment to the next meeting

(Zigterman)

**June 12, 2019 at 1:30pm in the 1<sup>st</sup> Floor Conference room of the BAWSCA office building, at 155 Bovet Rd., 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 1<sup>st</sup> stop light which is Bovet Road (Chase Building will be at the corner of Bovet and El Camino). Proceed West on Bovet Road past 24 Hour Fitness to two tall buildings to your left. Turn left into the driveway between the two buildings and left again at the end of the driveway to the “Visitor” parking spaces in front of the parking structure.

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



**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE**

**Committee Roster:**

Tom Zigterman, Stanford University (Chair)

Thomas Chambers, Westborough Water District (Vice Chair)

Alison Cormack, City of Palo Alto

Sam Hindi, City of Foster City

Rob Kuta, California Water Service Co.

Gustav Larsson, City of Sunnyvale (BAWSCA Vice Chair)

Al Mendall, City of Hayward

Barbara Pierce, City of Redwood City (BAWSCA Chair)

Sepi Wood, City of Brisbane

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

**February 13, 2019 – 1:30 p.m.  
BAWSCA Offices – 155 Bovet Rd., San Mateo – 1<sup>st</sup> Floor Conference Room**

<b>MINUTES</b>
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1. **Call to Order:** Committee Chair, Tom Zigterman, called the meeting to order at 1:32 pm. A list of Committee members who were present (6), absent (2) and other attendees is attached.

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

2. **Comments by Committee Chair:** Chair Zigterman welcomed members of the Committee and thanked them for their time.
  3. **Public Comments:** Paul Sethy, Director of Alameda County Water District, introduced himself.
  4. **Consent Calendar:** Approval of Minutes from the December 12, 2018 meeting.  
**Director Pierce made a motion, seconded by Director Kuta, that the minutes of the December 12, 2018 Board Policy Committee meeting be approved.**  
**The motion carried unanimously.**
  5. **Action Calendar:** Chair Zigterman moved Item 5B as the first item on the Action Calendar, and moved 5A to after Closed Session.
- B. **Authorization to Enter Into a Memorandum of Understanding with Solano County Water Agency for implementation of the regional Bay Area Qualified Water Efficient Landscaper (QWEL) Training Program:** Sr. Water Resources Specialist, Andree Johnson, reported that QWEL is a long-standing Environmental Protection Agency (EPA) certified program that provides training to landscape professionals on various topics associated with water efficiency in the landscape. It is an intensive 20-hour, 3-day course on water-efficient irrigation practices and new technologies, water management and water budget setting, as well as the importance of water supply. Participants earn QWEL certification after passing the exam at the end of the course, and are listed as certified water professionals in the EPA's water-sense website.

Several Bay Area water agencies have implemented the QWEL program within their own jurisdictions. In FY 2018-19, some agencies expressed their interest to come together and implement the program as a regional effort.

Solano County Water Agency (SCWA) took the lead for the regional implementation. They issued an RFP and through a competitive selection process, selected California Water Efficiency Partnership (CalWEP), formerly known as California Urban Water Conservation Council, to administer the program. Agencies looking to participate in the

program include ACWD, BAWSCA, City of Napa, Contra Costa WD, EBMUD, SCVWD, SFPUC, Sonoma County WA, and Zone 7.

The QWEL program was previously considered by BAWSCA's Water Resources Committee to be a part of the effort to expand the Landscape Education Program (LEP) during FY 2018-19 workplan development. However, review of the work involved to implement the program for the BAWSCA region alone proved to be substantial. Instead, BAWSCA planned to expand the LEP through development of online resources, specifically videos and potentially online classes. Unfortunately, completion of that task became unfeasible due to unanticipated staff turnover.

With the QWEL program's recent development into a regional effort, it serves as a timely alternative to expand the LEP in FY 2018-19.

Staff is recommending to adjust the workplan budget to participate in the regional effort to implement the QWEL program in FY 2018-19, and consider development of online resources and training videos for the LEP in the work plan for FY 2019-20.

Committee Members asked questions and the following responses were provided.

Ms. Johnson reported that implementation of the program will be consultant-driven. BAWSCA staff's time will be focused on managing the consultant and securing member agency participation who are required to host a minimum of one training per year. The consultant will promote the program to the area's landscape professional groups, gardener associations, and local agencies that have relationships with landscape providers, such as the Bay Area Gardener's Associations where smaller independent "mow and blow" landscape service providers participate in.

Ms. Johnson further clarified that while there are ten agencies that have been actively involved in the consultant selection process and have expressed their intent to participate, the program will commence when at least five agencies have signed the MOU with SCWA. The program cost will not change if there are more than 5 participating agencies because the cost is on a per class basis.

QWEL was started in Sonoma and Marin approximately 10 years ago, and has been expanded outside of California.

The program is free to participating landscape professionals and landscape service providers to encourage them to get acclimated to water-efficient practices and perspectives. There are options that can be considered in the future to charge materials fees of \$20-\$30 to assure a small "buy-in" from the course participants.

Ms. Sandkulla added that the idea behind the Landscape Education Program is to educate water customers about what is achievable with water-efficient landscape practices. The QWEL program expands water-efficient education to industry professionals and service providers who will be committing 3-days of their working hours. Offering the training for free serves as an incentive to partake in the program.

The certification will have an expiration date, and continuing education units will be available to renew and maintain certification. The consultants will be managing the

certification tracking and communication with the certified professionals. The renewal process could, in the future, potentially serve as a way to apply a fee for the program.

In response to Director Mendall, Ms. Johnson reported that it was the interest of 2-3 member agencies that brought up QWEL as a way to expand the LEP during one of BAWSCA's water resources committee meeting.

**Director Pierce made a motion, seconded by Director Wood, to recommend that the Board of Directors authorize the CEO/General Manager to:**

- 1) negotiate and execute a Memorandum of Understanding with Solano County Water Agency to implement the Qualified Water Efficient Landscaper Training Program; and**
- 2) use \$11,000 from the FY 2018-19 budget to the implement the QWEL program.**

**The motion carried unanimously.**

## **6. Reports and Discussion**

- A. Preliminary FY 2019-20 Work Plan and Results to be Achieved: Ms. Sandkulla reported that BAWSCA's legislated authority and goal of ensuring a reliable supply of high-quality water at a fair price continue to be the driving force in the development of BAWSCA's work plan. The work plan is always forward-looking; therefore, the draft preliminary work plan for FY 2019-20 presents the critical issues identified between now and 2050.

Ms. Sandkulla reported that the Board provided seven comments at the budget planning session held during the January Board meeting. Six of the comments are in the draft preliminary FY 2019-20 work plan, including focus on the CIP oversight and audit of the SFPUC's asset management practices. Ms. Sandkulla noted that BAWSCA's relationship with its allies is always critical and is maintained continuously. The comments that relate to information sharing on water supply needs, supply sources, investment opportunities, and providing better understanding on the relationship between the supply assurance and meeting the requirements of "Making Water Conservation a Way of Life" will be addressed through BAWSCA's work on the demand study.

Ms. Sandkulla further discussed two comments received from the Board during the budget planning session.

One was made by Director Kuta in regards to risk assessments of the Regional Water System to emergency situations such as wildfire and emergency readiness. Ms. Sandkulla reported that this has come up in the past, and is gaining attention given the various events that have occurred in the State. This item, however is not in the draft preliminary work plan because it falls outside the scope of the agency's current capabilities, and is not directly tied in BAWSCA's goals. But it is an important issue that BAWSCA should have a clear understanding on. Ms. Sandkulla offered to ask the SFPUC to report on their recently finalized Wildfire Mitigation Plan, which is a state required document. In addition, she noted that BAWSCA's efforts on emergency

planning includes putting pressure on the SFPUC to engage its wholesale customers in emergency exercises at least twice a year.

The second comment was made by Director Mendall, who encouraged the Board and CEO to focus on agency priorities given the magnitude of current activities. Ms. Sandkulla agreed and reported that in her review of the agency's current staff resources against the results that need to be achieved in FY 2019-20, each staff member in the Water Resources department is allocated close to 150% of a Full Time Equivalent (FTE) staff person, with one staff well over 150% of FTE. This is a clear indication of the need to re-asses and re-prioritize workplan and resources to ensure the critical results for the agency are met efficiently.

Ms. Sandkulla presented the draft preliminary work plan and emphasized the major tasks in each category of water supply reliability, water quality, and fair price.

Efforts that will require additional program activity and staff time in FY 2019-20 include the initiation of an audit of SFPUC's Asset Management Program, completion of the Regional Water Demand and Conservation Study, implementation of the pilot water transfer plan, and participation of BAWSCA in the Los Vaqueros Expansion program, as authorized by the Board at its January 17<sup>th</sup> Board meeting.

Under water supply reliability, BAWSCA will have increased oversight of SFPUC's CIP as a result of the recent WSA amendments. As part of this effort, BAWSCA will initiate an audit of SFPUC's Asset Management Practices, which was moved from FY 2018-19 to FY 2019-20. The need for such an audit was anticipated in the 2009 WSA which stated San Francisco "will cooperate" with such an audit. Ms. Sandkulla noted that much like BAWSCA's staff, the SFPUC staff may similarly be pushed to its limits and it is important to look at the priorities and available resources. BAWSCA proposes to use outside consultant expertise for this task that is estimated at a low range of \$55K. The board will be notified if the costs proves to be higher than anticipated

The FY 2019-20 workplan will pursue several major efforts to address long-term water supply solutions, which all fall under the implementation of the Long-Term Reliable Water Supply Strategy (Strategy). As reported previously, the efforts include completion of the Regional Water Demand Study, implementation of the Pilot Water Transfer, participation in LVE, participation in Bay Area Regional Reliability (BARR) to develop the "Water Marketing Strategy", working on potable reuse studies, monitoring San Mateo Plain Groundwater Basins efforts, and development of other local water supply options.

Ms. Sandkulla reported what is to be expected on the Pilot Water Transfer Plan during FY 2019-20. She reminded the Committee that the effort was initiated back in 2012, and was perceived by many as an effort that was less complicated than it has proven to be. There were challenges in the process and efforts had to be placed on hold during the most recent drought, which was a circumstance that provided a lot of useful information.

BAWSCA's pilot water transfer is now moving forward and may potentially be included in the BARR Phase 2 "Water Marketing Strategy Project", which has regional support and identified potential grant funds. Ms. Sandkulla noted, however, that the amount of time involved in receiving Federal grants can sometimes outweigh the benefits, and BAWSCA is seriously considering maintaining its current schedule. A target window has been identified in Winter 2019-20 during a Hetch Hetchy system shutdown in the



November 2019 or February 2020 timeframe. Ms. Sandkulla emphasized that the primary driver is staying on schedule and not missing the opportunities to implement the transfer in FY 2019-20.

Agreements are being negotiated with the agencies that will sell and wheel the water through the system. Those agencies include Amador Water Agency, East Bay MUD, SFPUC, and City of Hayward. The agreements are progressing, and expected to be completed in FY 2018-19.

Ms. Sandkulla reported that there are 2 areas of costs for the transfer. The first area is associated with activities before the Board takes a CEQA action to implement the transfer. They include legal and consultant support for environmental documentation that is estimated at \$60K. This would be funded through the FY 2019-20 operating budget.

The second area of costs is the larger cost associated with the purchase and wheeling of the water. That cost is estimated at a range of \$930K - \$1,669K, and would be funded through the Balancing Account.

Ms. Sandkulla explained that the Balancing Account is set up under the 2009 Water Supply Agreement (WSA). It is an account where wholesale customer surplus payments, if any, are deposited at the end of the fiscal year, and where wholesale customer payment shortfalls, if any, are taken from at the end of the fiscal year. It has served as a rate stabilization fund for the wholesale customers to mitigate significant rate increases and decreases.

The previous agreement to the 2009 WSA required the balancing account to be zeroed out at the end of every fiscal year, which caused substantial rate fluctuations that were difficult for the agencies to deal with. Alternatively, the 2009 WSA now allows a positive balance to remain in the Balancing Account at the end of every fiscal year to help attenuate wholesale rate changes. This has served the wholesale customers well.

To date, the Balancing Account has accumulated a positive balance of roughly \$60 million. Ms. Sandkulla presented the language of Section 6.05 (B)(2)(a) of the 2009 WSA that describes the use of the Balancing Account for water conservation or water supply projects administered by or through BAWSCA.

The use of the Balancing Account is something the Board can consider utilizing for the Pilot Water Transfer implementation. This funding option was discussed with the Water Management Representatives at its meeting on February 7<sup>th</sup>. The group was receptive given the high balance in the account, and because it was a preferred alternative to otherwise significantly increasing BAWSCA assessments.

In response to Director Wood, Ms. Sandkulla explained that the Balancing Account is a single account for the wholesale customers as a whole.

Ms. Sandkulla stated that the 2 funding mechanisms would be included in her recommendation to the Board when the Board considers authorizing implementation of the transfer. This consideration is anticipated to occur in July 2019.

BAWSCA's efforts in addressing near-term water supply solutions focus on ongoing efforts with water conservation. The work plan includes implementation of Phase 3 of BAWSCA's Making Conservation a Way of Life which includes development of 2 programs; the Commercial and Industrial Audit subscription program, and the Regional Source Meter Testing plan with the SFPUC. BAWSCA will continue to represent member agencies in regional and State-level conversations related to conservation, as well as in supporting core conservation and subscription programs. Ms. Sandkulla reported that in prioritizing the value of various conservation efforts that benefit the region, the High Efficiency Toilet (HET) Rebate Program is one that is being reviewed by the agencies to phase out.

BAWSCA will continue to protect the agencies' water supply interests by continuing to work with the SFPUC on its WaterMAP, and in closely monitoring developments in the Bay Delta Water Quality Control Plan and FERC relicensing process. She was pleased to report that there are no further litigation expenses anticipated for Restore Hetch Hetchy. But BAWSCA will continue to watch for any developments on that effort.

Ms. Sandkulla explicitly noted that the development of a new Tier 2 drought allocation plan is not included in the FY 2019-20 work plan, and reported that a second temporary extension to the existing plan will be recommended to the Board. Development of a new Tier 2 plan will be deferred to FY 2020-21.

As previously mentioned, Ms. Sandkulla reported that all water resources staff are in excess of a full-time equivalent, with one at over 165%. In the course of developing the proposed preliminary workplan, it became evident that there are insufficient resources available to perform all the work identified under water supply reliability. The current consultant-to-staff ratio is at the maximum, and adding consultant resources is not feasible.

Ms. Sandkulla explained that unlike the QWEL program, development of a new Tier 2 plan must be staff driven. While it is critical to complete a new Tier 2 plan, staff time is already committed to the Water Demand Study, Pilot Water Transfer, LVE Project, and Audit of SFPUC's Asset Management Practices, which are also critical efforts that could have negative impacts if not pursued now.

Additionally, Ms. Sandkulla noted that results from the Demand Study would inform the development of a new Tier 2 Plan; therefore, postponing it to FY 2020-21 makes the most sense.

Under Water Quality, BAWSCA will maintain its ongoing efforts by continuing its increased participation in the Joint Water Quality Committee with the SFPUC, and staying connected with the member agencies to relay information about water quality. Ms. Sandkulla stated that it is a "great year" when water quality does not show up as an issue.

Under Fair Price, Ms. Sandkulla was pleased to report completion of the necessary amendments to the WSA that were identified as results that needed to be achieved in FY 2018-19. The four recommended amendments to the WSA developed into seven, which were all successfully negotiated with the SFPUC, and are in the process of being adopted by each member agency. BAWSCA will continue to administer the WSA to

protect the financial interests of the member agencies, and the bonds that pay-off capital debt owed to San Francisco.

Ms. Sandkulla reported that the Operating Budget will reflect increasing activities in the implementation of the Strategy. The Strategy was initiated in 2009 as a result of the agencies' interests in pursuing next-level planning studies for alternative water supplies, which has led us to the Pilot Water Transfer, the Demand Study, and LVE.

Development of the Operating Budget will assume availability of the Balancing Account to fund the water purchase and wheeling costs for the Pilot Water Transfer, consider the level of effort needed to address the Phase 1 Bay Delta Plan and FERC Relicensing process, and reflect the end of year spending and its impact on the General Reserve balance.

Ms. Sandkulla asked the Committee for its feedback which she will incorporate in her presentation of the preliminary work plan and operating budget to the Board in March.

The Committee will have another opportunity to provide comments and feedback at its meeting in April. The Board will be presented with a proposed work plan and operating budget at its meeting in May.

Director Mendall provided several comments.

He asked if the wildfire component can be folded into the 10-year CIP as it relates to the protection of the infrastructure. He appreciated that the audit of the SFPUC's asset management practices is in the FY 2019-20 work plan, but expressed some concerns that it will become consultant-driven with staff being at a maximum workload. He cautioned against that possibility and encouraged the effort to be staff-driven so that staff can have the benefit of gaining institutional knowledge from the effort.

Additionally, Director Mendall asked if the Balancing Account is in an interest-bearing account that accrues to the wholesale customers.

Finally, he stated that the preliminary work plan is substantial. While it is not a criticism, he feels that BAWSCA does not have the staffing to complete all the work without something potentially being overlooked. The draft preliminary workplan, as it is presented, does not have room for unexpected issues that may require significant attention from both the water resources and legal team.

Director Mendall suggested that there should be consideration for the addition of a new staff member. While he can anticipate some resistance from the Board, he feels that the LVE project alone is a huge undertaking that requires additional resources. The project is a huge investment that he would expect the Board to demand follow-up work as well as high-level of confidence and data from staff before the Board can act on a level of commitment with LVE.

He referred to the CEO/General Manager stating that BAWSCA is entering a new phase in implementing the Strategy. Director Mendall stated that perhaps the Board ought to direct the CEO/General Manager to review and report whether the current staffing has the capacity to achieve the next level of efforts to implement the Strategy.

In response to Director Mendall's questions and comments, Ms. Sandkulla explained that her expectation on the audit of SFPUC's asset management practices is to have outside expertise to educate BAWSCA of what an asset management should look like, and merge that knowledge with BAWSCA staff's expertise of the regional system and SFPUC's practices. She confirmed that the Balancing Account is in an interest-bearing account that accrues to the wholesale customers.

Director Chambers asked about the \$1.6 million cost that will be taken from the balancing account to pay for the transfer water. He asked what happens when the water enters the SFRWS and is sold to the BAWSCA member agencies. Would the money go back to the balancing account?

Water Resources Manager, Tom Francis, explained that the \$1.6 cost estimate pays for the water purchased from Amador Water Agency, and for wheeling the water through EBMUD and Hayward systems. Mr. Francis explained that wheeling the water involves pumping and treating the supply as it goes through the EBMUD distribution system. Once the transfer water reaches the Hayward intertie, Hayward will need to perform pressure and water quality monitoring. All that work adds up to the water transfer cost estimate.

Mr. Francis stated that as agreements are finalized, a detailed cost report will be provided to the Board, as well as the timing of payments. He anticipates several draws from the Balancing Account during FY 2019-20, as the billing for the transfer water purchase will be separate from the billing for the wheeling costs.

Ms. Sandkulla explained that any surplus funds owed to the Wholesale Customers at the end of the year are credited to the Balancing Account.

Director Zigterman agreed with Director Mendall's comments about consideration of additional staffing. He stated that the level of work has increased over the years and will continue to do so. He asked the CEO/General Manager what her expectations were with the preliminary workplan and current staffing.

Ms. Sandkulla stated that she felt strongly about the need for additional staffing to successfully complete the workplan. However, she is also respectful of the choices the Board has to make. Allowing the Committee to review and process the draft preliminary workplan was the best way to facilitate that question. She highly recommends getting additional staff, and appreciates the Committee's acknowledgement of the need. The workload is not expected to decrease, and the level of work will be more complex as BAWSCA moves towards what has been a long-term interest of this agency; finding alternative supplies.

Ms. Sandkulla added that developing staff to be as effective as it has been in managing the workload, takes a few years. It is timely and beneficial for the agency to get additional staffing now as the agency transitions into that next level of efforts.

Director Mendall stated that the Board will want justification for the additional staff and suggested for the CEO/General Manager to provide the anticipated workplan over the next couple of years to demonstrate that the increase in work is not short-lived.

Director Pierce added that it would be helpful to clearly identify the value gained by the agency from the additional staff, and what would be lost if tasks are deferred. The additional financing will be difficult to swallow; therefore, it is important to be clear and up-front that additional staffing is to complete the critical work on behalf of the member agencies.

Director Kuta commented that several of the goals referred to the word “participate”, which is a hard word to gauge the meaning of, relative to the level of work involved. While he agrees with reviewing the bandwidth of the existing staff for contingency planning, he suggested prioritizing tasks and getting the Board to a level of understanding about what tasks will be dropped if and when other tasks require more resources.

In response to several questions asked by Director Kuta, Ms. Sandkulla provided the following information:

The “Water Marketing Strategy” under BARR will begin this fiscal year and continue for a few years. It is driven by the Bureau of Reclamation with the grant funding. The grant agreement is in place, and the consultant, Brown and Caldwell, is selected. A kick off meeting is scheduled to develop a 3-year workplan, with the first year focusing on meeting with stakeholders and developing a road map. It is not expected to be a high-level effort unless BAWSCA decides to receive grant money for the pilot water transfer. The grant will require NEPA compliance which can impact the transfer schedule, therefore staff is further analyzing the benefits of receiving grant funding for the pilot water transfer.

The transfer water that the BAWSCA service area will get from the LVE project will go through the South Bay Aqueduct and treated at either Santa Clara’s Penitencia Water Treatment Plant, or it will go through ACWD’s system

Participation in the LVE project studies during FY 2018-19 is estimated at \$227.6K. There is also a cost share of \$127K for BAWSCA’s participation in the LVE studies during FY 2019-20. The Board authorized participation in the next phase of LVE studies at its January 2019 meeting for a total cost of up to \$355K.

BAWSCA’s audit of the SFPUC’s Asset Management Program for the Regional Water System acquires BAWSCA the knowledge of whether the SFPUC’s practices are thorough or not. With that knowledge, BAWSCA can develop the necessary plan to address matters of concern. Similar to the efforts of pursuing AB 1823, BAWSCA advocates for what the water customers with the knowledge of the reality to base its assertion on. BAWSCA’s oversight of the SFPUC’s WSIP, and SFPUC’s implementation of the WSIP, was successful because both agencies’ efforts were based on the fact that the system will fail if it is not rebuilt. That type of factual information is how change for the better can be achieved. The goal of the audit is to find out the state of the system, obtain the facts, and address the outstanding issues.

There are the targeted projects for evaluating potential water supply projects using BAWSCA’s new regional water system and supply reliability modeling tool. Ms. Sandkulla reported that initial modeling work for the LVE and the potable reuse projects have been done this current fiscal year. Further modeling for other projects will be done in FY 2019-20.

Director Kuta asked Nicole to provide the Board, at the March Board meeting, the average cost of the staffing that BAWSCA would need.

With no further comments, the Committee unanimously agreed to direct the CEO/General Manager to pursue additional Water Resources staffing as part of the preliminary work plan and operating budget recommendation to the Board at its March meeting.

- B. Los Vaqueros Expansion (LVE) Project – Review of Water Supply Benefits: As previously reported at the January Board meeting, Sr. Water Resources Analyst, Andree Johnson, reminded the Committee that there will be substantial information on the LVE project that will be reported over the course of the fiscal year, as well as several policy decisions that the BAWSCA Board will have to consider in the next several months leading up to the big decision in November 2019 on whether BAWSCA should join the Joint Powers Authority, and continue as a project partner on the LVE Project.

The LVE project will be a standing item on both the BPC and the Board agenda over the next several months to provide both groups the opportunity to dive into the specific elements of the project, provide preliminary feedback, as well as give staff directions to analyze issues of concern, so that all the necessary information is obtained for the Board to make an informed decision in November.

Ms. Johnson presented the water supply benefits of the LVE project to the BAWSCA member agencies, and how the project will impact reliability if it is implemented regionally.

The SFPUC's adopted Level Of Service (LOS) goal allows for a systemwide shortage on the Regional Water System of up to 20% during drought. When the Strategy was developed, it identified a dry year water supply need of up to 48 thousand acre feet (TAF) per year during a systemwide shortage of up to 20%. Ms. Johnson explained that because of how water is allocated between SF retail customers and SF wholesale customers during a shortage, a 20% shortage on the regional system equates to an average of a 26% shortage for the BAWSCA agencies. With this information, BAWSCA sees the LVE project as a supplemental dry year water supply source.

Based on modeling that was done for the Strategy using projected demands up to 2040, it is estimated that shortages would occur in a total of 8 years over the 91-year hydrologic record with future projected demands. Of the 8 shortage years, there would be a 10% systemwide shortage, which equates to a 15% shortage for the BAWSCA agencies in 7 years. There would be a 20% systemwide shortage that equates to a 26% shortage for BAWSCA agencies in 1 year.

Ms. Johnson reported that if BAWSCA participates in the LVE project, BAWSCA can call upon supplemental supplies from Los Vaqueros during the shortfall years.

BAWSCA requested Contra Costa Water District (CCWD) to model the potential for BAWSCA to obtain 10 TAF per year from Los Vaqueros during the shortfall years. The results of the modeling indicated that in 5 of 8 years, based on the historical record where a shortfall would occur, BAWSCA could receive 10 TAF, or close to it, from the project. In one year, there would be approximately 4 TAF available. In two years, there

would be no supply available specifically because BAWSCA's water would have been drawn down from a prior shortage year.

Ms. Johnson explained that without the LVE project, BAWSCA would have 7 years of a 15% water shortage, and 1 year of a 26% water shortage over the 91-year record. The LVE project would reduce water shortage by 5% in most years, reducing a 15% shortage down to 10%, and a 26% shortage down to a 21%. There would still be a period of 2 years where no supply will be available from the project.

The modeling is all based on the industries' best available knowledge of demands and hydrology. There are uncertainties that would impact BAWSCA's needs for the supplies and potential costs; some of which will be further developed over the course of the project. Some will remain unknown.

Those factors include water demands, climate change and regulatory actions.

Ms. Johnson noted that the current modeling is based on water demand projections completed in 2014. Preliminary results of the new demand study will provide updated information in time to inform the Board before it makes a decision to join the JPA. If results of the demand study shows demands higher than projected, more water will be needed. If demands show lower than projected, less water will be needed.

The modeling is also based on a 91-year historical hydrology. Ms. Johnson noted that while forecast patterns are based on historical data, they will not be identical with the past. The SFPUC is conducting a risk analysis on climate change, which BAWSCA hopes will bring preliminary results prior to the Board's JPA decision.

Finally, State regulatory actions on the Bay Delta Plan and FERC relicensing process will impact future water supply availability and may introduce State drought response actions or additional long-term conservation requirements that can potentially bring down demands in the future.

The Committee was asked for feedback on the information presented and whether there are additional key questions that should be pursued to provide the Board information it needs to make a decision in November.

BAWSCA's key questions include; What level of service do the BAWSCA agencies want to provide their customers in dry years?

Ms. Johnson explained that when the Strategy was developed, SFPUC's 20% LOS goals during dry years was not seen as sufficient. With the recent drought experience, the question remains as to whether the SFPUC's 20% LOS goal is acceptable, or do the agencies continue to want an increased supply reliability through development of new supplemental supplies? If so, how much are agencies willing to pay for increased reliability in dry years? How does the LVE project cost and supply benefits compare to other dry year water supply options?

Committee discussions ensued.

Director Mendall asked how BAWSCA would obtain and use the supply from LVE. He assumed that BAWSCA would fill Los Vaqueros with supply during wet years, and drain

it once for a drought period. Ms. Johnson explained that over the course of a drought, there may be some periods that are not as dry, and provide the opportunity to replenish supply. BAWSCA's use of the water supply stored will depend on the actual drought hydrology.

Ms. Sandkulla added that a good example scenario is if the 2014 drought continued until now; in 2019. Last year's wet year would have been an anomaly. Supplies would have been replenished, and the level of cutbacks could be different. It is not unusual for a drought period to have a wet year in the middle.

Director Mendall commented that it remains difficult to get a handle on the potential cost against the benefit, and therefore it is hard to determine his level of support for the effort. For example, would BAWSCA pay \$10million up front so that once every 20 years there would be a 20% cutback instead of 26%? Or is it \$1million so that every five years it is another level?

Director Kuta stated that there should be an economies-of-scale. How much is it for 10 TAF, 15 TAF, 20TAF.

Director Wood commented that it would be helpful for staff to explain the project in detail, including the equivalent of TAF for the service area, to help new Board members understand its magnitude.

Director Chambers agreed and suggested adding the conversion of TAF to mgd.

Director Pierce suggested having a framework of what the BAWSCA service area was asked to cut back during the last drought, and what that might have been moderated to with the LVE.

Ms. Sandkulla stated having supplemental supplies during the last drought would not have mattered because of the regulatory factors. The State would have ordered the same cutback statewide. While the State has indicated it will not do that again, the potential for having the same scenario is a serious question for agencies to consider in the future. Regional agencies, including ACWD and SCVWD, have adjusted their drought targets as a result of the State's action during the last drought.

Director Chambers noted that the Bay Delta Plan and global warming can have significant impact to snowpack and decreased storage supplies. These factors have no historical data to help forecast the future.

Director Mendall stated his concern for potential higher cutbacks of 30% to 40% in the future as a result of global warming and state regulations.

In response, Ms. Sandkulla noted that the SFPUC is obligated to supply up to 184mgd and an LOS goal of no more than 20% during a systemwide shortage. BAWSCA and the member agencies need to hold the SFPUC to these obligations and push for it to invest in efforts to meet its responsibilities. Ms. Sandkulla emphasized that supplemental supplies will be very expensive water, which makes holding the SFPUC to their LOS goals even more important.



She referred to Mr. Ritchie's presentation to the Board at its January meeting, where he talked about making changes to the 10-year CIP to include more funding for regional water supply planning efforts specific to examining LVE, brackish desal, and enlarged Calaveras among others. This is in response to BAWSCA's push for their obligation to the wholesale customers.

Director Mendall commented that perhaps rather than pushing the member agencies to invest, push the SFPUC instead to invest in projects like the LVE to ensure that the <20% LOS goals for systemwide cutback is a reliable guarantee.

Ms. Sandkulla stated that such an approach would represent a change from BAWSCA's current policy and, therefore, would be a critical policy consideration that will be part of the Board discussion in the coming months.

Director Zigterman clearly expressed his support for the LVE project. He strongly believes water supply storage is critical. BAWSCA should push for this effort and get as much out of it as possible. While BAWSCA should thoughtfully analyze its cost-effectiveness, as well as push the SFPUC to invest in the effort, he believes BAWSCA should not wait for, or rely on SFPUC's actions. The unknown factors of global warming and the Bay Delta Plan make having storage even more critical. The water needs a place to go when flows are high.

Ms. Sandkulla stated that the SFPUC is, indeed, looking at the LVE project, and BAWSCA needs to keep it front and center in their efforts.

Director Kuta commented that a primary concern would be how BAWSCA will raise the capital needed to pay for the effort. It would be helpful to know the funding opportunities.

Director Mendall asked if funding would be a one-time \$10 million transfer from the balancing account, or is it something more?

Legal Counsel, Allison Schutte, explained that if a JPA is formed, the agencies that sign up will be joining into a financing plan, at a minimum of \$500 million. But it will not be an up-front cost. It will be part of a financing plan over a multi-year period at a good interest rate.

Ms. Sandkulla re-stated that the LVE project and the various elements that goes with the effort will be the topic of conversation on the agenda in the next several months for the BPC, the Board, as well as the Water Management Representatives. It will be discussed in detail accordingly; technically with the WMR's, and at a policy level with the Committee and the Board to evaluate and become educated about the pieces of information needed to make an informed decision when the time comes.

In response to Director Kuta, Ms. Johnson explained that the Board's decision to join the JPA, if it so chooses, is not a commitment to ultimately participate and purchase water from the project. It is a decision on the initial governance structure for the project. After the JPA is formed, the JPA would establish purchase agreements with each of the entities looking to purchase water or storage from the project. BAWSCA can choose to join the JPA and, as the project develops, decide on a subscription structure.

Mr. Francis reported that BAWSCA and the SFPUC holds regular meetings to discuss the project and stated that the SFPUC shares the same concerns BAWSCA has on the costs and supply reliability. Efforts are ongoing in evaluating a joint or separate interests.

## 7. **Reports:**

**Water Supply Update:** Ms. Sandkulla reported that water supply conditions are good. Total Tuolumne storage is at 87% of maximum, and Calaveras is continuing to fill in accordance to Division of Safety of Dams (DSOD) regulations. While precipitation at Hetch Hetchy is slightly above median, snowpack is well above median. Future weather forecast includes substantial precipitation in the state, regional, as well as local levels.

Total system deliveries, including both San Francisco retail and wholesale customers, continues to trend below 2018 and pre-drought year of 2013. Total potable water use in the BAWSCA service area is 20% less in December 2018, than in December 2013; continuing persistent pattern of low water use.

In response to Director Kuta, Ms. Sandkulla reported that the SFPUC is looking at demands against temperature patterns.

- A. **Bay Delta Plan Update:** Ms. Sandkulla reminded the Committee that the State Water Resource Control Board (SWRCB) acted in December to adopt the Bay Delta Plan and gave direction to Staff to work with the Natural Resources Agencies to complete development of the Voluntary Settlement Agreement (VSA) including the Tuolumne River, by March 1<sup>st</sup>. The VSA is to be incorporated as an alternative for a future, comprehensive Bay Delta Plan for the entire Delta watershed for consideration by the State Board as early as December 2019.

Newly elected Governor Newsom recently appointed Wade Crowfoot as Secretary of Natural Resources, and Jared Blumenfeld as Secretary of Cal EPA, to lead the negotiations and to further clarify settlement agreement details. The two Secretaries are regularly meeting with a stakeholder group that has been expanded to include some environmental organizations. BAWSCA has not been invited.

The official terms of the VSA were made public last week, and were provided to the wholesale customers as a document, as well as to interested environmental organizations. Natural Resources and Cal EPA need to complete a full analysis of the VSA for water supply impacts and environmental benefits.

Ms. Sandkulla hopes to provide further information to the Board at its March meeting.

8. **Closed Session:** The meeting adjourned to Closed Session at 3:07pm
9. **Open Session:** The meeting convened to Open Session at 3:33pm. Legal Counsel, Allison Schutte reported that no action was taken during Closed Session.
5. **Action Calendar:**

- A. **Amendment to Hanson Bridgett Professional Services Contract:** Ms. Sandkulla reported that the current contract limit for legal services is \$669,000. There is a need to amend

the contract to increase the “not to exceed” budget by \$150,000. The increase will fund the necessary work associated with the WSA amendments, which was underbudgeted, and the Bay Delta Plan, which had a higher level of legal activity than anticipated.

Funding of the \$150,000 would come from a transfer from the General Reserve (\$50,000), budgeted contingency (\$57,500), and anticipated unspent funds from FY 2018-19 (\$42,500). Ms. Sandkulla noted that because it is too early in the fiscal year, she is cautious to allocate a higher amount from anticipated unspent funds.

**Director Wood made a motion, seconded by Director Chambers, that the Committee recommend to the Board of Directors to authorize the CEO/General Manager to:**

- **Amend the professional services contract with Hanson Bridget by \$150,000 for a total not to exceed amount of \$819,000;**
- **To transfer \$50,000 from the General Reserve to the Operating Fund to fund a portion of this contract increase; and**
- **To use \$57,500 from budgeted contingency to fund a portion of this contract increase.**

In response to Director Kuta, Ms. Sandkulla stated that the unspent funds associated with other financial and technical consultant contracts refers to the audit of SFPUC's asset management practices that was deferred to FY 2019-20 during the mid-year workplan review.

Director Mendall commented that the need for the increase is understandable given all the activities that required, and continues to require, legal attention. He hopes it does not set a new baseline.

Ms. Sandkulla noted that the budget for legal counsel has gone up and gone back down in the past. The last time in occurred was during the 2009 WSA process in which critical results needed to be achieved.

**The motion carried unanimously.**

**10. Comments by Committee Members:** There were no further comments from Committee Members.

**11. Adjournment:** The meeting was adjourned at 3:38 pm. The next meeting is April 10, 2019.

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 Meeting  
Attendance Roster**

Agency	Director	Feb. 13, 2019	Dec. 12, 2018	Oct. 10, 2018	Aug. 8, 2018	Jun. 13, 2018	Apr. 11, 2018
Stanford	Zigterman, Tom (Chair)	✓	✓	✓	M T G	✓	✓
Westborough	Chambers, Tom (VChair)	✓	n/a	n/a		n/a	n/a
Foster City	Hindi, Sam		n/a	n/a	C A N C E L L E D	n/a	n/a
Cal Water	Kuta, Rob	✓		✓		✓	✓
Sunnyvale	Larsson, Gustav		✓	✓		✓	
Hayward	Mendall, Al	✓	✓	✓		✓	✓
Redwood City	Pierce, Barbara	✓	✓			✓	✓
Brisbane	Wood, Sepi	✓	n/a	n/a		n/a	n/a

✓: present

**February 13th Meeting Attendance**

**BAWSCA Staff:**

Nicole Sandkulla CEO/General Manager  
 Tom Francis Water Resources Manager  
 Andree Johnson Sr. Water Resources Specialist  
 Christina Tang Finance Manager  
 Lourdes Enriquez Assistant to the CEO/General Manager  
 Allison Schutte Legal Counsel, Hanson Bridgett, LLP  
 Nathan Metcalf Legal Counsel, Hanson Bridgett, LLP  
 Bud Wendell Strategic Counsel

**Public Attendees:**

Paul Sethy ACWD, Director  
 Michelle Novotny San Francisco Public Utilities Commission

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE MEETING**

**Agenda Title:**           **Proposed Fiscal Year 2019-20 Work Plan and Operating Budget**

**Summary:**

This memorandum presents the proposed Fiscal Year 2019-20 Work Plan and Results to be Achieved, proposed Operating Budget, and proposed funding plan for the Operating Budget. Comments received from the Board at the January 17, 2019 Planning Session have been reviewed and addressed, as well as input received from the Committee in February and the Board in March.

The proposed Work Plan remains aligned with BAWSCA's legislated authority and its three goals: a reliable supply of high quality water at a fair price. Major work areas include increased activity in implementing the recommended Long-Term Reliable Water Supply Strategy (Strategy) actions with completion of new regional water demand projections, participation in Los Vaqueros Expansion Project, and implementation of the pilot water transfer; development of a new Tier 2 drought allocation plan among the BAWSCA agencies; activities to support BAWSCA member agency efforts to meet the "Making Water Conservation a Way of Life" requirements; participation in the State Water Resources Control Board (SWRCB) Bay-Delta Water Quality Control Plan Update to ensure member agency interests are represented; participation as an intervenor on FERC proceedings for Don Pedro Reservoir; increased oversight of the SFPUC's capital improvement program and Regional Water System (RWS) asset management program, including initiation of an audit of SFPUC's asset management practices; and completion of an initial Emergency Response Review for the RWS.

The proposed FY 2019-20 Operating Budget is \$4,569,750, which is 8.1% above the current FY 2018-19 Operating Budget. The proposed Operating Budget represents approximately a 16 cent increase in annual cost per person in the service area for an estimated cost to the water customer of \$2.50 per person per year. Considerations for funding the proposed Operating Budget are presented below for further discussion.

**Recommendation:**

**That the Committee recommend the Board approval of the:**

- 1. Proposed FY 2019-20 Work Plan and Results to be Achieved;**
- 2. Proposed Operating Budget of \$4,569,750; and**
- 3. Proposed funding plan of a 3% assessment increase, transfer of \$77,971 from the General Reserve, and transfer of \$805,000 from the 2009 Water Supply Agreement Balancing Account.**

**Discussion:**

**Proposed Work Plan:**

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

The proposed FY 2019-20 Work Plan includes the following major efforts:

- Oversight of the SFPUC's WSIP, 10-Year Capital Improvement Program (CIP), and

Regional Water System Asset Management Program, including the following actions:

- Participate in SFPUC's development of its Water Enterprise 2020-2029 CIP.
- Secure legislative extension of State oversight on WSIP through program completion.
- Initiate an audit of the SFPUC's asset management practices per Section 3.10c of the 2009 Water Supply Agreement.
- Implement BAWSCA's Strategy, as documented in the Strategy Phase 2 Final Report, including the following actions:
  - Complete Potable Reuse Exploratory Plan Phase 2 pre-feasibility study with SFPUC and Silicon Valley Clean Water and plan for next phase of work. Engage with advocacy groups to access technical, legislative, and legal information to support these studies.
  - Finalize pilot water transfer agreements with EBMUD, Hayward, and others to implement BAWSCA's pilot water transfer in FY 2019-20.
  - Participate in development of the Bay Area Regional Reliability Partnership (BARR) Bay Area Regional Water Market (Exchange/Transfer) Program, with possible inclusion of BAWSCA's pilot water transfer.
  - Participate in Los Vaqueros Expansion studies to inform upcoming project decisions.
  - Promote the continued sustainable use of San Mateo Plain Groundwater Basin (Basin) for long-term water supply reliability through the Groundwater Reliability Partnership and other multi-party efforts.
- Evaluate potential water supply projects using BAWSCA's new regional water system and supply reliability modeling tool;
- Support BAWSCA member agency efforts to meet the new State of California "Making Water Conservation a Way of Life" requirements, including the following actions:
  - Facilitate development of regional source meter testing plan.
  - Implement a Water Loss Control Subscription Program.
  - Expand implementation of Regional/Commercial/Industrial Audit Program.
  - Implement an expanded Outdoor Landscaping Rebate Program with a new weather based irrigation controller rebate and installation component.
  - Implement the Qualified Water Efficient Landscaper (QWEL) program to train and certify drought-smart/water efficient landscapers.
  - Implement regional conservation programs to support member agencies and their customers.
- Take actions to protect member agencies' water supply interests in administration of the 2009 WSA;
- Participate in the SWRCB's Bay-Delta Water Quality Control Plan Update to ensure member agency interests are represented;
- Participate in the Don Pedro and La Grange FERC proceedings to protect regional water supplies;
- Administer the 2009 Water Supply Agreement (WSA) including performing comprehensive annual Wholesale Revenue Requirement (WRR) review. Appendix H

and Table H-1 present a summary of the savings to Wholesale Customers resulting from BAWSCA's annual WRR review; and

- Administer BAWSCA's bonds.

Table 1 presents the proposed FY 2019-20 Work Plan and major results to be achieved. The activities are grouped according to the agency goals they support.

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

New or Significantly Rescoped Activities for FY 2019-20:

There are six new, significantly rescoped, or expanded activities included in the proposed FY 2019-20 Work Plan. In each case, these activities relate directly to ensuring water supply reliability for the customers served by the BAWSCA member agencies.

**1. Initiate Audit of SFPUC's Asset Management Program for the Regional Water System (RWS)**

**Estimated FY 2019-20 Cost: \$55K**

This task was originally planned for FY 2018-19 but has been postponed for reconsideration in FY 2019-20. Through this task, BAWSCA would perform an audit of the SFPUC's asset management program for the RWS. The 2009 WSA anticipated this issue and requires San Francisco to cooperate with such an audit, consider findings and recommendations of such an audit, and provide written response within 90 days after receipt of final audit report. A scope has been developed for this effort and a Request for Proposals prepared. Outside consultant services will be used to perform this audit with support and management provided by BAWSCA staff.

**2. Develop New Tier 2 Drought Allocation Plan**

**Estimated FY 2019-20 Cost: \$10K**

The allocation of water supply from the Regional Water System among the BAWSCA agencies is determined by the Tier 2 Drought Allocation Plan. On May 17, 2018, the BAWSCA Board of Directors extended the expiration of the Plan by one year from December 31, 2018 to December 31, 2019. The BAWSCA Board has the authority to continue to adopt 1-year extensions of the current Tier 2 Plan until a new plan is developed and agreed to by the member agencies.

Member agencies have expressed a significant desire for a new Tier 2 Plan to be negotiated and adopted as soon as possible to support their Urban Water Management Plans, which are due July 2021. Performing this work in FY 2019-20 is no guarantee that it will be completed in one year given that all agencies must agree and adopt the Plan.

**3. Complete Regional Water Demand and Conservation Projections Study (Demand Study)**

**Estimated FY 2019-20 Cost: \$300K**

The Board authorized this 2-year effort at its January 17, 2019 meeting for implementation beginning in FY 2018-19 and completion by June 2020 for a total budget of \$450K. The goal of the Demand Study is to develop water demand and conservation projections through 2045 for each BAWSCA agency and the region as a whole. It will provide valuable insights on long-term water demand patterns and conservation savings potential for the BAWSCA agencies to support regional efforts, such as implementation of the Long-Term Reliable Water Supply Strategy (Strategy). The Demand Study will also provide necessary information to support individual agency efforts such as compliance with the new State water efficiency requirements and completion of Urban Water Management Plans (UWMPs).

**4. Implement Pilot Water Transfer in Winter FY 2019-20**

**Estimated FY 2019-20 Cost: \$60K funded via Operating Budget for legal and environmental consulting support; funding for remaining cost of water transfer, including purchase of water (estimated at up to \$1,669K) will be recommended as a transfer from the 2009 Water Supply Agreement (WSA) Balancing Account**

In 2012, BAWSCA initiated efforts to study a possible pilot water transfer. BAWSCA's Strategy Phase II Final Report (February 2015) included execution of a pilot water transfer with East Bay Municipal Utility District (EBMUD) as a recommended action. Planning work was halted in 2015 due to conflicts associated with the historic drought. Significant progress has been made in FY 2018-19, and completion of the necessary agreements to execute this transfer is anticipated with potential BAWSCA Board actions in July and September 2019.

If approved, the pilot water transfer would be executed in winter 2019-20. At this time, the preliminary estimated cost of the pilot transfer is between \$930K and \$1,729K for 1,000 acre-feet of water. This cost is not proposed to be included in the BAWSCA FY 2019-20 Operating Budget. Rather, funding the pilot water transfer via the existing Balancing Account between SF and its Wholesale Customers established in the WSA will be recommended. Specifically, the WSA states that the "Wholesale Customers shall, through BAWSCA, direct that positive balance to be applied to one or more of the following.....(d) water conservation or water supply projects administered by or through BAWSCA." (WSA, Section 6.05.B.2.a). As of 6/30/18, the balance in the Balancing Account was \$62.1M.

**5. Participate in Los Vaqueros Expansion (LVE) Project Studies**

**Estimated FY 2019-20 Cost: \$227.6K**

The Board authorized BAWSCA's participation in the upcoming phase of the LVE Project at its January 17, 2019 meeting. This next phase of work begins in FY 2018-19 and will be completed in FY 2019-20 for a total budget of up to \$355K. Estimated FY 2019-20 costs include legal support for necessary agreements and other legal issues.

The LVE Project has the potential to provide dry year water supplies for BAWSCA to accomplish the Strategy goals. Specifically, BAWSCA is evaluating the project as a means to provide up to 10,000 acre-feet per year of supply in dry years as part of Strategy implementation.



**6. Complete Initial Emergency Response Review for San Francisco Regional Water System**

**Estimated FY 2019-20 Cost: \$35K**

Based on feedback from the Committee in February 2019, the proposed FY 2019-20 Work Plan includes a task to complete an initial Emergency Response Review for San Francisco Regional Water System. The scope of this work is still being developed, yet is anticipated to look at the means and methods used to respond to emergency situations such as wildfire, unplanned system outages, etc. Input and feedback from individual member agencies gained by engaging with BAWSCA's Water Management Representatives will be used to help inform the study scope. The proposed budget anticipates a modest amount of effort in year 1 that will inform future years' activity.

Initial Work Plan Identified Work Load Constraints That Were Discussed With Committee:

BAWSCA's Work Plan development process begins by reviewing and updating the major activities and long-term future challenges through 2050. From that, the critical results that need to be achieved in the upcoming fiscal year are identified, and a "bottom up" estimate of staff hours and consultant resources needed to complete those critical results are identified. These hours are totaled for all staff and used to understand workload and resources necessary. This process is effective for BAWSCA because the activities and associated workload vary significantly each year depending upon the specific results needed.

The initial development of the FY 2019-20 Work Plan identified that all water resources staff members were allocated hours in excess of a full time equivalent employee (FTE) and one staff member was allocated at 165% of a FTE. The need to access more resources (either staff or consultant resources) or reduce the Work Plan was discussed with the Committee.

At the February 13, 2019 Committee meeting, a discussion of the potential impact on the Work Plan was discussed and the Committee provided unanimous direction to the CEO to include the addition of a new water resources staff member for BAWSCA as part of the Operating Budget, and to reflect that staff member availability as part of the Work Plan.

Proposed Work Plan and Budget Includes Addition of New Water Resources Staff:

At the direction of the Committee and in response to the identified work load constraints, the proposed Work Plan and Budget includes the addition of a new junior-level water resources specialist staff position.

With this new staff member, two of the major rescoped tasks (discussed above) were added back into the Work Plan:

- Develop a new Tier 2 Drought Plan; rescoped to be completed by staff as opposed to securing outside consultant support services; and
- Complete initial Emergency Response Review of the Regional Water System.

The new staff member is anticipated to provide assistance in all water resources Work Plan areas. The addition of the new staff member has resulted in more appropriate work load allocations for the three existing water resources staff members.

The proposed Operating Budget includes a budget of \$141,883 for salary and benefits for the new staff member with a salary of \$115,000 based on BAWSCA's current job description for a Water Resources Specialist with 3-5 years experience.

**Results of January 17, 2019 Work Plan and Budget Preparation Planning Session:**

During BAWSCA's January 17, 2019 meeting, the Work Plan and Budget Preparation Planning Session was held with the Board as part of its regular meeting agenda. The focus of the planning session was to receive input from Board members on possible Work Plan items for the coming fiscal year. Table 3 presents the detailed comments provided by Board members during the planning session and the staff response that was subsequently prepared. These comments and responses are reflected in the proposed FY 2019-20 Work Plan and Results to be Achieved.

**Anticipated Future Work Plan Changes and Potential Future Large Cost Project Expenditures:**

During the February 13<sup>th</sup> Committee meeting, staff was requested to identify anticipated Work Plan changes for the next decade as well as prepare for the Board a list of potential future large-cost project expenditures or budget items, as a means of assisting the Board in its deliberation of both the current funding plan for FY 2019-20 and beyond.

Looking forward for the next 10 years, major areas of increased focus for BAWSCA will be:

- Implementation of Strategy recommendations including water supply projects such as participation in LVE and design and implementation of a potable reuse project;
- Overseeing SFPUC's implementation of water supply projects to meet their existing level of service requirements, including projects necessary to address Bay Delta Plan impacts;
- Updating BAWSCA's Long-Term Reliable Water Supply Strategy, which was last initiated in 2009;
- Overseeing SFPUC's increasing 10-Year CIP, consistent with recently adopted WSA amendments and BAWSCA's new oversight role;
- Ongoing assessment of SFPUC's asset management program, to ensure that SFPUC continues to maintain the assets it is responsible for to ensure reliable water supply; and
- Increasing involvement in emergency response preparedness.

Table 4 presents a rough estimate for the outside consultant or other expenses associated with future large cost project expenditures or budget items. Increased staff or legal counsel time is not reflected in Table 4 at this time.

**Alternatives to the Proposed Work Plan and Results to be Achieved:**

The major alternative to the proposed Work Plan is to not include the addition of a new staff member, which would require the following Work Plan items to be deleted or reduced:

- Delete development of a new Tier 2 Drought Plan;
- Delete completion of initial Emergency Response Review of the Regional Water System;
- Reduce level of effort related to monitoring SFPUC's asset management practices;
- Delete changes and any expansion to BAWSCA's landscape education program;
- Delete expansion of BAWSCA's outdoor landscaping rebate program; and
- Delete potential participation with SFPUC and ACWD on their potable reuse efforts with Union Sanitary District.

This alternative is not recommended as several results that are critically important to the water customers and BAWSCA's member agencies would not be completed.

**Proposed FY 2019-20 Operating Budget:**

The proposed Operating Budget of \$4,569,750 presented in Table 5 reflects the funding necessary to achieve the full Work Plan and includes estimated costs to fund the Annual Required Contribution (ARC) for Other Post-Employment Benefits (OPEB). This is included as a separate line item to highlight its inclusion in this fifth year of funding.

Explanation and Alternatives for Salaries and Benefits: The increase for salaries and benefits of \$301,545 shown in the proposed budget is a result of a variety of changes. The largest of these changes is the addition of the proposed new staff member, for a budgeted cost of \$141,883. The other changes include increases in retirement contributions, health benefit costs and salary adjustments. The proposed Operating Budget also includes the following for all employees except the CEO:

- \$37,858 for a COLA adjustment to existing FY 2018-19 top step salary; and
- \$4,664 merit allowance separate from COLA adjustment.

A Cost of Living Allowance (COLA) adjustment of 4.398% to the top step of salaries is consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose area. COLA increases for employees are not automatic, but can be granted by the CEO on the basis of merit. The history of salary and benefit adjustments for BAWSCA is presented in Appendix B to this memo.

The size of the merit allowance would permit potential salary increases of up to 5%, or to top step for the position, whichever is less.

Consistent with practice over the past two years, a budget allowance of \$21,683 for a potential merit increase for the CEO has been included in the proposed Operating Budget. For budgeting purposes, this amount is consistent with the merit increase budgeted for the CEO in FY 2018-19.

Funding Considerations for the Operating Budget: Four principles have historically been used by BAWSCA when considering how to fund the Operating Budget:

1. Budget sufficient resources to achieve the desired Work Plan results.
2. Spend only what is needed to achieve the results.
3. Apply incremental and prudent increases in assessments as necessary.
4. Maintain a prudent General Reserve balance within Board guidelines.

The adopted FY 2018-19 funding plan increased assessments to \$3,579,397 (a 1% increase) and used \$649,188 from the General Reserve to fund the current FY 2018-19 Operating Budget.

Each year, unspent funds (if available) are moved to the General Reserve to fund special needs and future budgets. Appendix K presents historical budget data including use of the General Reserve to fund special studies, fund the Operating Budget, and provide a one-time refund to the member agencies in November 2011.

At this time, it is estimated that the FY 2018-19 Operating Budget will be 95% expended at year end, or an estimated unspent budget of \$211k at the end of the fiscal year. Any post-audit excess funds will be transferred to the General Reserve in Fall 2019.

As of January 31, 2019, the General Reserve balance is within the 20-35% budgetary guideline at \$1,165,848, or 28% of the FY 2019-20 Operating Budget. The Board will be considering a recommended increase to legal counsel's budget at its March 21, 2019 meeting that will include a recommended transfer of \$50,000 from the General Reserve to fund a portion of this budget increase. If this budget amendment is approved, the General Reserve will be reduced to \$1,115,848, or 26% of the FY 2019-20 Operating Budget.

Given the ongoing legal issues facing BAWSCA next fiscal year and beyond, use of the General Reserve to fund a portion of the Operating Budget should be considered very carefully.

Funding Alternatives Evaluated: Four alternatives for funding the FY 2019-20 Operating Budget have been evaluated and the analysis is presented in Table 6. Three of the funding alternatives rely on a transfer of \$805K from the Balancing Account to pay for the approved LVE Project and Updated Regional Water Demand Study, previously approved by the Board:

- Alternative 1: No assessment increase, transfer of \$805K from Balancing Account, and a transfer of \$185,353 from BAWSCA's General Reserve.
- Alternative 2: 3% assessment increase, transfer of \$805K from the Balancing Account, and a transfer of \$77,971 from BAWSCA's General Reserve.
- Alternative 3: 5% assessment increase and transfer of \$805K from Balancing Account; no transfer from BAWSCA's General Reserve.
- Alternative 4: 27.7% assessment increase; no transfer from Balancing Account or BAWSCA's General Reserve.

The \$805K would cover the costs associated with two water supply projects approved by the Board at its January 2019 meeting: participation in Los Vaqueros Expansion Project (total 2-year cost up to \$355K) and development of a Regional Water Demand and Conservation Projections Study (total 2-year cost of \$450K). These projects and associated expenses are anticipated to occur in FY 2018-19 and FY 2019-20.

Recommended Funding Plan for Proposed FY 2018-19 Work Plan and Operating Budget: The CEO/General Manager recommends Alternative 2 for funding the Proposed Work Plan and Operating Budget. Alternative 2 includes a modest assessment increase and small transfer from the General Reserve paired with a transfer of \$805k from the Balancing Account. At its March 2019 meeting, the Board indicated its preference for Funding Alternative 2.

**Table 1. Proposed FY 2019-20 Work Plan and Results to Be Achieved**

(Percent of Proposed Operating Budget for Each Item Shown in Parenthesis, *New/Expanded items shown in blue italic font*)

**RELIABLE WATER SUPPLY**

- 8.0% **1. Facility Reliability: Monitor the SFPUC’s WSIP, 10-Year CIP, and Asset Management Program**
  - a. Monitor WSIP scope, cost, and schedule as San Francisco continues an aggressive construction schedule through to completion. Press the SFPUC and the city's political leadership to meet the adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. Work with the legislature to extend State oversight of WSIP and RFA.
  - b. Review and monitor SFPUC’s Regional 10-Year Capital Improvement Program to ensure that identified projects and programs meet the needs of the BAWSCA member agencies in a cost-effective and appropriate manner.
  - c. Review and monitor SFPUC’s Asset Management Program to ensure long-term protection of system assets, including *performing an audit of SFPUC's asset management practices per WSA Section 3.10.c.*
  - d. *Perform an Initial Emergency Response Review for the San Francisco Regional Water System.*
  
- 22.2% **2. Long-Term Supply Solutions: Implement the Long-Term Reliable Water Supply Strategy to Ensure a Reliable, High Quality Supply of Water is Available Where and When Needed**
  - a. *Complete Regional Water Demand and Conservation Projections Study.*
  - b. Complete Potable Reuse Exploratory Plan Phase 2 pre-feasibility study with SFPUC and Silicon Valley Clean Water and plan for next phase of work. Engage with advocacy groups to access technical, legislative, and legal information to support these studies.
  - c. *Implement Pilot Water Transfer in winter FY 2019-20.*
  - d. Participate in development of Bay Area Regional Reliability (BARR) Phase 2 (Water Marketing Strategy) in partnership with other Bay Area water agencies & promote implementation of BAWSCA’s Pilot Water Transfer as a component of the Phase 2 work effort.
  - e. *Participate in CCWD’s Los Vaqueros Expansion Project Studies to evaluate BAWSCA’s interest and ensure key information is available to support upcoming decisions.*
  - f. Promote the continued sustainable use of San Mateo Plain Groundwater Basin for long-term water supply reliability.
  - g. Facilitate development of other local water supply options including monitoring/tracking member agency efforts.
  - h. Complete water supply reliability model scenario studies to evaluate proposed drought supply projects, potential impacts of regulatory decisions or changing conditions, and incorporate Tier 2 proposal(s) into model.
  
- 8.7% **3. Near-term Supply Solutions: Water Conservation and Drought Response**
  - a. Implement Phase 3 of BAWSCA’s “Making Water Conservation a Way of Life” work plan:
    - Estimate Urban Water Use Objective for each agency through Regional Demand Study
    - Expand implementation of the Regional Commercial/Industrial/Institutional (CII) Audit Subscription Program.
    - Facilitate development and implementation of a Regional Source Meter Testing Plan with the SFPUC.
  - b. Represent agencies in regional and State-level discussions related to water conservation-related regulations.
  - c. Administer, implement, and expand core water conservation programs that benefit all customers, including BAWSCA participation in a in a region-wide training and certification effort titled the “Qualified Water Efficient Landscaper Program” (QWEL), designed to train and certify landscapers regarding drought tolerate designs.
  - d. Administer and expand subscription conservation rebate programs that benefit, and are paid for by, participating member agencies, including *an expanded Outdoor Landscaping Rebate Program with a new weather-based irrigation controller rebate and installation subscription program.*
  
- 7.8% **4. Take Actions to Protect Members’ Water Supply Interests in the Administration of the 2009 Water Supply Agreement**
  - a. Adopt temporary extension of existing Tier 2 drought allocation plan that expires Dec. 2019.

- b. *Develop new Tier 2 Drought Allocation Plan that aligns with the “Making Conservation a Way of Life” requirements.*
- c. Protect members’ water supply and financial interests in the SFPUC’s 2028 decisions and Water Mgmt. Action Plan (WaterMAP).
- d. Protect members’ water supply interests to ensure that the SFPUC meets its adopted Water Supply Level of Service Goals.

**12.0% 5. Protect Members’ Interests in a Reliable Water Supply**

- a. Participate in SWRCB Bay Delta Plan Update to ensure member agency interests are represented.
- b. Participate in the Don Pedro Project/La Grange Project FERC licensing process, via legal intervention, to protect customers’ long-term interests in Tuolumne River water supplies.

**0.2% 6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts**

- a. Pursue and use grant funds for water conservation programs and for regional supply projects and programs.
- b. Pursue, with regional partners, grant funding to support studies that aim to improve regional water supply reliability, such as possible future BARR Phase 3 effort(s).
- c. Investigate potential for grant funds to support the implementation of the Strategy.

**0.6% 7. Reporting and Tracking of Water Supply and Conservation Activities**

- a. Complete BAWSCA FY 2018-19 Annual Survey.
- b. Complete BAWSCA FY 2018-19 Annual Water Conservation Report.
- c. In partnership with member agencies, operate and maintain BAWSCA’s Water Conservation Database.

**HIGH QUALITY WATER**

**0.9% 8. Support Member Agencies in Receiving Reliable Communication of Water Quality Issues**

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

**FAIR PRICE**

**9.3% 9. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement**

- a. Administer the Water Supply Agreement with SF to protect the financial interests of member agencies.
- b. Administer bonds issued by BAWSCA to retire capital debt owed to San Francisco.

**AGENCY EFFECTIVENESS**

**3.7% 10. Maintain Community Allies and Contacts with Environmental Interests**

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

**15.4% 11. Manage the Activities of the Agency Professionally and Efficiently**

**Table 2: Activities Not Included in Proposed Work Plan and Operating Budget for FY 2019-20**

<p><b>RELIABLE SUPPLY</b></p> <ol style="list-style-type: none"><li>1. Engage in extended or complex applications for State or Federal grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council, or other agencies.</li><li>2. Introduce major new legislation or supporting/opposing legislation initiated by others including legislation related to the Bay-Delta and California Water Fix. If needed, the agency could support major legislative efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval.</li><li>3. Initiate new, unanticipated litigation or support/oppose new, unanticipated litigation initiated by others. If needed, the agency could support major litigation efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval.</li><li>4. Implementation of a BAWSCA Pilot Water Transfer is included in the FY 2019-20 Work Plan however <u>funding the pilot water transfer is not included in the Proposed Operating Budget</u> at this time and will be considered at a later time as part of the project approval.</li></ol>
<p><b>FAIR PRICE</b></p> <ol style="list-style-type: none"><li>5. Develop alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to facilitating communication with SFPUC, development of goals and objectives relevant to Wholesale Customers, and addressing the potential relationship to alternative retail rate structures member agencies might consider to stabilize water rates and water revenues.</li><li>6. Arbitrate issues related to the 2009 Water Supply Agreement.</li></ol>
<p><b>HIGH WATER QUALITY</b></p> <ol style="list-style-type: none"><li>7. Perform technical studies of water quality or San Francisco’s treatment of the water it delivers to the BAWSCA agencies.</li><li>8. Advocate changes to water quality regulations or the manner in which San Francisco treats water for drinking and other purposes.</li></ol>
<p><b>AGENCY EFFICIENCY</b></p> <ol style="list-style-type: none"><li>9. Add resources to support additional Board, Board committee, or technical committee meetings.</li><li>10. Conduct tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions, <u>other than tours done in coordination with San Francisco.</u></li></ol>

**Table 3. FY 2019-20 Work Plan and Budget Planning Session – Comments and Suggested Work Plan Items for Further Consideration**  
**(Questions presented in alphabetical order by Board Member)**

#	Board Member	Board Member Comment	Staff Response
1	Kuta	Has BAWSCA considered a risk assessment/review of emergency situations like wildfire and emergency readiness with regard to the Regional Water System?	Based on feedback from the Committee, the proposed FY 2019-20 Work Plan was modified to include a task to complete an initial Emergency Response Review for San Francisco Regional Water System. The scope of this work is still being developed and will involve input from the member agencies via the Water Management Representatives.
2	Mendall	Encourage Board and CEO to focus on agency priorities given the magnitude of current issues.	Agreed. As part of the FY 2019-20 the Work Plan and budget development process, the CEO will identify the challenges anticipated in balancing work load and priorities for input from the Board.
3	Mendall	Important that BAWSCA not lose sight of the importance of SFPUC CIP and that BAWSCA move forward with audit of SFPUC’s asset management practices for the Regional Water System.	Oversight of SFPUC’s CIP remains a critical task for BAWSCA including implementation of SFPUC’s new contractual obligations to formally engage with BAWSCA on its 10-year CIP development. The proposed FY 2019-20 Work Plan currently includes an audit of the SFPUC’s asset management practices for the Regional Water System.
4	O’Connell	Encourage Board and CEO to continue efforts to build & maintain relationships with legislators; look for opportunities to build relationships with others.	Agreed and included in the proposed FY 2019-20 Work Plan. BAWSCA’s CEO actively maintains existing relationships with our allies, including our legislative contingent. In addition, the CEO pursues building new relationships with potential allies and other elected officials.
5	Pierce	Encourage CEO to make Board aware of information on opportunities for member agencies to share water as part of the discussion of sources of additional water supply and water needs of member agencies.	Agreed. This work is included in the proposed Work Plan as it directly relates to the technical and policy level decisions that must be made by BAWSCA this year with regard to future involvement in the Los Vaqueros Expansion Project and other potential water supply projects, either independently or jointly with another water agency. Through the new Regional Demand Study which will be complete in FY 2019-20, BAWSCA and its member agencies will have an updated analysis of water needs through 2045.
6	Pierce	Encourage CEO to look for opportunities to build relationships with others.	Agreed and included in the proposed Work Plan to support identified results.



<b>#</b>	<b>Board Member</b>	<b>Board Member Comment</b>	<b>Staff Response</b>
7	Schmidt	Provide greater clarifications of the relationship between the 184 mgd Supply Assurance and the requirements of the State's "Making Water Conservation a Way of Life" requirements.	BAWSCA's Regional Demand Study will provide a technical analysis of the actions that must be taken to achieve the water efficiency required by the BAWSCA member agencies as part of "Making Water Conservation a Way of Life." The 184 mgd Supply Assurance is the quantity of water that San Francisco is obligated to supply to the Wholesale Customers in perpetuity and it is not tied to or restricted by the State's water efficiency requirements.

**Table 4. Potential Future Large Efforts**

Project Name	Cost Updates (For FY 2018-19 and Beyond)			Discussion
	FY 2018-19 (Actual/Budgeted)	FY 2019-20 (Projected)	FY 2020-21 & Beyond	
Regional Demand Projections Update	\$150K	\$300K	NA, effort will be complete	In January 2019, the Board authorized the Demand Study for a 2-year total cost of \$450K and completion in June 2020.
Implement Pilot Water Transfer	Staff and legal time	\$1-\$1.5M	NA, effort will be complete	BAWSCA anticipates implementing a pilot water transfer in FY 2019-2020. For FY 2019-20; the CEO will recommend funding this task via a transfer from the Balancing Account with SFPUC, as provided by the 2009 Water Supply Agreement.
Los Vaqueros Expansion (LVE)	\$177.6K	\$177.6K (approved, Jan. 2019)  Up to \$350K for next phase	With a decision to participate in the project, costs will increase significantly for design, construction and operations	In January 2019, the Board authorized BAWSCA participation in the next planning phase for the LVE Project for up to \$355K through calendar year 2019 (costs split between FY 2018-19 and FY 2019-20). The next phase is anticipated to begin in calendar year 2020 with an estimated cost of \$350K.
Potable Reuse Exploratory Plan (PREP) Phase 3	\$10K	\$10K	Thru FY 2022-23 \$10K-\$50K  CEQA scheduled to start in fall 2023; costs to participate would expand	BAWSCA is a current partner in the PREP project, which is in the early planning stage. No decision has been made by BAWSCA regarding participating beyond the current effort.
Update Long Term Reliable Water Supply Strategy (Strategy)	n/a	n/a	\$1.5-\$2.5M; estimated based on \$2.2M cost for initial Strategy development	BAWSCA initiated its first regional long-term planning effort in 2009. It would be appropriate for BAWSCA to update the Strategy in the 2020-2025 time period given updated conditions including demands, supply reliability, regulatory and climate change impacts, etc.

**Table 5. Proposed FY 2019-20 Operating Budget by Major Expenditure Category**

<b>Cost Category</b>	<b>Approved FY 2018-19 Budget (\$)</b>	<b>Proposed FY 2019-20 Budget (\$)</b>	<b>Change from FY 2018-19 Budget (\$)</b>
<b>Consultants/ Direct Expenditures</b>			
Reliability	1,703,580	1,797,550	93,970
Fair Pricing	301,000	233,000	(68,000)
Administration	110,000	110,000	-
<i>Subtotal Consultants</i>	2,114,580	2,140,550	25,970
<b>Administration</b>			
Employee Salaries & Benefits	1,591,580	1,893,500	301,920
Other Post-Emp. Benefits (net)	82,375	82,000	(375)
Operational Expenses	376,850	390,500	13,650
<i>Subtotal Administration</i>	2,050,805	2,366,000	315,195
<b>Total Operating Expenses</b>	<b>4,165,385</b>	<b>4,506,500</b>	<b>341,165</b>
<b>Capital Expenses</b>	3,000	3,000	-
<b>Budgeted Contingency</b>	57,500	57,500	-
<b>Regional Financing Authority</b>	1,650	1,650	-
<b>Bay Area Water Users Assn.</b>	1,050	1,050	-
<b>Grand Total Operating Budget</b>	<b>4,228,585</b>	<b>4,569,750</b>	<b>341,165</b>

**Table 6. Analysis of Alternative Funding Options**

Fund Source	FY 2018-19*	FY 2019-20			
	Adopted Funding Plan	Alt. 1 0% Assessment Increase	Alt. 2 3% Increase	Alt. 3 5.2% Increase	Alt. 4 27.7% Increase
Assessments	\$3,579,397	\$3,579,397	\$3,686,779	\$3,764,750	\$4,569,750
Transfer from General Reserve	\$649,188	\$185,353	\$77,971	\$0	\$0
Transfer from Balancing Account	\$0	\$805,000	\$805,000	\$805,000	\$0
<b>Total Available Operating Funds/Operating Budget</b>	<b>\$4,228,585</b>	<b>\$4,569,750</b>	<b>\$4,569,750</b>	<b>\$4,569,750</b>	<b>\$4,569,750</b>
Potential End of Year Transfer to General Reserve	\$0				
Estimated Year-End Reserves	\$1,165,848	\$980,495	\$1,087,877	\$1,165,848	\$1,165,848
% of Budget	28%	21%	24%	26%	26%
<b>Assessment to Budget Ratio</b>	<b>85%</b>	<b>78%</b>	<b>81%</b>	<b>82%</b>	<b>100%</b>

\*For FY 2018-19, these value reflect the changes adopted by the Board in January 2019.

**APPENDICES**

Appendices A through J present additional detail about the proposed Work Plan and Operating Budget.

**Appendix A: Uses of Professional Services**

Outside professional services are used to provide specialized services and augment staff:

1. Professional engineering services for: a) evaluating and monitoring SFPUC's Asset Management Program; b) evaluating and monitoring SFPUC's 10-Year Capital Improvement Program development and implementation; c) evaluating Water System Improvement Program project scopes during design and construction; d) monitoring WSIP project cost estimates, bids and schedules; e) monitoring and assessing San Francisco's performance in implementing the overall WSIP; f) assessing San Francisco's method for cost estimation, application of contingencies and addressing cost inflation during the WSIP; g) providing specific constructive recommendations for keeping the WSIP on or ahead of schedule; h) analyzing hydraulic records used by San Francisco in setting the wholesale water rates; and g) providing as needed groundwater technical assistance.
2. Water resources analysis and planning services to: a) evaluate potential water supply projects using BAWSCA's new regional water supply reliability modeling tool; and b) support BAWSCA member agency efforts to meet the new State of California "Making Water Conservation a Way of Life" requirements.
3. General legal services for BAWSCA and the RFA; specialized legal services to support administration of the Water Supply Agreement; specialized legal services for addressing matters related to water supply reliability including Restore Hetch Hetchy litigation, Bay Delta Plan Update, and FERC intervention.
4. Strategic counsel for identifying and addressing strategic and political issues associated with maintaining the progress of the Water System Improvement Program, assisting the Board and the CEO in developing and implementing an effective policy making process that supports implementation of the Long-Term Reliable Water Supply Strategy, providing legislative and political support, and providing advice to the CEO and the Board on other issues significant to the water customers and the effectiveness of the agency.
5. Financial advisory services to conduct specified capital financing and rate impacts analyses on a task order basis.
6. Accounting/auditing expertise to assist with implementing the Water Supply Agreement, as well as an independent auditor to prepare and review annual financial statements.

Legal, strategic, financial, and engineering consultants provide professional services critical to BAWSCA's work in achieving the agency's goals and achieving critical results. Many of BAWSCA's consultants have been under contract with BAWSCA since its creation, and a few of those consultants have been in place even longer, in that they served as consultants to Bay Area Water Users Association, BAWSCA's predecessor organization.

Each year, the Board acts on each consultant contract following consideration of the annual Work Plan and Operating Budget. Information provided to the Board at that time relates to expertise, current scope of work, budget, and billing rates.

**Appendix B: History of Salary and Benefits Adjustments**

The information below presents the history of salary and benefits adjustments for BAWSCA staff. Where Cost of Living Adjustments (COLA) to the salary ranges are considered by the Board, BAWSCA relies on the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the SF-Oak-SJ area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.

- FY 2009-10: There was no COLA adjustment. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2010-11: The Board approved a 3.01 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2011-12: The Operating Budget included no adjustment to the salary for any employee for COLA, merit, or any other reasons.
- FY 2012-13: The Board approved a 3.10 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2013-14: The Board approved a 2.312 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2014-15: The Board approved a 2.60 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2015-16: The Board approved a 2.09 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2016-17: The Board approved a 3.15 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2017-18: The Board approved a 3.025 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2018-19: The Board approved a 3.084 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.

**Appendix C: Proposed Budget for the Bay Area Water Users Association (BAWUA)**

The proposed FY 2019-20 budget for BAWUA is \$1,050 and includes legal counsel support and a small operations budget allowance. This budget amount appears as a separate line item in the BAWSCA budget and is included in the BAWSCA proposed FY 2019-20 Operating Budget.

**Appendix D: Proposed Budget for the Regional Financing Authority Budget**

The BAWSCA Board of Directors has continued to agree to fund nominal administrative costs for the Regional Financing Authority (RFA), at least until it becomes more actively involved and required significant resources. Assuming a continued low level of activity in FY 2019-20, the proposed RFA budget is \$1,650. This budget amount includes legal counsel support and a small operations budget allowance. This budget amount appears as a separate line item in the BAWSCA budget and is included in the BAWSCA proposed FY 2019-20 Operating Budget. The RFA will formally consider and adopt this budget in January 2020.

**Appendix E: Funding for Subscription Conservation Programs**

As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA’s subscription water conservation programs. The staff time to be devoted to those programs during FY 2019-20 is estimated to be 948 hours. Agencies participating in subscription programs pay for associated consultant support and direct expenses. As in prior years, those consultant costs and direct expenses are not included in the Operating Budget.

**Appendix F: Select Financial Details for BAWSCA’s Subscription Conservation Program**

Table F-1 provides select financial information for BAWSCA’s subscription conservation programs for the past five years, including BAWSCA staff costs that are reimbursed by the participating member agencies. Other costs are not included in Table F-1, for example, rebates and other costs paid directly by the participating member agencies and quantification of grant funds used. More complete details on BAWSCA’s subscription programs, cost, and level of activity is included in BAWSCA’s Annual Water Conservation Report.

**Table F-1: Select Financial Details Related to BAWSCA  
Subscription Conservation Programs**

Fiscal Year and Program Name	Direct Program Cost - Reimbursed	BAWSCA Staff Cost - Reimbursed	BAWSCA Admin. Cost - Reimbursed
<b>2013-14</b>			
EarthCapades	\$61,325	\$2,120	
HET		\$6,785	\$300
Large Landscape Audit	\$85,996	\$1,184	
Lawn Be Gone		\$2,420	
Water Wise Ed. Kits	\$89,864	\$2,668	
Washing Machine Rebate	\$325,775	\$9,964	\$1,104
<b>Total</b>	<b>\$562,960</b>	<b>\$25,141</b>	<b>\$1,405</b>
<b>2014-15</b>			
EarthCapades	\$53,380	\$1,980	
HET		\$9,066	\$319
Large Landscape Audit	\$92,521	\$1,332	
Lawn Be Gone		\$6,340	
Water Wise Ed. Kits	\$95,346	\$2,599	
Washing Machine Rebate	\$308,313	\$4,667	\$104
Watersense Giveaways	\$8,893		
Rain Barrel Rebate	\$22,164		
<b>Total</b>	<b>\$580,617</b>	<b>\$25,984</b>	<b>\$423</b>

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Fiscal Year and Program Name	Direct Program Cost - Reimbursed	BAWSCA Staff Cost - Reimbursed	BAWSCA Admin. Cost - Reimbursed
<b>2015-16</b>			
EarthCapades	\$64,575	\$2,360	
Free Sprinkler Nozzles	\$2,988		
HET		\$9,965	\$300
Large Landscape Audit	\$99,808	\$1,332	
Lawn Be Gone		\$3,380	
Lawn Be Gone Inspections	\$7,704		
Water Wise Ed. Kits	\$101,701	\$2,393	
Washing Machine Rebate	\$157,945	\$ 4,546	\$1,170
Watersense Giveaways	\$10,930		
WaterSmart Reports	\$209,380		
Rain Barrel Rebate	\$11,144		
<b>Total</b>	<b>\$666,175</b>	<b>\$23,976</b>	<b>\$1,470</b>
<b>2016-17</b>			
EarthCapades	\$61,345	\$2,120	
Free Sprinkler Nozzles	\$7,585		
HET		\$6,340	\$300
Large Landscape Audit	\$94,260	\$1,184	
Lawn Be Gone		\$1,860	
Lawn Be Gone Inspections	\$2,858		
Water Wise Ed. Kits	\$104,716	\$1,860	
Washing Machine Rebate	\$114,530	\$1,900	\$1,055
Watersense Giveaways	\$20,886		
WaterSmart Reports	\$313,128		
Rain Barrel Rebate	\$2,300		
<b>Total</b>	<b>\$660,263</b>	<b>\$13,144</b>	<b>\$1,355</b>
<b>2017-18</b>			
EarthCapades	\$61,435	\$2,260	
Free Sprinkler Nozzles	\$1,577		
HET		\$4,055	\$13
Large Landscape Audit	\$85,793	\$1,184	
Lawn Be Gone		\$1,380	\$14
Lawn Be Gone Inspections	\$2,284		
Water Wise Ed. Kits	\$98,229.89	\$2,295	
Watersense Giveaways	\$10,734		
WaterSmart Reports	\$298,405		
Rain Barrel Rebate	\$3,395		
<b>Total</b>	<b>\$561,853</b>	<b>\$11,174</b>	<b>\$27</b>



**Appendix G: Value for the Cost**

The formula for BAWSCA assessments results in equivalent cost per gallon throughout BAWSCA's members. All BAWSCA costs are ultimately passed on to water customers through the water rates of the local city, district, or private utility. Table G-1 below provides the estimate annual cost per person and per household (assuming three persons per household) for BAWSCA's Operating Budget.

**Table G-1. Historical Estimated Annual Cost of BAWSCA Operating Budget per Service Area Household**

Fiscal Year	Est. Annual Cost Per Person	Est. Annual Cost Per Household
2010-11	\$1.64	\$4.93
2011-12	\$1.53	\$4.60
2012-13	\$1.52	\$4.56
2013-14	\$1.82	\$5.47
2014-15	\$1.70	\$5.11
2015-16	\$1.84	\$5.51
2016-17	\$1.96	\$5.88
2017-18	\$2.08	\$6.24
2018-19	\$2.34	\$7.02
2019-20	\$2.50 (proposed)	\$7.51 (proposed)

**Appendix H: Savings Resulting from BAWSCA's Annual Wholesale Revenue Requirement (WRR) Review**

Pursuant to Section 8.04 of the Water Supply Agreement, the Wholesale Customers delegated authority to BAWSCA to conduct the annual review of SFPUC's calculation of the Wholesale Revenue Requirement (WRR) and the Balancing Account. Table H-1 provides the annual financial impact to the Wholesale Customers resulting from BAWSCA's annual comprehensive review. Over the past 16 years, BAWSCA's reviews have resulted in a total of \$43.7 million savings to the Wholesale Customers. This total includes the savings resulting from resolution on the issues discovered by BAWSCA prior to the WSA 7.06 process and savings from settlements during the formal 7.06 process.

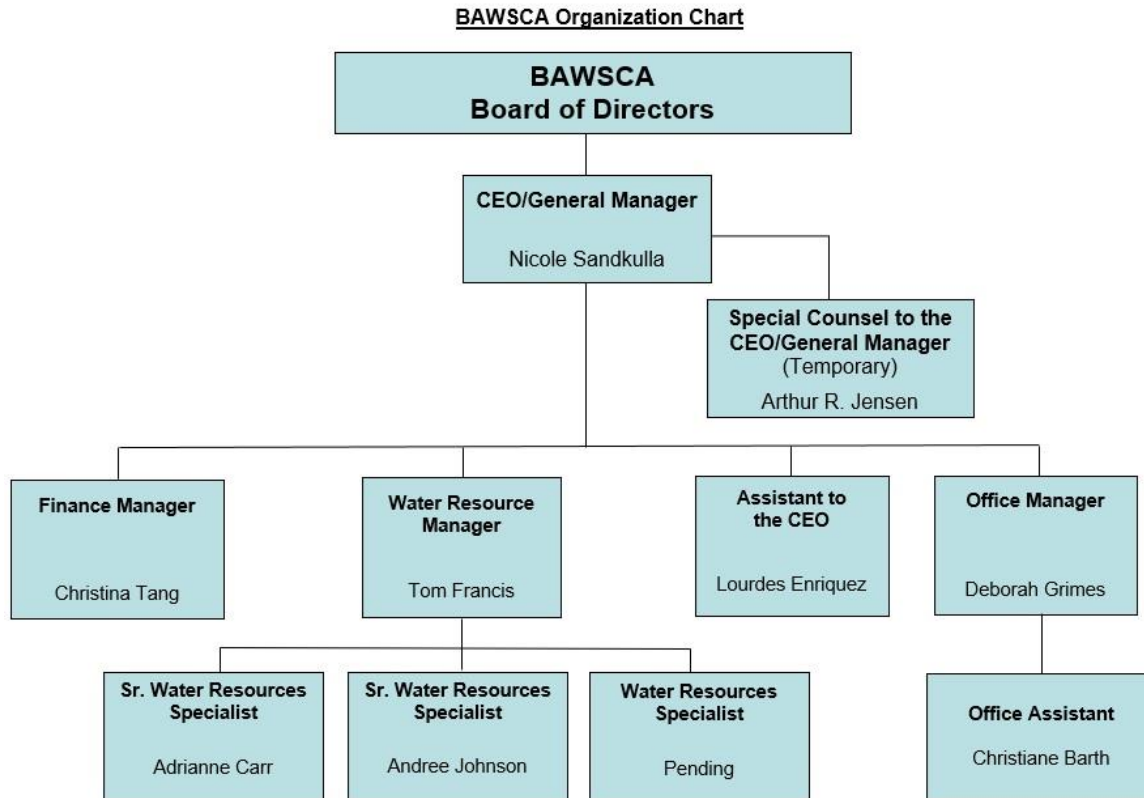
Note that the savings shown in Table H-1 do not include the ongoing savings resulted from any specific year's settlement. For example, the revised 525 Golden Gate operating and capital cost allocation methodology as a result of the FY11-12 and FY12-13 settlements generates an ongoing WRR savings to the Wholesale Customers in an approximate amount of \$400,000 each year from FY13-14 until various final debt service payment dates.

**Table H-1. Savings to Wholesale Customers Resulting from BAWSCA’s Annual Wholesale Revenue Requirement Review**

Fiscal Year	Savings to Wholesale Customers
2001-02	\$698,095
2002-03	\$1,568,857
2003-04	\$476,825
2004-05	\$5,726,908
2005-06	\$1,229,604
2006-07	\$718,267
2007-08	\$1,917,328
2008-09	\$461,670
2009-10	\$1,635,005
2010-11	\$893,914
2011-12	\$5,352,720
2012-13	\$739,965
2013-14	\$102,952
2014-15	\$11,903,057
2015-16	\$6,266,980
2016-17	\$3,989,471
<b>Total</b>	<b>\$43,681,618</b>

**Appendix I: Current Organization and Staffing**

The figure below represents the current reporting relationships in the organization.



**Appendix J: Future Challenges Facing BAWSCA, Member Agencies, and Their Customers**

Each year, BAWSCA’s Work Plan development process starts by reviewing and updating the major activities over the next 20 to 30 years. These activities require coordinated action by BAWSCA and its member agencies to ensure a reliable supply of high quality water at a fair price.

Table J-1 lists these activities as they were updated as part of the FY 2019-20 proposed Work Plan development. In each case, the results identified in Table J-1 will take the form of agreements, legislation, or other legally enforceable work products. Development of these documents will result from skilled negotiations based on rigorous investigations of impacts and alternatives, costs, cost allocation, and other matters.

Table J-1: Future Challenges Facing BAWSCA, Member Agencies, and Their Customers (Preliminary FY 2019-20)

BAWSCA Goal and Associated Challenges	FY 2019-20 (Near-Term)	2020-2035 (Mid-Term)	2035-2050 (Long-Term)
<b>Reliable Supply: Ensure Long-Term Water Supply Reliability</b>			
Protection of member agencies' interests in long-term water supply reliability need from the SF RWS and 184 MGD Supply Assurance in light of climate change and regulatory challenges.	X	X	X
Protection of BAWSCA member agencies from normal and dry year supply shortages and resulting excessive economic impacts.	X	X	X
Reflection of member agencies' long-term water supply needs and investments in regional planning efforts.	X	X	X
Representation of member agencies in Federal relicensing of New Don Pedro to protect SF RWS water supply reliability.	X	X	
Representation of member agencies in Bay Delta Plan Update to protect RWS water supply reliability.	X	X	
Meeting the new Statewide "Making Water Conservation a California Way of Life" requirements thru 2030.	X	X	
Protection of member agencies' interests in San Francisco's December 2028 decisions including deciding whether to make San Jose and Santa Clara permanent customers.	X	X	
Development of a new Tier 2 drought allocation plan.	X		
<b>Reliable Supply: Ensure SF RWS Facility Reliability</b>			
Protection of water supply and financial interests of water customers in SFPUC's development and implementation of its 10-Year CIP.	X	X	X
Protection of water supply and financial interests of water customers in SFPUC's asset management program to ensure ongoing maintenance and protection of RWS assets.	X	X	X
Protection of water supply and financial interests of water customers in SFPUC's WSIP implementation.	X	X	
<b>High Quality Supply &amp; Fair Price: Enforce 2009 Water Supply Agreement</b>			
Enforcement of the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting obligations.	X	X	X
Protection of member agencies' water supply reliability interests against threats by outside forces including efforts by others to drain Hetch Hetchy that disregard their interests in reliability, quality and cost.	X	X	X
Protection of water customers interests in ensuring SF maintains its Tuolumne River water rights.	X	X	X
Management of BAWSCA's revenue bonds in accordance with Bond Indenture and other applicable laws to ensure accountability and ultimately to reduce overall cost to regional water customers (thru 2034).	X	X	
Extension or renegotiation of the Water Supply Agreement before it expires in 2034.		X	

**Appendix K: Historical BAWSCA Operating Budgets and Assessments**

BAWSCA's annual Operating Budget is developed to pay for the cost of the annual work plan, which is reviewed by the Committee and approved by the Board. Each year, the Work Plan is designed to achieve results that support BAWSCA's three goals – a reliable supply of high-quality water at a fair price – and to implement BAWSCA's purpose as stated in AB 2058. As a special district, BAWSCA is not like a city council or other community agency. BAWSCA is an issue-driven organization that responds to the needs of its member agencies and the water users who pay for BAWSCA's work. BAWSCA uses experienced consultants to limit fixed costs.

Two historical examples of significant annual Operating Budget increases to address one-time or unexpected issues that required BAWSCA's actions, in addition to its on-going programs, are:

- In FY 2008-09, the approved budget was 10% higher than the previous year; issues included: increased conservation efforts, new contract with SF, and WSIP oversight.
- In FY 2013-14, the approved budget was 18% higher than the previous year; issues included: long-term water supply reliability, administration of bonds to accelerate paying off capital debt to save significant money for member agencies; administration of the Water Supply Agreement; an unexpected threat from Mountain Tunnel; and monitoring the SFPUC's Capital Improvement Plan and its Asset Management Program.

Resolution of issues also reduces budgets as shown below in FY 2010-11 (-3%), FY 2011-12 (-2%), and FY 2014-15 (-10%). Table K-1 displays the history of BAWSCA's Operating Budget, assessments, and year-end reserves.

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**Table K-1. Historical Annual Assessments, Budget, Reserve Balance, and Use of Reserves**

Fiscal year	Assessments	% Change	Budget	% Change	% of Budget Spent	Transfers from Reserve	Notes on Transfers from Reserve	Unspent Funds Transfer to Reserve	Year-End Reserve Balance	Reserve as a % of Budget	# of Full Time Authorized Staff	Major New/Increased Work Plan Focus
2003-2004	\$1,668,550	22%	\$1,821,350								6	Operated under BAWUA budget
2004-2005	\$1,641,995	-2%	\$1,838,490	0.94%	80.99%			\$240,000			6	1st BAWSCA Budget Est.
2005-2006	\$1,953,998	19%	\$2,099,975	14.22%	79.36%			\$414,000	\$240,000	11%	7	WSIP Oversight, 2009 WSA neg.
2006-2007	\$2,117,904	8%	\$2,291,904	9.14%	81.85%			\$428,474	\$654,000	29%	7	2009 WSA negotiations
2007-2008	\$2,117,904	0%	\$2,508,967	9.47%	89.54%	\$391,000	To fund budget	\$270,000	\$691,474	28%	7	2009 WSA Negotiations, WSIP PEIR
2008-2009	\$2,309,000	9%	\$2,763,196	10.13%	95.31%	\$349,000	To fund budget	\$149,718	\$507,474	18%	7	WSIP PEIR, 2009 WSA, develop WCIP
2009-2010	\$2,517,000	9%	\$2,766,945	0.14%	84.79%	\$250,000	To fund budget	\$409,965	\$407,192	15%	7	WCIP Yr. 1 implementation, 2009 WSA Admin Yr. 1, Transition from old Contract, WSIP legislation
						\$105,000	WCIP					
2010-2011	\$2,517,000	0%	\$2,680,394	-3.13%	83.26%	\$163,394	To fund budget	\$435,324	\$653,763	24%	7	WCIP Yr. 2, 2009 WSA (Strategy funded thru Water Mgmt. Charge)
2011-2012	\$2,517,000	0%	\$2,619,705	-2.26%	87.28%	\$172,190	Assessment refund	\$264,000	\$916,897	35%	7	WCIP Yr 3
2012-2013	\$2,517,000	0%	\$2,780,504	6.14%	93.53%	\$130,000	Pilot Transfer		\$985,897	35%	7	Bond investigation, Demand Projections, Pilot Water Transfer, 2009 WSA
						\$65,000	Demand Study					
2013-2014	\$2,516,812	0%	\$3,280,188	17.97%	93.24%	\$300,000	Demand Study		\$521,897	16%	8	1st year bond administration, funding one-time cost of OPEB, Regional Water Demand Projections, pilot water transfer, WSIP legislation, new water resources staff position authorized
						\$98,000	OPEB FY 13-14					
						\$66,000	Technical support					
2014-2015	\$2,642,653	5%	\$2,939,286	-10.39%	93.42%	\$296,436	To fund budget	\$198,781	\$225,461	8%	8	Net increase for OPEB, 10yr CIP oversight, increase legal support for Strategy, WSIP legislation
2015-2016	\$3,276,889	24%	\$3,201,679	8.93%	88.34%			\$453,246	\$776,620	24%	8	1st year Strategy implementation thru Operating Budget, 2014 Settlement Agmt.
								\$352,378 <sup>(1)</sup>				
2016-2017	\$3,440,734	5%	\$3,468,008	8.32%	84.60%	\$27,274	To fund budget	\$519,167	\$1,202,592	35%	8	RHH litigation, 2014 Settlement Agmt, 2018 decisions, WaterMAP
2017-2018	\$3,543,957	3%	\$3,704,572	6.82%	90.00%	\$160,615	To fund budget	\$253,892	\$1,561,144	42%	8	RHH litigation, Bay-Delta Plan, FERC
2018-2019	\$3,579,397	1%	\$4,228,585	14.14%		\$321,688	To fund budget		\$1,115,848 (estimated)	28%	8	RHH litigation, Bay-Delta Plan, FERC to participate in LVE Project and to fund Demand Study
						\$177,500	Los Vaqueros					
						\$150,000	Demand Study					

Footnotes

(1) Remaining unspent Strategy development funds transferred to General Reserve in 2015-16

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE MEETING**

**Agenda Title:**            **Review of Water Supply Agreement Balancing Account**

**Summary:**

This item provides information on the Balancing Account under the Water Supply Agreement, as requested by the Board at its meeting on March 21st. The attached report from Legal Counsel provides details on the history of, WSA provisions on, and the current administrative process of the Balancing Account.

**Fiscal Impact:**

None.

**Recommendation:**

**There is no action requested from the Committee. This item is for information and discussion purposes only.**

**Discussion:**

The attached report from legal counsel provides information on the background of the Balancing Account and BAWSCA's role in its administration as written in the WSA.

Attachment:

1. Memorandum from Allison Schutte on Review of Water Supply Agreement Balancing Account

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## Memorandum

**TO:** Board of Directors

**FROM:** Allison Schutte and Nicole Witt

**CC:** Nicole Sandkulla, CEO

**DATE:** April 5, 2019

**RE:** Review of Water Supply Agreement Balancing Account

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In response to your request at the March 21st Board meeting, included here is a report on the balancing account as described in the Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County, and Santa Clara County (WSA).

### **BACKGROUND AND BAWSCA'S ROLE**

At the end of each Fiscal Year, SFPUC computes the actual costs attributable to the Wholesale Customers (the Wholesale Revenue Requirement or WRR), based on actual costs to operate the Regional Water System and actual amounts of water used by the Wholesale and Retail Customers. If there is a difference between the WRR and the amounts billed to the Wholesale Customers, the difference, positive or negative, is posted to the Balancing Account.

Pursuant to Section 8.04 of the WSA, the Wholesale Customers delegated authority to BAWSCA to conduct the annual review of SFPUC's calculation of the Wholesale Revenue Requirement and the Balancing Account. Table 1 provides the annual financial impact to the Wholesale Customers resulting from BAWSCA's annual comprehensive review. Over the past 16 years, BAWSCA's reviews have resulted in a total of \$43.7 million in savings to the Wholesale Customers. The final year-end calculation of the Balancing Account is the end result of the comprehensive evaluation of the Wholesale Revenue Requirement.

The analysis of options and recommendation of uses for a long-term positive balance in the Balancing Account is consistent with BAWSCA's role in implementing the WSA and reviewing and evaluating the Wholesale Revenue Requirement. WSA Section 8.04 (c) provides that "unless otherwise explicitly stated, the administrative authority delegated to BAWSCA may be exercised by the General Manager/CEO of BAWSCA, rather than requiring action by the BAWSCA Board of Directors."

### **DISCUSSION**

#### **I. PROVISIONS OF THE WSA APPLICABLE TO THE BALANCING ACCOUNT**

The WSA addresses the Balancing Account in the following ways: 1) establishes the process for operating the Balancing Account and applying positive and negative amounts as part of the wholesale rate setting process, 2) provides for inclusion of the Balancing Account in

SFPUC's annual report on the Wholesale Revenue Requirement, 3) specifies what will be included in the Balancing Account calculation and what interest the Wholesale Customers are entitled to, and 4) authorizes audit and review of the Balancing Account.

Of particular relevance here, a positive balance in the Balancing Account must be taken into account by the SFPUC in establishing wholesale rates. The SFPUC need not apply the entire positive balance in the subsequent fiscal year, but may prorate it over three years to avoid fluctuations in the wholesale rates.

A positive balance that is maintained for three successive years and represents 10 percent or more of the Wholesale Revenue Requirement for the most recent fiscal year may be used for the Wholesale Customer's preferred application of the balance. Specifically, the WSA anticipated and specifies the following applications: (a) transfer to the Wholesale Revenue Coverage Reserve, (b) amortization of any remaining negative balance from the ending Balancing Account under the 1984 Agreement, (c) prepayment of the existing asset balance under Section 5.03, (d) water conservation or water supply projects administered by or through BAWSCA, (e) immediate reduction of wholesale rates, or (f) continued retention for future rate stabilization purposes. As a note, items (b) and (c) above are no longer applicable since: (b) the 1984 Balancing Account has been zeroed out and (c) the net book value of existing regional assets under the 1984 Agreement was paid off to San Francisco through the 2013 BAWSCA bond issue.

Item (f), "continued retention for future rate stabilization purposes," is effectively a credit to the Wholesales Customers. It forgoes an immediate reduction in the wholesale rates, which would otherwise be applied directly to the Wholesale Customers in the following fiscal year, in favor of long term rate stability. Most recently, at the Wholesale Customer Annual Meeting in February, the SFPUC CFO presented the projected five year rate estimate and included the following transfers from the Balancing Account for the next five Fiscal Years:

FY 2019-20	\$3.8 million
FY 2020-21	\$12.9 million
FY 2021-22	\$22.7 million
FY 2022-23	\$28.9 million
FY 2023-24	\$1.2 million

## **II. TRENDS IN THE AMOUNT OF THE BALANCING ACCOUNT OVER TIME**

Please see the attached Table 2 for the yearly ending balance in the Balancing Account compared to the annual Wholesale Revenue Requirement over time. The Balancing Account represents excess (or deficient) Wholesale Customer rate revenue received by SFPUC and is not segregated by Wholesale Customer. Neither BAWSCA nor SFPUC currently calculates the percentage of the Balancing Account that is theoretically attributable to each Wholesale Customer.

## **III. INTEGRATION OF POSITIVE BALANCING ACCOUNT AMOUNTS WITH THE WHOLESALE RATE SETTING PROCESS (SECTION 6.05.B.2.A)**

Historically, the Balancing Account has been used for rate stabilization. To our knowledge, BAWSCA has never entered into an agreement with SFPUC regarding an excess positive Balancing Account amount. The current proposal regarding use of excess funds to

fund the FY 2019-20 Operating Budget is the first such occasion. In 2018, the SFPUC consulted with BAWSCA regarding the potential options regarding the Balancing Account given the positive balance owing to the BAWSCA agencies. After receiving input from the Member Agencies through their Water Management Representatives, BAWSCA suggested that the SFPUC retain the positive balance for use in forestalling future rate increases.

The current level of the Balancing Account is \$62.1 million. BAWSCA staff is proposing to transfer \$805,000 from the Balancing Account to BAWSCA in FY 2019-20 to fund specific water supply projects to meet the water supply reliability needs of its Member Agencies. The CEO is also consulting with and receiving input from the Member Agencies through their Water Management Representatives.

The Balancing Account serves a critical rate stabilization role and BAWSCA has never formally directed the transfer of excess balancing account funds. The 1984 Agreement required the Balancing Account to be zeroed out at the end of every fiscal year, which caused substantial rate fluctuations that were difficult for the agencies to manage. Furthermore, in the event the Wholesale Revenue Coverage Reserve is less than the total Water Enterprise and Hetch Hetchy Enterprise working capital requirement, SFPUC will take the deficiency from the Balancing Account. If there are insufficient funds in the Balancing Account to meet this need, the Wholesale Customers may face a rate shock in the subsequent fiscal year.

#### **IV. GENERAL RESERVE AND OTHER WATER SUPPLY PROJECT FUNDING MECHANISMS**

BAWSCA's 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. Within the General Reserve, the Board of Directors created a Long-Term Planning Fund to permit the agency to transfer surplus funds in excess of the maximum reserve balance of 35% of the annual operating expenses for specific long-term projects. The Board reviews and evaluates the General Reserve balance and any refunds to member agencies during the mid-year review process. In FY 2018-19, the Board authorized the use of \$649,188 from the General Reserve. As of January 1, 2019, the General Reserve balance is within the budgetary guideline at 28% of the FY 2018-19 Operating Budget. The Long-Term Planning Fund currently has a \$0 balance due to recent expenditures for the Demand Study and Los Vaqueros Expansion Projects approved by the Board.

The WSA provides another potential funding mechanism at the direction of BAWSCA. Under WSA Section 3.06.A, BAWSCA may direct SFPUC to include a Water Management Charge on the Wholesale Customer's bills for the purpose of water conservation programs and developing alternative supplies within the Wholesale Customer's service areas. This serves as another mechanism for funding projects. BAWSCA has used the Water Management Charge only once, in 2010, to fund the development of the Long-Term Reliable Water Supply Strategy.

Please contact Nicole Sandkulla (650) 349-3000 or Allison Schutte (415) 995-5823 if you have any additional questions.

**Table 1. Savings to Wholesale Customers Resulting from BAWSCA's Annual Wholesale Revenue Requirement Review**

Fiscal Year	Savings to Wholesale Customers
2001-02	\$698,095
2002-03	\$1,568,857
2003-04	\$476,825
2004-05	\$5,726,908
2005-06	\$1,229,604
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2008-09	\$461,670
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2010-11	\$893,914
2011-12	\$5,352,720
2012-13	\$739,965
2013-14	\$102,952
2014-15	\$11,903,057
2015-16	\$6,266,980
2016-17	\$3,989,471
<b>Total</b>	<b>\$43,681,618</b>

**Table 2. Balancing Account Year End Balance vs. Annual Wholesale Revenue Requirement**

Fiscal Year	Ending Balance of Balancing Account	Annual Wholesale Revenue Requirement
2001-02	\$9,354,685	\$75,812,199
2002-03	\$2,880,837	\$82,301,597
2003-04	\$11,895,158	\$92,804,851
2004-05	\$7,272,068	\$99,930,037
2005-06	(\$8,964,718)	\$101,822,169
2006-07	(\$12,881,853)	\$110,902,794
2007-08	(\$20,625,889)	\$118,672,955
2008-09	(\$21,860,867)	\$123,388,788
2009-10	(\$15,194,740)	\$131,367,056
2010-11	(\$26,313,110)	\$137,655,168
2011-12	(\$7,823,759)	\$160,529,498
2012-13	\$27,349,579	\$172,405,401
2013-14	\$27,033,814	\$179,693,746
2014-15	\$27,253,857	\$195,098,156
2015-16	\$15,712,070	\$214,208,639
2016-17	\$40,417,740	\$209,059,370
2017-18	\$62,099,673	\$240,189,973

Data Source: Audited Statement of Changes in the Balancing Account, except FY 2017-18 data from the pre-audited statement

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# **BAWSCA**

**Bay Area Water Supply & Conservation Agency**

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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:** April 5, 2019  
**SUBJECT:** Chief Executive Officer/General Manager’s Letter

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### Status of FY 2015-16 & FY 2016-17 Wholesale Revenue Requirement Reviews:

On March 29, 2019, BAWSCA reached an agreement with the SFPUC related to the costs allocated to Wholesale Customers in FY 2016-17, except for two issues. The two issues are included in a tolling agreement with a deadline of June 30, 2019 for the parties to reach an agreement or for the wholesale customers to file a demand for arbitration on any unsolved issues for FY 2016-17.

On the same day, the parties extended the deadline of the FY 2015-16 tolling agreement to June 30, 2019 through a tolling agreement amendment.

BAWSCA will report the results of the final settlement for both FY 2015-16 and FY 2016-17 to the Board after the issues are resolved.

### Minimum Purchase:

BAWSCA has held monthly discussions with member agency Water Management Representatives (WMRs) to gauge their interest in a possible Water Supply Agreement (WSA) amendment that would allow for a “linked” transfer of an agency’s Individual Supply Guarantee and like amount of minimum purchase requirement between two or more member agencies. BAWSCA has also had one on one conversations with several member agencies. Feedback BAWSCA has received to date indicates there is interest from the four agencies with minimum purchase requirements (ACWD, Milpitas, Mountain View and Sunnyvale) to see a WSA amendment on the topic. Further, there was willingness on the part of the remaining agencies to consider an amendment, yet they’ve indicated that they need to be very sensitive to any possible cost impact on their ratepayers.

BAWSCA is meeting regularly with SFPUC to further advance a potential amendment. SFPUC desires such an amendment, to remove a potential barrier to water transfers among the member agencies, something SFPUC wants to encourage. As a proposal is drafted, it will be shared with the WMRs and in particular with the four minimum purchase agencies.

### Advanced Metering Infrastructure (AMI) Assessment and Workshop:

An AMI Workshop was held on March 27th in Palo Alto hosted by BAWSCA and Santa Clara Valley Water District (Valley Water). Approximately 70 attendees from BAWSCA and Valley Water member agencies attended. Topics included 9 case studies on member agency lessons

learned (from AMI implementation) and sharing of a sample request for proposals (RFP) from AMI vendors. In addition, results of a member agency survey of the BAWSCA and Valley Water agencies on the topic of AMI was shared. The meeting closed with a roundtable discussion on opportunities for regional collaboration on AMI implementation.

Key findings of the workshop were that: 1) Information sharing among agencies on the topic of AMI is desired; 2) Attendees see the potential to coordinate small groups of agencies in similar stages of AMI implementation for group procurement; 3) Agencies should leverage their “collective voice” to seek changes from AMI vendors (to better assure interoperability, reporting records consistency, etc.); and 4) Agencies should explore opportunities to expand uses of AMI data beyond conservation for additional value to agencies.

**Pilot Water Transfer Plan – Update:**

BAWSCA continues to make progress on completing the necessary agreements for the pilot water transfer. BAWSCA’s agreement to purchase water from Amador Water Agency is in final negotiations and near complete. BAWSCA has met individually with the City of Hayward, SFPUC and East Bay Municipal Utility District staff to make progress on development of the other necessary agreements. Agreements are anticipated to be finalized in early summer 2019. The pilot water transfer is scheduled to coincide with a planned shutdown of SFPUC’s Hetch Hetchy system during November 2019 or February-March 2020. The current schedule anticipates Board consideration of execution of certain agreements related to the pilot water transfer in July 2019.

**Bay Area Regional Reliability (BARR) Partnership:**

As noted in the February 2019 Board Policy Committee CEO letter, the BARR effort continues to move forward into a subsequent stage, specifically the development of a Water Marketing Strategy. The Water Marketing Strategy effort is funded in part by remaining monies from prior agency contributions coupled with a \$400,000 grant from the U.S. Department of Interior, Bureau of Reclamations (Bureau).

EBMUD, acting on behalf of the BARR partners, prepared an updated Memorandum of Agreement (MOA) to cover this Water Marketing Strategy work. BAWSCA and the other partner agencies have now signed the MOA and EBMUD, on behalf of the partners, will begin a consultant selection process. That consultant will be used to host discussions regarding water supply as well as to assist in report preparation.

Partner agencies have discussed whether the proposed BAWSCA pilot water transfer will be one of several transfers incorporated into this BARR work effort. BAWSCA is working to determine the benefits and drawbacks of incorporating its pilot transfer into BARR. The discussion has been placed on hold until the consultant selection process is complete.

# Board Policy Committee Policy Calendar Through June 2019

Meeting Date	Purpose	Issue or Topic
April 2019	D&A	Consideration of Proposed FY 2019-20 Work Plan and Budget
	D&A	Consideration of Annual Consultant Contracts
	R	Review of Water Supply Forecast
June 2019	D&A	Discussion and possible action on CEO Performance Evaluation Procedure
	D&A	Review of Agency Personnel Handbook
	D&A	Consideration of Execution of Certain Agreements Related to BAWSCA's Pilot Water Transfer
	R	Update on BAWSCA's Regional Water Supply Modeling Tool Development
	R	Review of Water Supply Forecast