

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING**

**Foster City Community Building – 1000 E. Hillsdale Blvd., Foster City
Wind Room**

(Directions on Page 2)

Thursday, July 19, 2012

7:00 P.M.

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page</u>
1. Call to Order/Roll Call/Salute to Flag	(Pierce)	
2. Comments by the Chair	(Pierce)	
3. Break for San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting	(Pierce)	
4. Reconvene following San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting	(Pierce)	
5. Board Policy Committee Report <i>(Attachment)</i>	(Klein)	<i>Pg 3</i>
6. Public Comments <i>Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Pierce)	
7. Consent Calendar	(Pierce)	
A. Approve Minutes of the May 17, 2012 Meeting <i>(Attachment)</i>		<i>Pg 15</i>
B. Receive and File Budget Status Report – As of May 31, 2012 <i>(Attachment)</i>		<i>Pg 19</i>
C. Receive and File Investment Report – As of June 30, 2012 <i>(Attachment)</i>		<i>Pg 21</i>
D. Receive and File Directors’ Reimbursement Report – As of June 30, 2012 <i>(Attachment)</i>		<i>Pg 23</i>
E. Adoption of Personnel Handbook Amendments <i>(Attachment)</i> <i>The Board Policy Committee unanimously recommends approval of the proposed Board action</i>		<i>Pg 25</i>
F. Approval of Professional Services Contract with Brown & Caldwell to Support the Implementation of the BAWSCA Water Conservation Database for FY 2012-13 <i>(Attachment)</i> <i>The Board Policy Committee unanimously recommends approval of the proposed Board action.</i>		<i>Pg 27</i>
8. Special Report	(Jensen)	
A. Hetch Hetchy Reservoir – Protecting the Water Users <i>(Attachment)</i>		<i>Pg 31</i>
B. SFPUC 2mgd Water Transfer with Modesto Irrigation District <i>(Attachment)</i>		<i>Pg 43</i>
C. Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC <i>(Attachment)</i>		<i>Pg 53</i>

9. Action Calendar

- A. Authorization to Amend the Contract with Orrick, Herrington & Sutcliffe, LLP (*Attachment*) (Jensen) Pg 59
The Board Policy Committee unanimously recommends approval of the proposed Board action.
- B. Authorization to Appoint Goldman Sachs and De La Rosa & Co. (Jensen) Pg 63
as Underwriters for the Potential Bond Issuance.
The Board Policy Committee unanimously supported the issuance of an RFP for a Bond Underwriter. The Committee was informed that the selection process will take place after the June 13th BPC meeting and that the recommendation will go directly to the Board in July.

10. SFPUC Report (Harrington/Moran)

11. Study Session: Long-Term Reliable Water Supply Strategy and the Phase II A Report (*Attachment*) (Jensen/Sandkulla) Pg 79

Issue: What are the findings, conclusions, and recommendations of the technical evaluation as presented in the Report, and what input does the Board have on the farming of policy issues that relate to the completion and implementation of the Strategy?

Information to the Board: Staff memo and oral presentation.

Action requested from the Board: Review of the Executive Summary, and questions and input on the information presented in the study session.

12. Directors' Discussion: Comments, Questions and Agenda Requests (Pierce)

13. Date, Time and Location of Future Meetings (Pierce) Pg 81 (See attached schedule of meetings)

14. Adjourn to next meeting scheduled for September 20, 2012 at 7pm (Pierce)

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

Directions to Foster City Community Bldg. – 1000 E. Hillsdale Blvd., Foster City

From Hwy. 101, take the Hillsdale Ave. exit East. Turn Right into the parking lot just after the intersection with Shell Blvd. The Community Bldg. entrance is separate from the Library entrance and is marked by signage. The Wind Room will be at the top of the stairs on the right, across from the reception station (there is also an elevator).

From the East Bay, take Hwy. 92 West, exiting at Foster City Blvd., and going South on Foster City Blvd. to Hillsdale. Turn Right (West) onto Hillsdale and proceed to Shell Blvd., making a U-turn to be able to pull into parking lot on SE corner of Hillsdale and Shell. See underlined sentence of first paragraph above for remainder of directions.

BAWSCA

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MEMORANDUM

TO: BAWSCA Board Members

FROM: Arthur R. Jensen, Chief Executive Officer

DATE: July 19, 2012

SUBJECT: Summary of Board Policy Committee meeting held June 13, 2012

Committee Chair Larry Klein called the meeting to order at 1:30 pm. A list of Committee members present (9) and absent (1), and of other attendees is attached.

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

Public Comments: Spreck Rosekrans addressed the Committee on behalf of Restore Hetch Hetchy (RHH). He regrets that representatives from RHH were not able to attend BAWSCA's Board meeting on May 17th when Mr. Jensen presented BAWSCA's statement on the proposal to restore Hetch Hetchy and the upcoming vote in San Francisco. Mr. Rosekrans stated that RHH agrees with BAWSCA's statement about the need for alternative water storage and high-quality water, legally enforceable agreements, and having fully operating facilities in place before restoration begins. Furthermore, RHH agrees that voters outside San Francisco should have the same rights as voters in San Francisco. RHH will work with BAWSCA to make this happen.

Mr. Rosekrans noted that RHH also agrees that efforts to restore Hetch Hetchy should not cause delays on the Water System Improvement Program (WSIP). He emphasized his support for water supply reliability when he personally helped convince an environmental group 10 years ago, not to oppose a 2nd Irvington Tunnel as part of the WSIP.

Consent Calendar: Director McLeod thanked staff for the information they provided on the amendments to the personnel handbook, and for incorporating the suggestions she made.

Approval of the Minutes from the April 11, 2012 Meeting: Director O'Connell made a motion, seconded by Director McLeod, that the minutes from the meeting of April 11, 2012, and the revisions to the Personnel Handbook be approved. The motion carried unanimously.

Special Report:

Potential Bond Issuance to Prepay Debt Owed to SFPUC: Legal Counsel, Allison Schutte, and Financial Consultant, David Brodsky of KNN, reported on the status of the feasibility study to issue bonds to prepay debt owed to San Francisco. Ms. Schutte reported that the team has identi-

fied a potential structure that will allow most of the bonds to be tax exempt, which will support the objective for issuing the bonds: to save member agencies money. It is likely that the bonds will be secured by member surcharges which will be applied to water sales and collected by San Francisco with water bills. The hope is to develop a payment structure that will be seamless to the customers and individual agencies.

The intention is that the surcharge would pay debt service on the bonds to payback the existing capital asset balance that is owed to San Francisco, but also to fund the general reserve to 1) make sure that, in general, the bonds have the best credit rating possible, and 2) to have adequate reserves to manage the fluctuation in water sales.

The team believes that each agency should adopt resolutions in the Fall acknowledging that it will be participating in the bond issuance and directing staff to help facilitate the final certifications that are needed. No amendments are expected for the Water Supply Agreement or to the individual agency agreements with San Francisco.

Ms. Schutte stated that a comprehensive feasibility analysis will be provided to the Board in September, and a confirmation of whether adoption of a resolution by individual member agencies is necessary. If so, staff will provide member agencies a resolution template, sample staff memos, and meeting opportunities with the Water Management Representatives and member agency staff to ensure all interested parties have all the information needed for action by each agency's council or governing body.

Also in the Fall, BAWSCA will negotiate a contract with San Francisco to outline its collection agent responsibilities and to outline how the money will be managed.

As stated in the staff memo included in the agenda packet, Ms. Schutte noted that the bonds can be issued through a negotiated sale or a competitive sale. The team has come to a conclusion that having an underwriter on board early in the process to assist with structuring and marketing the bonds would be advantageous for BAWSCA.

David Brodsky from KNN explained that the basic role of an underwriter is to purchase bonds in bulk from a public agency and sell them to individual and institutional investors. This is true for both negotiated and competitive sales. He stated that bond issues are comprised of a series of loans that vary in lifespan of 2, 3, 5 years, up to 30 years. It is the underwriter that distributes the loans among the investors.

Underwriting implies a level of risk taking as the underwriter buys the bonds at a given price and then takes the risk of selling the bonds at a value that will provide an anticipated return.

For a negotiated bond sale, the underwriter becomes involved early on to help structure the deal. In the public sector, because of the public policy preference for competitive procurement, there is a developed competitive market where underwriters provide sealed bids and contracts are awarded to the lowest bidder.

Ms. Schutte stated that BAWSCA is a brand new bond issuer, and is not a typical water utility that sells water and has assets. BAWSCA has a story to be told and an underwriter can help frame its story, as well as structure and secure the package so that it is as desirable as possible in the marketplace.

Ms. Schutte stated that with the Committee's support, BAWSCA will issue a RFP and complete a competitive selection process to select the underwriter that best fits BAWSCA's needs. A recommendation for the underwriter will be presented to the BAWSCA Board for action at its July meeting.

In response to Director Weed's inquiry for clarification regarding pricing for the underwriter, Mr. Brodsky explained that the underwriter's "take down" (or profit) is the difference between what was paid for the bonds and the sale price of the bonds. KNN's RFP asks for that information on a maturity basis as part of the proposal. KNN does not recommend selection of the underwriter simply on the basis of lowest take down because it is a small element of the cost of funds, and if it is too thin, the underwriters will have very little incentive to take risks.

KNN's recommendation is to pay a market take down so underwriters are properly induced to take risks. The market has a band and the most effective way to determine the cost for the underwriter is through the proposal process. During the process, BAWSCA will have the knowledge of what the array of proposers are offering. Mr. Brodsky explained that, in a negotiated sale, take downs can change from the time the agency appoints the underwriters to when the parties enter into the bond purchase contract.

A second element in the price of the bonds is the interest rate. Interest rates are a significant driver of the cost of funds. The RFP asks proposers to provide what they think the common market data index would be. While this is not definite, it provides a basis from where to start the negotiations as well as a basis to hold the underwriters accountable.

Mr. Brodsky explained the difference between negotiated sales and competitive sales. Well known bond issuers with a structure that is known and is typical in a market tend to do better in competitive sales. These issuers benefit from a transparent process, and rely on input from a financial analyst as opposed to input from an underwriter. The sale process involves receiving bids and awarding contracts, and can have less flexibility in the bond structure and documentation on the day of the sale.

A negotiated sale is typical for a "story" bond, which are bonds that have to be explained to the market. BAWSCA's bond issuance is a classic "story" bond because BAWSCA is a special kind of agency with a special kind of role. The bonds will have special features that are atypical but are needed to ensure a marketable structure. The underwriter will take on the role of assisting in structuring the bonds, as well as talking with investors and pricing the bonds weeks before sale.

Mr. Brodsky stated that the underwriter joins the financing team in a negotiated sale, and noted that BAWSCA's bond issuance, as complex and atypical as it is, would be best served as a negotiated sale and can benefit from the underwriter's early involvement in structuring the credit.

Director McLeod asked that with water being so basic, wouldn't investors understand BAWSCA as a credit despite the bond issue's structural complexity?

Mr. Brodsky stated that BAWSCA's bonds will certainly get bids if they were sold in a competitive sale. Ms. Schutte added that the uncertainty could potentially result in a higher interest rate.

Director McLeod asked if there is potential for increased rates if some of the unknowns in the bond issuance kick in. Mr. Brodsky reiterated that the fundamental purpose for issuing the bonds

is to replace a 5.13% obligation for something that is lower rate. There would be no reason to move forward if there proves to be no savings to issue bonds.

Director Klein noted that it should be stated that if the interest rate is more than a certain percentage, the issuer can cancel the transaction. Mr. Brodsky stated that the member agencies' approval for participation will include parameters, including an interest rate cap.

Director McLeod noted that some agencies have interruptible supplies and asked if those agencies will be held responsible even after their supplies were interrupted. Mr. Brodsky explained that the expectation for accountability is just like in the current Water Supply Agreement, agencies pay their share based on the amount of water the agency purchases. If an agency cannot purchase water, then that agency will not be obligated to pay. The bond is not intended to be a form of indebtedness to the member agencies. Instead, it is intended that a part of each agency's current water payment will be put towards securitization.

In response to Director Weed's question about how this may appear on financial statements, Mr. Brodsky explained that agency financial statements, such as ACWD's, can have a note disclosure relative to the existence of the obligation. The obligation would not be viewed as indebtedness, but instead, as an operating expense. It should not affect ACWD's bonding as it would lower its operating cost and increase revenues. It will provide ACWD a little more bonding capacity and should not have any negative balance sheet or credit implications.

Mr. Brodsky acknowledged that the issue of accounting management is of concern and will be included in the feasibility assessment report for the Board. He offered to talk with ACWD's financial staff, and will survey the member agencies' financial statements to speak to their concerns when the feasibility study is presented to the Board in the Fall.

In response to Director Guzzetta, Mr. Brodsky stated that the principal amount is about \$370M with an approximate 10% present value of savings.

Director Breault stated that when the item is presented to the full Board or shortly thereafter, the practical question from each agency would be what does the \$370M over the course of 25 years mean to each agency. He asked if two probable bands of interest rates could be compared and contrasted so that agencies will know its impact on a yearly basis. The information would be helpful to have by the time agencies start paying.

Director Klein requested to have this information at the July Board meeting. Mr. Brodsky stated that he can provide an agency by agency analysis.

Director Breault asked Mr. Brodsky to go through the difference in what BAWSCA is getting in a competitive sale versus a negotiated sale.

Mr. Brodsky explained that in a negotiated sale, the investment bankers participate in the structuring of the bonds. If retained early in the process, an underwriter can provide countless hours of analysis and research efforts on the structure and marketability of the bonds.

Mr. Brodsky stated that it is not always clear whether there is an additional fee to the client for the underwriters' in-depth analysis, but because the underwriters' efforts provide certainty for selling the bonds, it serves as an exchange for their banking energy.

Additionally, in a negotiated sale, the underwriter and the finance team will analyze the market before the bond sale. They reach an agreement on a reasonable scale to go out in the market. When the bonds go on sale, the underwriter and financial advisors review the order book to see how strong or weak the orders are, and make appropriate adjustments. The bond sale is very much the market price, and KNN makes sure that the process is properly managed.

In a competitive sale, bonds go out for sale, bids are received, a list of different interest rates are calculated to get the net interest cost, and the sale is awarded the lowest bid. A benefit of competitive sale in a good situation is that sometimes sales can go through the market and get a lower interest rate than the market price.

Director Weed asked if BAWSCA would be eligible to issue all tax exempt bonds under the proposed structure. Mr. Brodsky stated that the goal is to maximize tax exemption. There will be two series of bonds under the same resolution to address Cal Water and Stanford's tax status.

Director McLeod wanted to verify whether participation in the bonds will complicate City finances in anyway.

Ms. Schutte stated that there is no expected complication. It is anticipated that the charges will be tied with the charges that agencies pay for water from San Francisco and will be collected by San Francisco with the water bills. Each bill will have two line items, and the totality of the bill should be less than what it would be under the current scenario.

Director Guzzetta stated that the current debt charges already exist for the agencies. The bond issuance will just put the debt at a lower interest rate.

In response to Director Weed's question, Ms. Schutte stated that issuance of bonds require a two-thirds vote of the Board members present and voting and 51% under the weighted voting provisions. BAWSCA has the traditional revenue bond authorities in its enabling legislation.

Ms. Schutte noted that part of the feasibility analysis is to investigate how to address a less than 100% participation among the agencies. What is expected is that agencies who choose not to participate will continue to pay the debt at the existing interest rate and will not benefit from the savings.

Director Weed asked if the tax exempt surrogate established under in San Mateo County for Cal Water under the RFA has been considered as one of the options to address the tax issues?

Ms. Schutte explained that this information is being investigated as part of the feasibility study that will be presented to the Board in the Fall. This is the same issue San Francisco deals with for its WSIP bonds and it has chosen to issue taxable commercial paper for the portion of the system that serves Cal Water. Some agencies are able to front load the taxable bonds so they get paid quickly, and so that higher interest rates are paid first compared to the lower tax exempt rates. However, Mr. Brodsky noted that there can be challenges to using that structure in BAWSCA's case.

Mr. Brodsky noted that even selling tax exempt bonds to prepay a contract was a challenging tax fact, and the fact that Bond Counsel was able to come up with an approach to overcome that hurdle is a plus.

Ms. Schutte reported on the status of AB 2167 and stated that the bill provides details and clarifies that BAWSCA can issue bonds to pay off existing capital assets, impose rates and charges not just for debt service but also to fund reserves and to comply with any financial covenants that are needed for this issue. The legislation also states that, if requested by BAWSCA, San Francisco will collect rates and charges and remit payments to BAWSCA. The legislation also authorizes BAWSCA to distribute excess funds that are not needed to comply with the covenants.

In response to Director McLeod's question, Ms. Schutte explained that, in general, the legislation specifically addresses the bond issuance. But, it also provides the mechanism and infrastructure for a whole variety of projects that BAWSCA might consider in the future, given the BAWSCA Board's authorization.

Ms. Schutte reported that the next steps are to issue a RFP for underwriters in June, with the Committee's recommendation. Board action will be requested in July to approve 1) an appointment of an underwriter, and 2) approve Phase 2 of the contract with Bond Counsel for an additional \$15,000 to complete the feasibility analysis. It is hoped that the Governor will sign AB 2167 in the Fall. In September, the feasibility analysis will be presented to the Board for a full discussion, and the Board can act to approve an engagement with Bond Counsel for Phase 3. Phase 3 would involve the preparation of bond documents. The engagement with the Bond Counsel for Phase 3 will be a contingency engagement which means that Counsel will be paid only after the successful closing of the bond transaction.

Final Board approval of the bond issuance and related documents will be in November. The bond may only be issued if approved by a two-thirds vote of the Board members present and voting, which also represents at least 51% of the votes cast pursuant to weighted voting (Water Code Section 81405).

BAWSCA Board Chair Barbara Pierce joined the meeting by teleconference at 2:22pm.

In response to Director Weed's question, Ms. Sandkulla stated that the selection process for the underwriter would likely follow BAWSCA's typical selection process for professional services. It involves a panel comprised of the CEO/General Manager, Legal and other Technical Counsel, the appropriate staff member, and, possibly experts from either member agencies or outside agencies who have additional knowledge about the professional services being sought.

Director Breault commented on legal counsel's clarity in getting 100% participation among the agencies. Ms. Schutte stated that the feasibility study is looking at potential scenarios of participation and the study will also address the possibility of partial participation. The transaction could be structured so that non-participants will continue to pay based on the 5.13% interest rate as opposed to the lower interest rate, and non-participants would not participate in the savings.

Director Breault noted the challenge of figuring out the amount of payments for non-participants. Mr. Brodsky stated that it is possible an allocation of principal on some rational basis would have to be done.

Ms. Sandkulla stated that the issues raised by the Committee are part of the feasibility analysis which BAWSCA is working on diligently with KNN, Bond Counsel, and the selected underwriter. BAWSCA will continue to work with the team of professional service consultants to study a full range of possibilities and parameters that will determine the value of moving forward with the issuance of the bonds.

Director Weed confirmed that the intention is a prepayment of the full debt amount in one lump sum. Ms. Schutte stated that while there are multiple structures possible, that is the structure being pursued.

Although the item was listed as an item for discussion on the agenda, Director Klein recommended that the committee take a vote to recommend the issuance of a RFP for an underwriter. Chair Klein made a motion, seconded by Director O'Connell and unanimously carried by a roll call vote of the Committee.

Director McLeod requested that the minutes of the Committee discussions on the bond issuance be inclusive of all the questions and issues raised in the meeting.

Action Items:

- A. Authorization to Amend the contract with Orrick: Ms. Schutte reported that as previously discussed with the BPC and Board, a RFP for Bond Counsel was issued in March. Orrick was selected among three other very qualified law firms. The contract was executed under the CEO/General Manager's procurement authority to begin Phase 1 of the engagement, which included Bond Counsel review of AB 2167, which was very time-sensitive.

This contract amendment is for an additional \$15,000 to initiate Phase 2 of the Bond Counsel engagement and complete the feasibility analysis.

Ms. Schutte explained that if the Board chooses to move forward with the issuance of the bonds, staff will come back to the Board for approval of Phase 3 of the Bond Counsel contract, which is a contingency arrangement.

In response to Director Breault's question, Ms. Schutte stated that Phase 1 was funded by contingency funds for FY 2011-12, and Phase 2 and 3 were included in the Board approved operating budget for FY 2012-13.

Director McLeod made a motion, seconded by Director O'Connell to recommend Board authorization of the CEO/General Manager to amend the contract between BAWSCA and Orrick by increasing the not-to-exceed amount by \$15,000 subject to legal counsel's review. The motion carried unanimously by a roll call vote.

- B. Professional Services Contract with Brown & Caldwell to Support the Implementation of the BAWSCA Water Conservation Database for FY 2012-13: Ms. Sandkulla explained that BAWSCA has been working with Brown and Caldwell (B&C) since the development of the Water Conservation Data Base (WCDB) in FY09-10. BAWSCA has continued to work with B&C to maintain development of the database and troubleshoot problems that occur during the course of the year.

The proposed contract before the Committee is to continue the troubleshooting efforts on the existing data, as well as on the outputs for some reports. The WCDB is now being used to semi-automate the development process of the Annual Survey and is the primary location of conservation data for BAWSCA and its member agencies.

BAWSCA has reduced its reliance with B&C since 2010-11. This value is expected to decrease for the subsequent fiscal year. The proposed \$50,000 contract is included in the ap-

proved operating budget and is focused on technical assistance for the utilization of the WCDB.

Director McLeod asked whether cyber security issues have been factored in already, and whether BAWSCA owns the data. Ms. Sandkulla confirmed that the database is BAWSCA's product. The database is hosted by the City of Redwood City and uses the same system as the City's Internal Security database.

Director Breault made a motion, seconded by Director O'Connell, to recommend Board authorization of the CEO/General Manager to negotiate and execute a contract with B&C for up to \$50,000 to provide as needed technical support services for the implementation of the WCDB in FY 2012-13. The motion carried unanimously by a roll call vote.

Reports:

- A. Long-Term Reliable Water Supply Strategy: Ms. Sandkulla provided an update on the Strategy and an introduction of the study session for the July Board meeting.

She restated that the objective of the Strategy is to determine how much water is needed in normal and dry years, and to develop solutions and specific water supply management projects that could be implemented.

The development of the Strategy in phases assists staff to confirm the direction of efforts at key times, so that adjustments can be made, if necessary. Ms. Sandkulla reported that the progress of the phases is consistent with the schedule.

Phase 1 of the study was completed in 2010 and provided the problems that needed to be looked at, and the realm of things that the Board and member agencies wanted to investigate. The Phase IIA scoping report is nearing completion and will be presented at the July Board meeting.

Phase IIA identified the problem of how much, when and where additional water will be needed in normal and dry years. Economic and other impacts were examined in the event the water need was not met. The number of potential solutions were narrowed down from 65 to a handful of projects, and for those potential solutions, project information were developed for comparison and identification of the merits for each project.

BAWSCA worked with the SFPUC in examining the impacts of drought and reviewing the analysis of the frequency and magnitude of shortages on SFPUC supply. BAWSCA is currently working with San Francisco in updating the economic impacts of drought.

There will be specific recommendations provided in July that will anticipate Board actions for September.

Ms. Sandkulla reported that current progress on the Strategy is on schedule. She noted the schedule extension approved by the Board in March was done to address both internal staffing resource constraints as well as demand projection information from each agency that were significantly changing and needed to be waited on.

Ms. Sandkulla reported that the element of studying the economic impact during drought will be deferred to after September 2012. Ms. Sandkulla explained that BAWSCA initially intended to do an independent study, however when San Francisco decided to engage in similar efforts for the FERC re-licensing process, BAWSCA decided to join that initial effort with SFPUC. It made sense for BAWSCA to join San Francisco's efforts to avoid competing experts, understand San Francisco's perspectives, as well as have the flexibility to add to the study, if needed. The results from San Francisco's study are expected after September 2012.

The significant change in water consumption led to adjustments in the Strategy's scope to reflect the changed conditions in water supply needs and the solutions to meet the needs.

Ms. Sandkulla reported that the study is progressing within budget. It is projected that 60% of the \$2.1M budget would be expended in the completion of Phase IIA in September, and that there are sufficient funds to complete the deferred scope for completion of the Strategy by December 2014.

Ms. Sandkulla stated that the purpose of the study session is to thoroughly review with the Board, the findings, conclusions, and recommendations of the technical evaluation. The desired response from the Board is input on framing the policy questions and issues for potential action in September.

Policy issues for completing and implementing the Strategy include consideration of BAWSCA's possible role in meeting the normal year needs of a subset of agencies, and under what conditions might non-beneficiaries be willing to share the costs of projects. BAWSCA will be meeting with individual member agencies to obtain the information needed for a valuable policy discussion by the Board in September.

Ms. Sandkulla noted that the issue of the region's drought reliability would not be ready for policy discussion and decision until after the economic impact of drought analysis has been completed.

In response to Director O'Connell's question, Ms. Sandkulla explained that agencies would want to weigh their investment cost against the benefit of increasing reliability during drought, and therefore, policy discussion on this issue will have to wait until more information is available.

Director McLeod asked whether the assessments for future water supply needs include agencies with interruptible supplies, and whether it would make sense to look at the possibility for a larger multi-county, multi-agency, multi-jurisdictional regional planning effort.

Ms. Sandkulla confirmed that the assessments done to date as part of the Strategy include the two agencies with interruptible supplies. She also explained that a difficulty in coordinating a regional planning effort similar to the Association of Bay Area Government (ABAG) where BAWSCA would be one of the participating agencies working towards a regional goal, is identifying the link for everyone else to want to participate in such an effort. In most cases, participation is driven by access to funds or other direct benefits that agencies can't otherwise get.

In working with other agencies, Ms. Sandkulla reported that BAWSCA has met several times with representatives from Santa Clara Valley Water District (SCVWD) to review the respective planning processes. For example, since some of the agencies that have an identified need for normal year supply are in Santa Clara County, BAWSCA and SCVWD have discussed each other's plans for meeting those water supply needs. In addition, Ms. Sandkulla plans to meet with individual agencies that have the supply needs, to share the information BAWSCA has, and to find out what actions or assistance these individual agencies would like from BAWSCA as part of the Strategy.

Ms. Sandkulla added that although there are no overlapping jurisdictions between BAWSCA and East Bay Municipal Utility District (EBMUD), BAWSCA is having active discussions with them about the Strategy and specifically, a potential water transfer that would use their existing water system and the existing system intertie.

The Board Policy Committee meeting in August will have a full discussion of the policy issues and recommendations for the Board's consideration in September. Information on what is learned from the individual agency meetings will be presented, as well as alternatives, advantages and disadvantages of the recommended policies.

The committee is asked to provide input on what additional information would be helpful to the Board during the study session in July.

Director Pierce asked if recycled water is included in the drought reliability assessment. Ms. Sandkulla stated that four recycled water projects, including Redwood City's, is included in the Strategy evaluation.

There were no further questions or comments from the Committee.

- B. Water System Improvement Program: Ms. Sandkulla reported that the SFPUC adopted the recommended changes to the WSIP at its meeting on June 12th. The changes were schedule extensions for 3 projects, and the hearing for the changes was noticed 30-days ago in compliance with AB 1823.

BAWSCA submitted a comment letter that recommended adoption of the changes, as well as to disclose the cost impacts of the changes as part of the item presented to the Commission.

- C. July Board Meeting scheduled with RFA Meeting: Ms. Sandkulla reminded the Committee that the July Board meeting will be preceded by the RFA meeting. The meeting will adopt the FY 2012-13 operating budget of \$1,400.

Public Comments: Peter Drekmeier of Tuolumne River Trust provided comments on the proposed water transfer between San Francisco and Modesto Irrigation District (MID). He reported that the vote on the 2 mgd water transfer with MID is scheduled for SFPUC's July 24th meeting. He stated that it would be helpful to have the full information from the Strategy to determine whether the transfer is needed.

Mr. Drekmeier stated that a potential cost for the transfer is \$2,500/acre ft., and that the need for the transfer would only be every 3 years. He questions whether conservation programs that might have been ruled out in past because of the high cost, would prove to be less expensive compared to the water transfer.

The BAWSCA service area has so much potential for additional water supply, and Mr. Drekmeier encourages BAWSCA to ask San Francisco to wait until all information from the Strategy is available before the SFPUC makes a decision on the 2 mgd.

Director McLeod asked about the potential effects of doing what Mr. Drekmeier asked.

Ms. Sandkulla stated that the SFPUC's Dry Year Reliability Level of Service Goal (LOS) of no more than 20% system-wide rationing in any single year was included in the Program EIR for the Water System Improvement Program and is also included in the 2009 WSA. It is critically important that the SFPUC is held to its commitment for this level of service.

The LOS goal is the foundation for dry-year planning purposes for every BAWSCA agency. As part of the Strategy, the BAWSCA agencies are investigating what more could be done and potentially should be done to increase their own water supply reliability during drought, above and beyond the level of commitment from the SFPUC. The Strategy is not intended to identify and develop a water supply to meet the SFPUC commitment to each of the BAWSCA member agencies.

As a response to Director Breault's question, Ms. Sandkulla stated that the 2 mgd is a part of the WSIP PEIR.

Comments by Committee Members: Director Weed reported that the City of Fremont recently issued a conditional use permit to fill a former quarry pit with approximately 6million cubic yards of fill. The pit, located in the Baylands Community Plan Area could potentially serve as a reservoir. He encourages agencies to recognize locations with opportunities for operational water supply asset and contingency water reserve for the San Francisco Bay Area.

Adjournment: The meeting was adjourned at 3:04pm. The next meeting is August 8th.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – June 13, 2012

Roster of Attendees:

Committee Members Present

Larry Klein, City of Palo Alto (Chair)
Rob Guzzetta, California Water Service Company (Vice-Chair)
Ruben Abrica, City of East Palo Alto
Robert Anderson, Purissima Hills Water District
Randy Breault, City of Brisbane/GVMID
Jamie McLeod, City of Santa Clara
Irene O’Connell, City of San Bruno (BAWSCA Vice-Chair)
Barbara Pierce, Redwood City (BAWSCA Chair), by teleconference
John Weed, Alameda County Water District

Committee Members Absent

Tom Piccolotti, North Coast County Water District

BAWSCA Staff:

Nicole Sandkulla	Water Resources Planning Manager
Anona Dutton	Water Resources Planner
Christina Tang	Sr. Administrative Analyst
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
David Brodsky	KNN Public Finance

Public Attendees:

Peter Drekmeier	Tuolumne River Trust
Marilyn Mosher	City of Hayward
Nico Procos	City of Palo Alto
Spreck Rosekrans	Restore Hetch Hetchy
Michelle Sargent	San Francisco Public Utilities Commission
Craig Von Bargaen	Camp Dresser McKee

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
May 17, 2012 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:00 pm

BAWSCA Chair, Barbara Pierce, called the meeting to order. Art Jensen, called the roll. Twenty-one (21) members of the Board were present, constituting a quorum. A list of Directors present (21) and absent (5) is attached.

2. Comments by the Chair: Comments were provided by Chair Pierce

3. Board Policy Committee Report: Committee Chair Larry Klein provided a report on the discussions and actions that took place at BPC meeting held April 11, 2012.

4. Public Comments: Public comments were received from Peter Drekmeier, Program Director of Tuolumne River Trust.

5. Consent Calendar: CEO/General Manager, Art Jensen, noted an amendment to the Minutes of March 15th to reflect vacancy on the Board seat for the City of Brisbane.

Director Quigg made a motion, seconded by Director Vella, to approve the Minutes of the March 15th Board Meeting as amended by Mr. Jensen, receive and file the Budget Status, Investment, and Directors' Reimbursement Reports as of March 31, 2012, and authorize the implementation of Grant Funding for Regional Water Conservation Programs. The motion carried with one abstention.

6. Action Calendar:

A. Proposed Fiscal Year 2012-13 Work Plan and Budget: Director Breault asked if the recommended Operating Budget amount represents Alternative #1. Mr. Jensen responded yes.

With regard to water supply reliability, Director McLeod asked the CEO to speak to the points made during the public comments about the 2mgd water transfer between the SFPUD and MID.

Mr. Jensen reported that BAWSCA wrote a letter asking the SFPUC to demonstrate the cost effectiveness of the transfer compared to alternatives including the potential cost of water shortages.

Director Kasten made a motion, seconded by Director Laporte, to 1) Approve the recommended Work Plan for FY 2012-13; 2) Approve the Operating Budget of \$2,585,504; 3) Approve no change in the level of assessments; 4) Approve the plan for managing the General Reserve balance. The motion carried unanimously.

B. Priority FY 2012-13 Professional Services Contracts:

Director Richardson made a motion, seconded by Director McLeod, to authorize the CEO/General Manager to negotiate and execute the ten contracts for legal, engineering, financial, strategic, and water conservation services needing to be in place by July 1, 2012. The motion carried unanimously.

C. Adoption of Resolution 2012-04 for the Transition of ACWA HBA to ACWA JPIA:

Director Guzzetta inquired about the difference between ACWA HBA and ACWA JPIA. Mr. Jensen stated that he does not have specifics but can provide the information at the next Board meeting. He noted that BAWSCA is following the steps taken by ACWD, which adopted the resolution in April. Chair Pierce recommended that the Board adopt the resolution, and take Mr. Jensen's offer to provide additional information.

Director Klein made a motion, seconded by Director Vella, to adopt Resolution 2012-04 for the transition of ACWA HBA to ACWA JPIA. The motion carried unanimously by a roll call vote.

- 7. SFPUC Report:** SFPUC Deputy General Manager, Michael Carlin addressed the Board on behalf of SFPUC General Manager, Ed Harrington.
- 8. Reports:** The CEO and staff provided reports on the following items:
 - A. Board Policy Calendar
 - B. Long-Term Reliable Water Supply Strategy
 - C. SFPUC Water Supply Improvement Program
 - D. Potential bond Issuance to Pre-Pay Capital Debt Owed to SFPUC
 - E. Hetch Hetchy Reservoir – Protecting the Water Users
- 9. Date, Time and Location of Next Meeting:** The next meeting is scheduled on July 19, 2012, in the Wind Room, Foster City Community Center.
- 10. Adjournment:** The meeting adjourned at 8:22pm.

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer

ARJ/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
May 17, 2012

Attendance Roster

Present:

Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
Charlie Bronitsky	City of Foster City
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
Kelly Ferguson	City of Menlo Park
Jim Griffith	City of Sunnyvale
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
Marty Laporte	Stanford
Jamie McLeod	City of Santa Clara
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Sepi Richardson	City of Brisbane
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District

Absent:

Armando Gomez	City of Milpitas
Mike Kasperzak	City of Mountain View
Tom Piccolotti	North Coast County Water District
Bill Quirk	City of Hayward
Chuck Reed	City of San Jose

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BAWSCA

Bay Area Water Supply & Conservation Agency

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

TO: Arthur R. Jensen, CEO
FROM: Deborah Grimes
DATE: July 10, 2012
SUBJECT: Operating Budget Status Report as of May 31, 2012

This memorandum shows fiscal year budget status for FY 2011-12. It includes major areas of spending, provides an assessment of the overall budget, and summarizes reserve fund balances. This report covers the budget and expenses for BAWSCA. The BAWSCA budget includes necessary resources for the RFA and BAWUA.

Operating Budget Summary:

For the period ending May 31, 2012 total expenditures were \$2,075,027 or 79 percent of the total budget of \$2,619,705. At this time, approximately \$350,000, or 13 percent of the budget, will be unspent at the end of this fiscal year.

Table 1. Operating Budget Summary as of May 31, 2012

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	834,907	659,754	79%
Fair Pricing	283,00	134,447	48%
Administration	112,000	127,323	114%
Subtotal	1,229,907	921,525	75%
Administration and General			
Salary & Benefits	1,075,875	925,671	86%
Other Expenses			
BAWSCA	258,900	195,520	76%
BAWUA	1,100	0	0%
Subtotal	2,565,782	2,074,008	81%
Capital Expenses	6,000	0	0%
Budgeted Contingency	46,523	0	0%
Regional Financing Authority	1,400	187	13%
Grand Total	2,619,705	2,074,195	79%

Overview:

Overall expenditures are tracking within budget.

Consultants

The \$160,000 budget for technical review and tracking of the SFPUC’s Water System Improvement Program was 92 percent expended. The Operating Budget allocation of \$190,000 for strategic counsel was 86 percent expended. The Operating Budget allocation of \$415,000 budget for legal counsel was 96 percent expended. Considerable legal work has been required to address the potential bond issuance, legislation and other matters. By reprioritizing legal assignments and processing a contract amendment within the CEO’s spending authority, necessary legal expenses can be accommodated through the end of the year. Expenditures for strategic and legal support of the Long-Term Reliable Water Supply Strategy are within their respective budgets. The \$294,907 budget for water management and conservation-related activities was 59 percent expended.

Administration and Other Expenses

Budgets for salaries and other expenses were 86 and 76 percent expended, respectively.

Use of CEO’s Discretionary Spending Authority:

In May, the CEO signed a \$25,000 contract with Orrick, Harrington and Sutcliff for initial bond counsel services. These funds were reallocated from the Operating Budget Contingency and are reflected in this budget report. In May, the CEO signed an amendment to Hanson Bridgett’s contract in the amount of \$25,000 for investigating the feasibility of bond issuance and support of the related legislation. Funds were reallocated from the Operating Budget Contingency.

Use of Reserve Fund Balance:

In accordance with the adoption of the annual budget in May 2011, the Board approved transferring \$38,005 from the reserve to fund the FY 2011-12 budget if needed. The BAWSCA General Reserve balance shown below does not reflect this transfer but does include a transfer into the General Reserve of \$435,324 of unspent funds from FY 2010-11. The balance also reflects the withdrawal and refunding of funds that were in excess of the General Reserve guidelines. That amount, \$172,190, was refunded to the member agencies per Board action at the September Board Meeting.

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 03/31/12)	Account Balance (As of 05/31/12)
General Reserve	\$916,897	\$916,897

Long-Term Reliable Water Supply Strategy and Use of Water Management Charge:

Phase 2 of the Long-Term Reliable Supply Strategy (Strategy) began FY 2010-11. Funding is provided through the Water Management Charge, approved by the Board in July 2010. As of May 31, 2012, all Water Management Charge revenue, totaling \$2,321,998 had been collected by the SFPUC and received by BAWSCA. Consultant invoices received and paid through May 31, 2012 total \$1,060,262.

BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
FROM: Arthur R. Jensen, Chief Executive Officer
DATE: July 10, 2012
SUBJECT: Investment Report – As of June 30, 2012

In February 2004, the Board originally adopted an investment policy consistent with the Government Code that requires a quarterly report on the Agency's investments be provided to the Board within 30 days after the close of each quarter. The Board most recently reviewed and revised the investment policy at the July 21, 2011 Board meeting. This report presents fund management in compliance with the current investment policy.

Local funds in excess of \$250,000 are deposited in the BAWSCA LAIF account throughout the year to ensure compliance with BAWSCA's investment policy at that time.

BAWCSA's prior and current period local agency investment (LAIF) account balances are shown below.

<u>03/31/12</u>	<u>06/30/12</u>
\$2,941,307	\$3,063,255

Of the total in the BAWSCA LAIF account as of June 30, 2012, \$916,897 represents BAWSCA's General Reserve Fund, equivalent to approximately 35 percent of FY 2011-12 Operating Budget. The remaining amount consists of Subscription Conservation Program funds, Water Management funds and unrestricted funds.

Recent historical quarterly interest rates for LAIF deposits are shown below:

<u>03/31/12</u>	<u>06/30/12</u>
0.38%	0.48%

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BAWSCA

Bay Area Water Supply & Conservation Agency

155 Bovet Road, Suite 302
San Mateo, California 94402
(650) 349-3000 tel. (650) 349-8395 fax

MEMORANDUM

TO: BAWSCA Board of Directors

FROM: Arthur R. Jensen, Chief Executive Officer

DATE: July 10, 2012

SUBJECT: Directors' Reimbursement Quarterly Report for the Period Ending June 30, 2012

In March 2006, the board adopted a directors' expense reimbursement policy consistent with the Government Code that requires a quarterly report on the Agency's reimbursement of directors' expenses. This report shall show the amount of expenses reimbursed to each director during the preceding three months.

There were no director expenses reimbursed for the quarter ending June 30, 2012.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: Adoption of Personnel Handbook Amendments

Summary:

The BAWSCA Board of Directors adopted a Personnel Handbook in September 2003. Previous amendments to the handbook have included policy and administrative changes, as well as changes necessary to keep current with legal requirements. At this time, there are no policy changes. A summary of recommended changes are listed below.

- "Parents of domestic partner" has been added to the list of family members for whom employees can take bereavement leave. The Handbook already included parents of spouse, so this makes it non-discriminatory.
- The section related to the use of vacation time while on military leave has been clarified so that it is clear that vacation may be used for any type of military leave, not just weekend reservists.
- The section on personnel files has been amended to include a provision that employees may make copies of documents that bear their signatures. This is a labor code requirement.
- "Gender identity" and "genetic information" have been added to the lists of protected categories throughout the document, as legally required.
- The lengthiest changes included updates and comprehensive provisions on the FMLA/CFRA (Family Medical Leave Act/California Family Rights Act). These are legally required and must be included in the Employee Handbook.
- In addition, a new section on pregnancy-disability leave has been included. This is applicable under the FEHA (Fair Employment and Housing Act) and is often interrelated with FMLA/CFRA leave.
- References to BAWUA have been removed where appropriate.

Fiscal Impact: None

Board Policy Committee Action:

The Committee voted unanimously to recommend approval of the proposed board action.

Recommendation:

That the Board approve the proposed amendments to the personnel handbook.

Discussion:

This item was initially presented at or after the April Board Policy Committee meeting, but due to questions that were raised, the item was deferred until the June BPC so that those questions could be addressed. Attachment A (under separate cover) lists those questions and the responses. Attachment B (under separate cover) shows the Personnel Handbook with recommended changes highlighted. Attachment C (under separate cover) shows a clean copy of the Personnel Handbook.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Professional Services Contract with Brown & Caldwell to Support the Implementation of the BAWSCA Water Conservation Database for FY 2012-13**

Summary:

This item requests authorization for the CEO to negotiate and execute a contract with Brown & Caldwell (B&C) to provide as needed technical support services for the on-going implementation of the BAWSCA Water Conservation Database (WCDB) for FY 2012-13.

Fiscal Impact:

The BAWSCA budget for FY 2012-13 includes \$50,000 for consulting support services for implementation of the WCDB.

Board Policy Committee Action:

The Committee voted unanimously to recommend authorization of the proposed board action.

Recommendation:

That the Board authorize the CEO to negotiate and execute a contract with B&C for up to \$50,000 to provide as needed technical support services for the implementation of the WCDB in FY 2012-13.

Discussion:

As presented during the budget development process, additional outside resources are necessary to complete the adopted Work Plan for FY 2012-13 in several areas. One such area is the need for additional technical resources to support implementation of the WCDB.

The development of a regional water conservation database was one of the key recommendations from the 2009 Water Conservation Implementation Plan (WCIP). In September 2009, BAWSCA contracted with B&C to develop the WCDB. The WCDB was developed (with member agency input) as an on-line database system that allows agencies to track their water conservation activities, water usage, and other agency-specific information in a consistent and standard format. Data in the WCDB can be easily exported to other software tools such as Microsoft Excel.

In FY 2010-11 and FY 2011-12, BAWSCA contracted with B&C to assist with the implementation of the WCDB and training of the member agencies on use of the database. As part of these contracts, B&C also provided as needed technical support to integrate the WCDB with existing BAWSCA agency database systems and to provide other WCDB system refinements. In FY 2010-11, B&C expended 98% of its \$125,800 budget. In FY 2011-12, B&C is expected to use its full \$75,000 budget. The proposed budget of \$50,000 for FY 2012-13 represents a continued shrinking of the budget allocated to B&C for this effort.

A contract with B&C in FY 2012-13 is proposed to provide additional as needed technical support to BAWSCA and the member agencies for on-going implementation of the WCDB. Such technical support activities include adding or deleting additional data sheets as agency water conservation programs evolve, addressing technical issues that arise during agency utilization of the WCDB, and augmenting the database to improve key features and user experience.

The need for additional resources to implement the WCDB in FY 2012-13 was identified as part of the BAWSCA Work Plan for FY 2012-13.

Alternatives:

Alternatives to the recommended action are to: (1) not support the WCDB in FY 2012-13, or (2) train BAWSCA staff to support the WCDB rather than enter into a contract with B&C. BAWSCA does not recommend these alternatives for the reasons stated below.

The need for a regional database system was clearly identified as part of the 2009 Water Conservation Implementation Plan (WCIP). The WCDB serves a valuable function as a streamlined data collection tool. The data that are collected are needed by BAWSCA to support the Annual Survey, the Annual Water Conservation Report, and other regional reporting that BAWSCA does on water use, conservation activity and service area characteristics. The WCDB also provides a standardized repository for the agencies to store the information that they need to do their own reporting. To abandon the WCDB at this point would in effect waste the time and effort put into the system by BAWSCA and the member agencies to date, and result in the 26 different agencies tracking their data in an inconsistent and potentially incomplete manner which does not lend itself to coordinated regional analysis. For these reasons, Alternative 1 is not recommended.

B&C was selected to provide the WCDB services in 2009 in part because they have a very capable and experienced Information Technology (IT) staff. Because maintaining the WCDB requires significant technical skills, including a close familiarity with Microsoft SharePoint, servers, and computer programming, maintenance of the WCDB is most appropriately done by trained IT professionals. BAWSCA does not have an IT staff and therefore has to contract out for any IT services. Supporting the WCDB was one of the tasks identified as needing additional outside support. Without additional technical resources, BAWSCA staff will not have the capacity to accomplish this task.

Conclusion:

The WCDB has enhanced member agency's water conservation and Annual Survey reporting efforts at reasonable cost. The services provided by B&C during the past three years have been critical to the overall WCDB success. For this reason it is recommended that BAWSCA continue to contract with B&C to maintain the WCDB in FY 2012-13.

Brown and Caldwell

PURPOSE

For FY 2012-13, BAWSCA requires specialized services to support the ongoing implementation of its Water Conservation Database (WCDB) including as needed technical support to BAWSCA and the member agencies.

SUMMARY OF SCOPE OF WORK

Work to be Performed:

The following tasks will be performed by B&C as directed by BAWSCA:

- Provide WCDB technical support on an “on-call” basis
- Conduct project management

Not to Exceed Budget: \$50,000

Rates & Charges:

IT Manager	\$246
Project Manager	\$147
IT Associate	\$187
Associate	\$85

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: Hetch Hetchy Reservoir – Protecting the Water Users

Summary:

On Monday of this week, the group called Restore Hetch Hetchy held a news conference to announce they had received over 16,000 signatures to place their initiative before San Francisco voters this coming November. Over 9,000 valid signatures are needed for the measure to qualify for the ballot.

To protect water customers outside San Francisco, BAWSCA is opposed to draining the Hetch Hetchy Reservoir unless and until the water customers outside San Francisco who depend on the Reservoir, or their representatives, can vote on whether the resulting water supply reliability and water quality would be acceptable and whether they would be willing to pay their share of initial and on-going operating costs needed to implement such a plan.

Fiscal Impact:

A budget for this subject was included in the approved budget for FY 2012-13.

Discussion:

If passed by the San Francisco voters, the initiative would require San Francisco to prepare a plan to reduce water needs or replace the water supply and a “long-term plan to reverse environmental damage caused by the San Francisco water system.” The initiative would require completion of the plans in time for the San Francisco voters to consider Charter amendments in November 2016 that would require San Francisco to implement the plans.

BAWSA’s position is based on long-term protection of the water customers outside San Francisco. A draft statement was discussed with the Board in May. It has been revised based on comments received. A revised copy of the statement is attached.

BAWSA will watch the progress of the initiative and aggressively pursue its objective of protecting the water customers outside San Francisco.

The position that customers outside San Francisco must have a vote is supported by Congresswoman Jackie Speier and Assemblymember Jerry Hill as shown in their attached letters. BAWSCA’s position is also shared by the editorial staff the San Francisco Chronicle and the San Jose Mercury News, both of which state that voters throughout the SFPUC service area should be able to vote on such matters.

The Sacramento Bee criticized the Chronicle for opposing the initiative. It was silent on the matter of who should be able to vote.

Attachments:

- BAWSCA Statement
- Letter of Support from Congresswoman Jackie Speier
- Letter of Support from Assemblymember Jerry Hill
- Editorial Coverage from San Jose Mercury News, San Francisco Chronicle, Sacramento Bee



**Statement by Arthur Jensen, Chief Executive Officer
Bay Area Water Supply and Conservation Agency (BAWSCA),
About Proposal to Drain Hetch Hetchy Reservoir
June 13, 2012**

A group named Restore Hetch Hetchy is attempting to place an initiative before San Francisco voters this November that would require San Francisco to develop plans to drain Hetch Hetchy Reservoir and restore Hetch Hetchy Valley. Draining the Reservoir is a public-policy issue that has been debated for over 100 years.

Decisions of this significance must be put to a vote of the water users outside of San Francisco or their representatives, as well as by San Francisco voters who use less than a third of the water.

The Bay Area Water Supply and Conservation Agency (BAWSCA) represents the water interests of 1.7 million residents, businesses, and community organizations in Alameda, San Mateo, and Santa Clara counties, which depend on San Francisco's Regional Water System. BAWSCA's Board of Directors comprises elected and other public officials from the 26 member agencies that serve these communities.

BAWSCA's member agencies and their customers use two-thirds of the System's water and pay two-thirds of the cost of building, operating and maintaining the System, which is operated by San Francisco.

The Tuolumne River supplies 85 percent of the water delivered by the System. Hetch Hetchy Reservoir is a vital part of the System and stores 117 billion gallons of water, providing significant drought and seasonal water supply reliability for the region. Draining the Reservoir could be a serious threat to the users who depend on it and to the California economy.

If San Francisco or any other governmental body should decide to drain Hetch Hetchy Reservoir, they must first determine how to protect the health, safety and economic well-being of the water users.

The plan to protect the customers must provide for reliable alternative water storage and a supply of high-quality water that is acceptable to those who depend on the System.

The alternate storage and supply must be supported by legally enforceable agreements addressing water rights, ownership, operating responsibilities and other critical issues. Without such issues being resolved, no alternative supply can be as reliable as the existing supply.

If a decision is made to provide alternative water storage, it must be in operation, and all agreements be fully executed, before draining the Reservoir. Otherwise, it is likely that the alternative facilities would never be completed.

BAWSCA is therefore opposed to draining the Hetch Hetchy Reservoir unless and until the water customers outside San Francisco, who depend on the Reservoir or their representatives, vote on whether the resulting water supply reliability and water quality are acceptable and whether they are willing to pay their share of initial and on-going operating costs needed to implement such a plan.

If necessary, BAWSCA will pursue administrative or legislative action to protect the water users by securing a vote.

Meanwhile, any such efforts must not delay rebuilding the Bay Area's existing vulnerable water system before the next major earthquake.

###

JACKIE SPEIER
12TH DISTRICT, CALIFORNIA

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BAILOUTS OF PUBLIC AND PRIVATE PROGRAMS
TECHNOLOGY, INFORMATION POLICY, AND
PROCUREMENT REFORM

Congress of the United States
House of Representatives
Washington, DC 20515-0512

June 21, 2012

RECEIVED

The Honorable Marge Colapietro
Mayor, City of Millbrae
621 Magnolia Avenue
Millbrae, CA 94019

JUL - 3 2012

CITY OF MILLBRAE
ADMIN DEPT.

Dear Mayor Colapietro:

Thank you for your letter concerning an initiative that is circulating for qualification within the City of San Francisco. I am aware of it and I have a few thoughts.

First, the initiative if approved would instruct the city to *develop a plan* to tear down the dam that is at the start of the Hetch Hetchy system (the O'Shaughnessy Dam). It would further instruct the city to identify, as part of the same plan, alternate sources of water and storage. If the plan is developed, the initiative would then require that the plan be submitted to the voters of *San Francisco* for approval or denial of approval. Assuming everything went forward as anticipated in the initiative the restored valley would be returned to the ownership of the national parks.

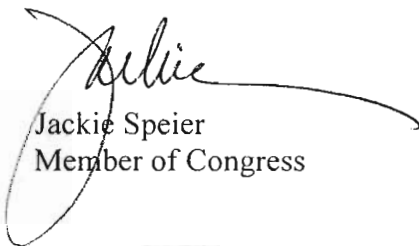
Among many features, the initiative requires the city to identify potential federal and state sources of funding for this project. I do not know how much the expected construction project would cost, but it likely would be several billions of dollars. I can pretty much assure you that federal funding for this type of project would be highly speculative given our current and foreseeable debt and economic situation.

The current House majority proposes to make significant cuts to discretionary domestic spending during the coming decade. Ironically, one of the most likely targets of funding cuts is the national parks, the very government agency that would be given title to the restored valley via any plan proposed under this initiative. It seems to me unlikely in the extreme that the national parks would be able to find the resources to own and to manage a second Yosemite given that the funds for the one that we have at the moment would be in grave peril. I also find it unlikely that there would be significant discretionary federal funding for a federal contribution to a restoration project when competing projects with many years of documented need are begging for money.

I agree that all of the people impacted most by this proposed initiative should have a vote in whether the system would be significantly altered. While a binding vote could only occur through an act of the state legislature, a non-binding referendum in the various service areas of the system is also possible. You may remember that it was a non-binding referendum on the question of whether a tunnel should be built that prompted Caltrans to seriously consider it as an alternative to the Devil's Slide bypass. Thus, whatever may be the outcome in the state legislature the County Board of Supervisors of any county, or a city council of an affected city, could sponsor a non-binding referendum on this topic if it chose to pay for one.

I appreciate this opportunity to share my thoughts regarding this matter. Thank you for your letter and for your inquiry.

All the best,



Jackie Speier
Member of Congress

KJS/bp

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P.O. BOX 942849
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Assembly California Legislature



JERRY HILL
ASSEMBLYMEMBER, NINETEENTH DISTRICT
CHAIR, ASSEMBLY DEMOCRATIC CAUCUS

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SAN MATEO, CA 94402
(650) 349-1900
FAX (650) 341-4676

Dear Mayor Colapietro,

Thank you for your correspondence expressing concern with the effort being undertaken in San Francisco to collect signatures for a ballot measure to study the future drainage of the Hetch Hetchy Reservoir and the O'Shaughnessy Dam. It is my understanding that signature gatherers have turned in their petitions.

In addition to the City of Millbrae, many of the other Bay Area Water Supply and Conservation Agency members have made it clear to me that they would like to have more than merely a voice in any decision that will affect the future use of the reservoir and dam. I share the view that BAWSCA members should have a vote regarding the future of these important elements of our water system.

I have been working closely for many months with BAWSCA's CEO Art Jensen and the staff and leadership of the Bay Area Water Supply and Conservation Agency, who have been monitoring the activities in San Francisco. We are working together to protect the water users and make certain that the Peninsula's water quality is maintained, the cost of water does not increase and the supply of water is not reduced.

We have determined that should the San Francisco measure qualify for the ballot there will be insufficient opportunity in the current session to pass a legislative measure that would address the issues you raise in your correspondence. I look forward to working with Millbrae and the other BAWSCA member agencies to address these issues.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jerry Hill".

Jerry Hill

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Draining Hetch Hetchy reservoir is a terrible idea

ON DRAINING HETCH HETCHY

Published 07:43 p.m., Monday, July 9, 2012

San Francisco Mayor [Ed Lee](#) is right. The proposed ballot measure to require the city to draft a plan for draining the Hetch Hetchy reservoir is "insane."

It's also dangerous, misleading and an absolute waste of money.

The group Restore Hetch Hetchy has turned in more than 16,000 signatures from registered San Francisco voters to require yet another study of how to drain the Hetch Hetchy Reservoir and replace its water with conservation and underground storage. If the measure passes, the group has signaled that it would return with a 2016 measure to mandate draining of the reservoir.

This issue has already been studied ad nauseam. Draining the valley would be incredibly expensive - between \$3 billion and \$10 billion, according to a 2006 state [Department of Water Resources](#) study.

By eliminating one of the Bay Area's few reliable water sources, it would endanger the drinking water for millions of people in not just San Francisco but also on the Peninsula and the South and East Bay. It's appalling that the Restore Hetch Hetchy group would attempt to make plans to shut down the reservoir without offering other Bay Area residents a say in the matter.

Hetch Hetchy also produces about 300 megawatts of carbon-free hydroelectric power for the Bay Area. It has supplied water through a 160-mile, environmentally friendly gravity-fed system for nearly a century.

It would be a huge mistake to turn back the clock at a time when the resources of water and government funding are growing scarce.

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Mercury News editorial: Drain Hetch Hetchy? It's a nice thought, but let's not.

San Jose Mercury News

Posted:

MercuryNews.com

God bless the Sierra Club. We forget at our peril the synergy between rugged nature and civilization -- the intrinsic need of humankind for the magnificence of the wild to put life in perspective and help us transcend our day-to-day existence. The spirit of John Muir endures.

But that thing about draining Hetch Hetchy? Yeah, let's not do that.

Not now. Not at a cost of billions that could be used for urgent needs, environmental and otherwise. Not with looming questions about the effects of climate change on our water supply. Not with the need for alternative places to store water -- including dams sure to inspire lawsuits, maybe even from the Sierra Club itself.

And finally, in the interests of fairness: Not without a vote of all the players.

San Francisco will vote on a ballot measure in November on the future of city water, including a requirement to study draining the reservoir in Yosemite National Park. San Francisco owns and operates Hetch Hetchy, but more than 40 percent of Hetch Hetchy water users are outside the city. Burlingame, Menlo Park, Redwood City, Palo Alto, East Palo Alto and Mountain View get all or nearly all their water from it. Other cities get significant portions as well; 60 percent of Milpitas' water, for example, and 45 percent of Sunnyvale's.

If Hetchy Hetchy Valley were in its natural state today, it would never be dammed, any more than Yosemite Valley could be blocked off and swallowed by its confluence of rivers. Muir was ahead of his time in so many ways.

But today much of California relies on the fragile San Joaquin-Sacramento River Delta for its water -- a system whose destruction is just an earthquake away. Until that system is fixed, let's not dismantle one that we know works.

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Sacramento Bee

Editorial: Why the hysteria over restoring Hetch Hetchy?

Published Thursday, Jul. 12, 2012

Fear-mongering wafts like a fog from San Francisco whenever the subject turns to restoring Hetch Hetchy, the valley in Yosemite National Park that is submerged by San Francisco's water supply.

Supporters of restoration have submitted more than 16,000 signatures for a ballot measure that would let San Francisco voters decide if they want to study alternative sources of water and power for the city. That way, the canyon that John Muir once called "the twin" of Yosemite Valley could be restored for the benefit of future generations.

Mind you, the ballot measure wouldn't determine if Hetch Hetchy were drained or not. That would require a subsequent ballot measure, possibly in 2016. The current measure, if approved, would merely require the city to develop a long-term water conservation plan and come up with a plan for restoring Hetch Hetchy.

Yet even that prospect sounds apocalyptic to some San Francisco leaders.

"Insane," said San Francisco Mayor Ed Lee.

"Dangerous," intoned an editorial in the San Francisco Chronicle.

Really? What is so dangerous about examining how to restore a valley in one of our nation's most prized and popular national parks?

Leaders of the keep-Yosemite- submerged crowd have two lines of argument against even studying this idea.

The first is the cost. "This issue has already been studied ad nauseam," said the Chronicle. "Draining the valley would be incredibly expensive – between \$3 billion and \$10 billion, according to a 2006 state Department of Water Resources study."

It's true that DWR offered that estimate in 2006, but with numerous caveats. For one thing, the San Francisco Public Utilities Commission did not respond to DWR requests on documentation on its projected costs of Hetch Hetchy restoration.

For that reason and others, the DWR report stated that existing studies "do not contain enough collective detail to reach conclusions about the feasibility or acceptability of Hetch Hetchy restoration. Further studies could further refine and assess technical, cost and environmental factors in greater detail."

Opponents also claim that Hetch Hetchy restoration could deprive San Francisco of "300 megawatts of carbon-free hydroelectric power for the Bay Area." That's an interesting argument. In the past, San Francisco environmentalists and the Chronicle have supported river restoration efforts on the Trinity and Klamath Rivers, even if hydropower generation was reduced. Could it be that San Franciscans are fine with sacrificing energy generation for environmental benefits, so long as their energy isn't being touched?

San Francisco's elected leaders continue to stand on the wrong side of history on Hetch Hetchy. It will be restored one day, and everyone who visits Yosemite will benefit as a result. The question is when and at what cost. To get that answer, San Francisco leaders should let the study go forward and cease with the hysterical rantings.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: SFPUC 2mgd Water Transfer with Modesto Irrigation District

Summary:

The San Francisco Public Utilities Commission (SFPUC) and the Modesto Irrigation District (MID) have been discussing a transfer of 2million gallons per day.

This memo presents information recently received from San Francisco in response to a written request to address these assertions.

Discussion:

The purpose of the transfer is to help San Francisco meet its Level of Service Goal for drought protection.

The City and County of San Francisco has formally committed to meeting these goals through two formal actions of the SFPUC: The Level of Service goals were adopted by Commission resolution on October 30, 2008 when it adopted the Water System Improvement Program. The commitment to the Level of Service goals was also agreed upon by the Commission when it approved the 2009 Water Supply Agreement between San Francisco and its Wholesale Customers.

The transfer has been the subject of much debate. Recent correspondence and public comments assert that the transfer is both unnecessary and not cost-effective.

On May 8, 2012, BAWSCA sent a written request to the SFPUC to demonstrate whether the 2 mgd water transfer is needed at this time and whether the proposed transfer is cost-effective with respect to both alternative measures and the economic impacts of water shortage.

The SFPUC's bulleted reply appears as the first attachment to this memo. The SFPUC demonstrates that the transfer would be an important near-term protection against drought.

The attachment also demonstrates that the transfer is cost-effective by either measure.

Attachments:

1. Bullet points received from SFPUC July 9 in response to BAWSCA letter of May 8
2. BAWSCA letter to SFPUC dated May 8, 2012
3. Correspondence from the Tuolumne River Trust to elected officials, dated May 3, 2012 and July 9, 2012.

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A. Can the need for the 2 mgd transfer be demonstrated today?

Yes.

1. **The purpose of the water transfer is to protect our water customers during drought years.** This transfer agreement allows San Francisco to retain and bring an additional 2 mgd of water into our system in drought years. This is our drought insurance. To secure this water, just as with any other type of insurance, we must pay for this water every year though we will only capture and use the 2 mgd during drought years. No matter where you live, every year is potentially the beginning of a drought. Planning for an extended drought is prudent water management in California.
2. **It is desirable to develop this additional 2 mgd of drought protection as soon as possible because:**
 - a. A drought could begin at any time.
 - b. Calaveras Reservoir, the largest local reservoir in the system, now operates at reduced storage and must be rebuilt. Once rebuilt (in 2016), the reservoir could take up to four years to fill, assuming we were not experiencing a drought.
 - c. Additionally, after dam completion, we will need to release additional water downstream to maintain fish populations. We have not yet identified a replacement source for this lost drinking water.
 - d. Following completion of the dam, but before the reservoir has filled, a drought could require additional rationing even at today's level of demands (224 mgd).
3. **We have committed to our customers that system-wide shortages will be no more than 20% in any year of an extended drought** (at a demand of 265 mgd). This commitment exists in both our Level of Service goals (adopted in 2008 as part of the Water System Improvement Program) and in our 2009 Water Supply Agreement with our Wholesale Customers.
4. **This transfer is useful and beneficial right now and into the future.** At today's level of water demand (224 mgd), we would use this transfer to increase water in storage an average of one year in three. As demand increases (up to 265 mgd), we would use this transfer an average of two years in five. This increased storage means we have more water to deliver in a drought thereby reducing rationing.
5. **We have significant water supply decisions to make by 2018 and this water transfer is a piece of that decision making process.** San Francisco must decide whether or not to make San Jose and Santa Clara permanent customers and whether to serve more water to the existing permanent Wholesale Customers. San Francisco needs to make sure it can meet its existing obligations now and into the future before it can make such a decision.

B. Is the proposed 2 mgd water transfer cost-effective when compared to: (1) the estimated economic impacts of drought shortages and (2) alternative means of providing a comparable level of drought reliability?

Yes.

1. **Drought shortages are extremely expensive to our local economy.** The direct economic impacts of a 20% system-wide drought shortage are estimated to be over \$3 billion per year of rationing. Reducing rationing from 20% to 10% in one year of drought could reduce that economic impact by more than \$1.3 billion per year.
2. **At current levels of water use (224 mgd) without the 2 mgd transfer, hydrologic analyses indicate that system-wide shortages of up to 10% will occur*.** This transfer would reduce the economic impact of those shortages by up to \$1.8 billion in one year.
3. **This transfer becomes even more important when considering future demand levels.** At a demand of 265 mgd, this transfer would reduce rationing from 25% to 20% for 2 years, achieving an estimated \$4 billion reduction in total economic impact.
4. **The 2 mgd transfer was found to be the preferable project on the basis of lower environmental impacts, higher drinking water quality and lower cost.**
 - The payment for the proposed 2 mgd transfer is \$1.58 million per year. This results in a 0.5% increase in the cost of water from the regional water system, beginning in 2012. **The cost impact to a retail customer (inside or outside) of San Francisco would be less than 0.5%.**
 - **On a cost per acre-foot basis for drought water, the transfer (\$700) is less expensive than other options** such as desalination (\$1,914) and additional groundwater development (\$1001).
 - **No additional environmental studies for this 2 mgd transfer are needed.** Alternative means of providing a comparable level of drought reliability were evaluated in the WSIP PEIR. In addition, the San Francisco Planning Department analyzed information that has been developed since 2008 and concluded that there is no need for new or additional CEQA analysis.

**Hydrologic analyses used in the PEIR*



May 8, 2012

Mr. Ed Harrington, General Manager
San Francisco Public Utilities Commission
1155 Market Street, 11th Floor
San Francisco, CA 94103

Re; Proposed 2mgd Water Transfer

Dear Mr. Harrington,

BAWSCA and its member agencies have been following the proposed 2 mgd water transfer between MID and the SFPUC with great interest. It is vital for San Francisco to respond to two important questions raised by Board members and agency staff. These questions have already been discussed with your staff. The purpose of this letter is to urge prompt attention to these questions and distribution of a written response to all of the Wholesale Customers. Several agencies are poised to consider public positions on the proposed transfer, and they deserve the benefit of the facts before acting.

The first question is whether the need for the 2 mgd transfer can be demonstrated today, in light of the recent reduced level of water purchases from the SFPUC and the lower water demand and lower SFPUC purchase projections through 2035.

We believe the entire picture must be considered, including the commitment to allocate 7.4 mgd of water to in-stream fisheries, an action taken after the completion of the PEIR and not reflected in its findings and conclusions. In addition, any assessment or statement must clarify whether conclusions are based on SFPUC delivery of water to the cities of San Jose and Santa Clara after 2018, or not. There may be other factors that should be taken into account, and they should be presented clearly so that public officials can understand them and take them into consideration.

The second question relates to the cost-effectiveness of the proposed 2 mgd water transfer. The statement has been made that it makes no sense to pay every year for a water transfer that may occur only once every few years. However, many utility expenses, for drought protection, earthquake reliability, and firefighting capacity to name a few, require annualized payments to protect customers from events that may happen rarely, or that one hopes might never occur. A valid, fact-based comparison should be provided.

We ask that San Francisco provide a clear demonstration that the proposed water transfer is cost-effective when compared to: (1) the estimated economic impacts of drought shortages and (2) alternative means of providing a comparable level of drought reliability.

If Commission approval of the transfer is requested, the responses to these questions should also be included in the staff report, so that the record clearly demonstrates both the need for the water and the relative cost-effectiveness or other advantages of the water transfer.

A prompt reply would ensure that public decisions are supported by sound reasoning.

Warm regards,


Arthur R. Jensen

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From: Peter Drekmeier [mailto:Peter@Tuolumne.org]

Sent: Monday, July 09, 2012 10:13 AM

To: Barbara Pierce; agomez@ci.milpitas.ca.gov; cbronitsky@fostercity.org; chuckreed@aol.com; griffith@dweeb.org; ioconnell@sanbruno.ca.gov; Jamie McLeod; jhweed@aol.com; kcoverdell@coastsidewater.org; Kelly Fergusson; Lawrence A. Klein; lvella10@aol.com; Margaret L. Laporte; Al & Kindra Mendall; mikeguingona@yahoo.com; mkasperzak@mediates.com; netsakt@comcast.net; rbreault@ci.brisbane.ca.us; rguzzetta@calwater.com; robertNA@aol.com; romahony@burlingame.org; Ruben Abrica; A. Sepi Richardson; tchambe@comcast.net; tpiccolotti@dalycity.org

Cc: Art Jensen; Nicole Sandkulla; Anona Dutton

Subject: Water Conservation vs. Water Transfer

July 9, 2012

Chair Pierce and BAWSCA Board of Directors
Bay Area Water Supply and Conservation Agency
155 Bovet Road, Suite 650
San Mateo, CA 94402

Dear Chair Pierce and BAWSCA Board of Directors:

As you are likely aware, the Tuolumne River Trust (TRT) is opposed to the proposed 2 million gallon per day (mgd) water transfer from the Modesto Irrigation District (MID) to the San Francisco Public Utilities Commission (SFPUC). We're concerned the transfer could have negative impacts on the Tuolumne River, and believe the environmental review for the transfer is inadequate.

Furthermore, the water transfer will unnecessarily add to the financial burden on ratepayers. In 2008 when the transfer was studied in the Water System Improvement Program (WSIP), the SFPUC and its wholesale customers in San Mateo, Santa Clara and Alameda Counties were using more than 250 mgd. Last year that figure dropped to less than 220 mgd.

When the WSIP was approved BAWSCA projected its member agencies would need 194 mgd from the SFPUC by 2018. Following the updated Urban Water Management Plans, BAWSCA's projections dropped to 172 mgd by 2018, well below the cap of 184 mgd established in the WSIP and codified in the Water Supply Agreement. Congratulations to all of us for decreasing our dependence and impact on the Tuolumne River and other SFPUC watersheds!

The water transfer is a bad investment. The contract would be "take-or-pay," obligating the SFPUC and its wholesale customers to pay more than \$1.5 per year for the water, whether it was needed or not.

According to a recent document prepared by ESA+Orion Joint Venture on behalf of the SFPUC, "In most years (i.e., about 4 out of 5, see PEIR Table 13.3, Vol. 7a, p. 13- 15), the dry-year water supply would not be needed to meet the WSIP water supply levels of service, and water would be released from Hetch Hetchy Reservoir and flow downstream to Don Pedro Reservoir for use by MID and TID."

According to a recent SFPUC staff report (Water Supply and Demand: Planning for the Future, May 22, 2012) the actual cost of transfer water is \$2,423 per acre foot. The footnote reads, "The

cost of the 2 mgd transfer assumes SFPUC will only use the 2 mgd in one out of every three water years.”

The same report established the cost of water conservation at \$1,089 per acre foot.

Instead of spending more than \$1.5 million per year on water we no longer need, BAWSCA should pursue more affordable alternatives, such as water conservation. TRT encourages BAWSCA to consider establishing a program using on-bill financing to promote the use of smart irrigation controllers. We believe this could eliminate the need for water transfers at a minimal cost to BAWSCA and its member agencies.

Consider these facts. An acre of turf grass requires two to three acre feet of water per year, but in most cases landscapes are overwatered by 20-40%. According to HydroPoint (<http://www.hydropoint.com>) it costs about \$5,000 to install and operate a commercial irrigation controller, including hardware, turnkey installation, 10 years of weather data and internet services. Each controller saves an average of .6 acre feet of water per year. Therefore, for \$1.5 million BAWSCA and its member agencies could install 300 controllers, saving 180 acre feet per year. In 12.5 years, BAWSCA would save 2,240 acre feet per year (2 mgd), the equivalent of the water transfer.

With on-bill financing a business, agency or individual could take out a loan to install a smart irrigation controller, and then pay it back on its monthly water bill. The terms of the loan could be designed such that customers end up paying a lower water bill every month (higher cost per unit, but fewer units used). Once the controller was paid off, savings would skyrocket. Who could say no to a great financial deal that also benefits the environment (and generates positive public relations)?

On-bill financing is financially preferable to rebates because the fund would continually be renewed, providing funding for the next customer.

As you are well aware, water customers are increasingly upset about escalating rates, most of which are necessary to pay for the seismic upgrades to the Hetch Hetchy Water System and to cover fixed costs. Eliminating the unnecessary cost of the water transfer would be to everyone's benefit.

I seriously hope you will consider this proposal as part of your Long-Term Reliable Water Supply Strategy.

Sincerely,
Peter Drekmeier

From: Peter Drekmeier [<mailto:Peter@Tuolumne.org>]
Sent: Thursday, May 03, 2012 1:10 PM
To: Council, City
Cc: Fong, Valerie; Procos, Nicolas; Ratchye, Jane
Subject: Rising Water Rates

Dear Mayor Yeh and Councilmembers,

As you are well aware, residents are concerned about escalating water rates. In general, 80% of rate increases are necessary to pay for seismic upgrades to the Hetch Hetchy Water System, while 20% are to cover fixed costs incurred regardless of how much water is being used. As water use has declined, it has been necessary to increase the price per unit.

I wanted to alert you to another potential rate increase that is avoidable. Right now the SFPUC is negotiating a transfer of 2 million gallons of water per day (mgd) from the Modesto Irrigation District (MID). This transfer was studied in the EIR for the Water System Improvement Program in 2008 when the SFPUC and its wholesale customers (represented by BAWSCA) were using 257 mgd. Since then, water demand has declined dramatically. Last year we used only 210 mgd systemwide, and demand is projected to remain flat for at least the next few years (see attached chart from an SFPUC staff report last week).

The contract with MID would be "take-or-pay," meaning the SFPUC would be obligated to pay \$1.5 million per year (\$700/acre foot) regardless of whether the water was used or not. The SFPUC also would be obligated to cover all litigation expenses associated with the transfer. I assume the SFPUC's wholesale customers would be expected to pay their share of these costs, even though the water is not needed.

You can review the draft transfer agreement and related documents on the MID website at <http://www.mid.org/about/newsroom/projects/watertransfer/documents/MIDWaterTransfer2012.pdf>

If anyone would like to discuss this issue, I can be reached at the contact information in my signature.

Sincerely,
Peter Drekmeier

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC

Summary:

The objective of a potential bond issuance to prepay a capital debt the agencies owe San Francisco is to save BAWSCA's member agencies money. In Fall 2011, staff began evaluating whether the bond issuance would benefit BAWSCA's member agencies and their water customers, and whether such an issuance would be feasible. This report updates the Board on feasibility investigations to date.

The evaluation will be completed this summer. If a recommendation were made to move forward, it would be presented to the Board Policy Committee in August and presented for Board consideration in September.

Fiscal Impact:

If bonds were issued, a preliminary estimate of the costs of issuance is in excess of \$2 million. Non-contingent out-of-pocket costs are estimated to be up to \$400,000, and the balance would be paid from bond proceeds, contingent upon successful sale of bonds. Funds to cover the out-of-pocket costs are available from the General Reserve.

Recommendation:

That the Board provide comments, ask questions and provide input on policy issues related to evaluating the feasibility of issuing bonds and the potential structure of bond issuance.

Discussion:

Relevant Provisions in the 2009 Water Supply Agreement. The Water Supply Agreement (WSA) states that agencies will repay San Francisco the \$370 million of existing capital assets over the 25-year term of that agreement, and be assessed interest of 5.13% on the unamortized amount. The Agreement states:

“The Wholesale Customers, acting through BAWSCA, may prepay the remaining unpaid existing assets principal balance, in whole or in part, at any time without penalty or early payment premium.”

If the Board Were to Decide Not to Pursue Prepayment. Member agencies would continue to pay San Francisco for the existing capital assets through the Wholesale Revenue Requirement (WRR). The interest rate applied to the existing debt remains 5.13%. Member Agencies are collectively responsible for the WRR. This represents the most relevant basis for comparison when examining possible financing structures, potential savings and exposure to risks.

Legislative Action to Ensure BAWSCA has Authority to Issue Bonds for This Purpose.

Assemblymember Hill has introduced legislation (AB 2167) to amend BAWSCA's enabling legislation to clarify that BAWSCA has authority to issue bonds for this purpose, should the

Board decide to do so. The bill was approved unanimously by the Assembly Local Government Committee on May 2nd, approved unanimously on the floor of the Assembly on May 10th, and approved unanimously by the Senate Governance and Finance Committee on June 13th. Currently the bill is waiting for approval on the floor of the Senate. Amendments made following the bill’s introduction all have the same objective as the bill: to clarify BAWSCA’s authority, reduce risk to investors and save water customers money.

Bond Counsel Retained to Provide Support on Examining Feasibility. The firm of Orrick, Herrington & Sutcliffe LLP, who is well known as one of the most qualified public finance law firms in the country, was selected in April, after a competitive request for proposals (RFP) process, to be BAWSCA’s Bond Counsel. A contract with a not-to-exceed limit of \$25,000 was executed under the General Manager’s procurement authority. Further services will require Board authorization.

During the first phase of its contract with BAWSCA, Bond Counsel suggested amendments to the legislation. The legislation, as amended, provides multiple options for structuring and securing the financing, and clarifies BAWSCA’s authority to issue bonds for this purpose.

The extension of the agreement with Bond Counsel will be considered under a separate agenda item.

Anticipation of a Negotiated Sale. BAWSCA’s financial advisor, KNN, recommends that BAWSCA’s bonds be sold through a negotiated sale. There are two principal ways that municipal bonds are sold: through a competitive bid and through a negotiated sale. Both methods of sale have advantages and risks, and the final decision must weigh those factors in light of the particulars of the issuer, the transaction, and the market. According to KNN, BAWSCA’s bond issuance has many of the characteristics that would favor a negotiated sale to achieve the lowest overall cost of funds. KNN’s recommendation is that a negotiated sale on this transaction would provide better protection of BAWSCA member agencies’ overall interests.

The table below summarizes the characteristics of both alternatives.

	Competitive Sale Favored	Negotiated Sale Favored
Issuer		
Type of Organization	Broad-based, general-purpose government	Special-purpose authority
Frequency of Issuance	Regular borrower in public market	New or infrequent issuer of debt
Market Awareness	Active secondary market with wide investor base	Little or no existing institutional base
Credit Quality		
Security Structure	Conventional resolution and cash flow; for example, rate covenant and coverage	Innovative or unusual credit structure
Trend	Stable	Improving or under stress
Market Conditions		
Interest Rates	Stable, predictable market	Volatile market
Tax Status	Tax-exempt, no concerns	Taxable (all or a portion)

	Competitive Sale Favored	Negotiated Sale Favored
Marketing		
Pre-marketing	Limited need for pre-marketing, market pricing	Specific pre-sale activity to generate demand
Flexibility in Timing	Limited flexibility	Greatest flexibility in timing
Fine Tuning Structure	Limited options given to bidders	Flexibility and ability to fine tune
Cost		
Interest Rate	Highest market price (i.e., lowest interest rate) offered by bidders on day of sale	Best match of product with specific investor demand
Gross Spread	Varies depends on certain marketing strategies and conditions	Varies depends on certain marketing strategies and conditions

The table indicates a negotiated sale would be best for BAWSCA for the following reasons:

1. BAWSCA is a new issuer in the municipal bond market. BAWSCA is also an atypical borrower, neither a water wholesaler nor a retailer. Many of the features of the bond issuance will be unusual as well. For example, BAWSCA will not have the usual rate covenants and coverage features of a typical water utility. While BAWSCA has no reserves or other assets of note, the financing structure will need to be able to withstand water sales volatility. This bond issuance would be a classic example of “story” bonds, which are usually sold through a negotiated process so that the underwriter has the time before pricing to explain and pre-sell the bonds.
2. General uncertainty and volatility in bond and financial markets increases risk of poor results from competitive sale.
3. BAWSCA will benefit from having the advice and input, early on, from the underwriter(s) and will benefit from the ability to change structure during a negotiated pricing to optimize results.
4. Current market trends favor negotiated sale. Looking at the California market since January 1, 2009, 166 issues, or 86%, of a total 192 water revenue bond issues representing \$10.2 billion, or 81%, of total par amount have been issued on a negotiated basis.

Conclusion: The method of a negotiated sale appears to be the better option for BAWSCA’s member agencies to achieve the lowest cost of issuance possible.

Selection of Underwriting Firm. During a negotiated sale, the underwriting firm is selected before interest rates are set. By bringing the underwriter on early, BAWSCA would benefit from the additional intellectual capital of the underwriting firm, which can help in developing the financing structure, including its underlying covenants, in a manner that is more likely to attract investor interest. At its June 13, 2012 meeting, the Board Policy Committee voted unanimously to support the issuance of a bond underwriter Request for proposals (RFP) before the July Board meeting.

An RFP for underwriters was distributed to thirteen (13) underwriting firms selected by BAWSCA’s financial advisor KNN on June 20, 2012. Ten (10) firms responded to the RFP, with two of them submitting a joint proposal. Each proposal was evaluated on the basis of overall experience and capability, experience in serving as underwriters for water and

wastewater revenue bonds and certificates of participation in California in the past three years, proposed rating strategy and bond structure, and proposed compensation. Based on the preliminary evaluation results, seven (7) firms were invited to oral interviews held on July 9th and 11th. There will be no financial impact caused by the appointment of bond underwriters, because payment to underwriters is contingent upon a successful issuance of the bonds. The authorization of the appointment will be considered under a separate agenda item.

Findings during the Feasibility Evaluation. Many issues are being considered while evaluating the feasibility and the potential structure of a bond issuance. These issues identified by BAWSCA’s financing team include those raised by member agencies or asked by Directors at BAWSCA Board and Committee meetings. All of the questions will be addressed in the final report, as well as alternatives, when appropriate.

While staff and Bond Counsel have not completed the feasibility analysis of the potential bond issuance, the team has made progress on analyzing options for structuring and securing the bonds.

At this time, the most advantageous security structure is to have BAWSCA issue bonds to make a full prepayment on behalf of member agencies. The bonds could be secured by member agency charges, collected by San Francisco as a surcharge and transferred to BAWSCA on a monthly basis. The amounts collected would be sufficient to pay debt service on the bonds and to satisfy all reserve requirements and covenants with respect to the bonds. Surcharges will be a volumetric rate and reset annually based on actual purchases. The amounts would be the same or less than the current capital cost recovery payments member agencies pay to San Francisco. If, as expected, the amounts collected exceed the funds necessary to pay back the bonds and fund all required reserves, BAWSCA would distribute excess amounts back to BAWSCA members. If the amounts collected would not produce net savings over the term of the bonds, the bond issuance would not be recommended.

Possible Overall Savings. The preliminary estimated overall savings will be between \$25 million and \$66 million over the term of the bonds on a present value basis. The estimates are based on the assumptions that BAWSCA would prepay the entire current balance of pre-2009 capital asset owe to San Francisco at an average interest rate of between 3.8% to 4.6% for a term of 21.5 years. The possible overall savings based on three interest rate scenarios are listed in the following table:

PRELIMINARY ESTIMATE OF OVERALL SAVINGS			
Pre 2009 Capital Asset Owe to SFPUC (as of 6/30/2009):	\$397M		
Term:	25 years		
Interest Rate:	5.13%		
Total Debt Service Payment from 1/1/2013 to 6/30/2034:	\$28M		
	Scenario 1	Scenario 2	Scenario 3
Pre 2009 Capital Asset Owe to SFPUC (as of 1/1/2013):	\$367M		
Term:	21.5 years		
Interest Rate:	3.8%	4.2%	4.6%
Total Debt Service Payment from 1/1/2013 to 6/30/2034:	\$541M	\$561M	\$582M
Reduction in Overall Debt Service Payments:	(\$66M)	(\$46M)	(\$25M)
Notes: The actual savings will depend on final bond structure, ratings, and the market condition on the day of final pricing.			

Implementation and Possible Need for a Resolution Adopted by Each Agency.

The evaluation of feasibility and a recommendation will be brought to the Committee in August and to the Board for consideration in September. If the Board decides to move forward, staff will work with the Bond Counsel to produce the required bond documents.

It is likely that the preferred security structure will require individual resolutions to be adopted by each agency. The purpose of such resolution would be to acknowledge member agency participation in BAWSCA's prepayment program and authorize and direct agency staff to assist BAWSCA in connection with the program. BAWSCA staff will prepare a general resolution and staff report to distribute to member agencies following authorization by the Board. Based on the proposed schedule, it will be important to have the individual resolutions adopted by each agency before the end of December 2012.

It is not necessary to amend the 2009 WSA or enter into agreements with individual member agencies. BAWSCA will negotiate a contract with San Francisco on payment collection and enforcement in the Fall.

Schedule of Establishing Feasibility and Implementing Potential Bond Issuance.

Issuance of RFP for bond underwriting firm	June
Board approval of Phase 2 of Bond Counsel contract	July
Board approval of bond underwriter contract	July
Governor's signature on successful legislation	August – September
Completion on the feasibility evaluation & Recommendation to BPC	August
Completion on the feasibility evaluation & Recommendation to Board	September
Board approval of Phase 3 of Bond Counsel contract and appointment of disclosure counsel	September
Agreement with SFPUC on receipt of funds and payment collection following bond sale	Fall – to BPC and Board
Board authorization to issue bonds and approval of bond documents	October
Resolutions adopted by BAWSCA member agencies	November – December
Board authorization to issue bonds and approval of bond documents	November
Bond closing, based on market conditions	January, 2013

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Authorization to Amend the Contract with Orrick, Herrington & Sutcliffe LLP (Bond Counsel)**

Summary:

This item requests authorization for the CEO/General Manager to amend the contract with Orrick, Herrington & Sutcliffe LLP (Orrick) for additional legal services to be provided in the second phase of the contract.

In May, the CEO signed a contract with Orrick for a not-to-exceed amount of \$25,000, within the CEO's procurement authority. That contract allowed Orrick to provide bond legal services to investigate whether a bond issuance would benefit BAWSCA's member agencies and their water customers and whether such an issuance would be feasible.

This proposed amendment would allow Orrick to provide further legal advice to complete the feasibility analysis.

Fiscal Impact:

The proposed amendment to the contract would increase the not-to-exceed amount by \$15,000. It will result in a combined not-to-exceed amount of \$40,000 for the first phase and the second phase of work. Funds are available in the contingency budget. There would be no fiscal impact on the total adopted budget for FY2011-2012.

Board Policy Committee Action:

The Committee voted unanimously to recommend authorization of the proposed board action.

Recommendation:

That the Board authorize the CEO/General Manager to amend the contract between BAWSCA and Orrick by increasing the not-to-exceed amount by \$15,000 subject to legal counsel's review.

Discussion:

In Fall 2011, staff began investigating whether a bond issuance to prepay the capital debt the agencies owe San Francisco would benefit BAWSCA's member agencies and their water customers. Input from qualified bond counsel, who are attorneys specialized in law related to issuing bond was needed to complete the feasibility evaluation.

In February, a Request for Proposals was prepared by KNN and legal counsel and distributed to three highly experienced firms. Proposals were received on April 11 and all three firms were interviewed. The firm of Orrick, Herrington & Sutcliffe LLP, was considered as the most qualified proposer among the three proposals and was selected. Orrick has over 100 years of bond counsel experience in public finance. Its public finance practice has been ranked first in the country for most of the past eighteen years by total dollar volume of transactions for serving as bond counsel. Orrick is also nationally recognized for its

expertise in tax matters related to public finance. A professional services agreement with Orrick was signed in May under the CEO/General Manager's discretionary spending authority. Bond counsel is expected to provide a broad range of base and optional services in three phases.

The first phase of work consisted of legal services to evaluate the feasibility of the potential bond issuance, including an initial analysis of the ability of BAWSCA to issue such bonds on a tax-exempt basis and an initial analysis of available security structure options. In addition, Bond Counsel provided input on the pending legislation to clarify BAWSCA's authority to issue bonds for this purpose and to improve the security of any bonds issued by the Board. Under Phase 1, Bond Counsel is compensated on a per hour basis up to a not-to-exceed amount of \$25,000.

The second phase consists of optional legal services to complete the tax and security analysis. These services will be exercised in the sole discretion of BAWSCA following authorization by the Board. Bond Counsel is to be compensated on a per hour basis up to a \$40,000 combined not-to-exceed amount for Phase 1 and Phase 2.

Potential Future Services. The final phase consists of optional bond counsel services to provide ongoing support if the Board decides to pursue a bond issuance. The fee for Phase 3 services shall be wholly contingent upon the successful issuance of the bonds. These services will be exercised in the sole discretion of BAWSCA following authorization by the Board.

Orrick, Herrington & Sutcliffe LLP
Bond Counsel

PURPOSE

In Fall 2011, BAWSCA began to investigate whether a bond issuance to prepay a capital debt the agencies owe San Francisco would benefit BAWSCA's member agencies and their water customers. Additional steps have been taken since the discussion with the last Board Policy Committee meeting. Input from qualified Bond Counsel is needed to evaluate the feasibility and possible structures of a bond issuance for prepaying the capital debt owed to San Francisco pursuant to the 2009 Water Supply Agreement.

SCOPE OF WORK

Bond counsel will be expected to provide a broad range of base and optional services including, but not limited to:

Phase 1 (Base Services): Initial analysis of the ability of BAWSCA to issue bonds on a tax-exempt basis for prepaying the capital debt the agencies owe San Francisco and initial analysis of security structure options available to BAWSCA, including a potential amendment to BAWSCA's enabling legislation that would allow for San Francisco to enter into a legally binding contract with BAWSCA that would require San Francisco to impose surcharges sufficient to pay off BAWSCA's debt service on bonds.

Phase 2 (Optional Services): Completion of tax analysis and security analysis. These optional services will be exercised in the sole discretion of BAWSCA following authorization by the BAWSCA Board of Directors.

Phase 3 (Optional Services for Issuance of Bonds): Implementing the issuance of bonds to prepay the capital cost recovery payments currently being made under the 2009 Water Supply Agreement to amortize approximately \$370 million in regional assets acquired prior to execution of the new Agreement. These optional services will be exercised in the sole discretion of BAWSCA following authorization by the BAWSCA Board of Directors.

Compensation

Phase 1 (Base Services): Paid on an hourly basis, discounted by 10%, up to a not-to-exceed amount of \$25,000.

Phase 2 (Optional Services): Paid on an hourly basis, discounted by 10%, up to a \$40,000 combined not-to-exceed amount for Phase 1 and Phase 2.

Phase 3 (Optional Services for Issuance of Bonds): If BAWSCA decides to proceed with Phase 3, compensation will be either: (1) at the hourly rates set forth below up to a maximum amount of \$150,000 (Option 1); or (2) a fixed fee, which shall be set at a maximum of \$120,000 (Option 2). The fee for Phase 3 services shall be wholly contingent upon the successful issuance of the bonds.

Hourly rates of the proposed primary team of attorneys (to be subject to a 10% discount):

Stephen A. Spitz	\$760
Devin Brennan	\$550
Richard J. Moore	\$725
Kimberly N. Westberry	\$175
Thomas C. Mitchell	\$825

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Authorization to Appoint Goldman Sachs and De La Rosa & Co. as Underwriters for the Potential Bond Issuance**

Summary:

This item requests authorization for the CEO/General Manager to appoint Goldman Sachs and De La Rosa & Co. as BAWSCA's Underwriters for banking and underwriting services in connection with the potential bond issuance to prepay the \$370 million of existing capital assets owed to San Francisco. During a negotiated bond sale, Underwriters are selected before the bond issue is structured and interest rates are set. This selection would allow BAWSCA to benefit from the additional intellectual capital of the underwriters, which can help in developing the financing structure, including its underlying covenants, in a manner that is more likely to attract investor interest and increase the savings generated by the transaction.

Fiscal Impact:

There will be no financial impact caused by this selection, because payment to the underwriters is contingent upon successful issuance of the bonds.

Board Policy Committee Action:

The Committee voted unanimously to support the issuance of a bond underwriter Request for Proposals (RFP). The Committee was informed that the selection process will take place after the June 13th BPC meeting and that the recommendation will go directly to the Board in July.

Recommendation:

That the Board authorize the CEO/General Manager to appoint Goldman Sachs as BAWSCA's Senior Managing Underwriter and De La Rosa & Co. as Co-Senior Managing Underwriter. The Board will approve a form of bond purchase contract when it approves all bond related documents in November.

Discussion:

A bond underwriter RFP was distributed to thirteen (13) underwriting firms selected by BAWSCA's financial advisor KNN on June 20, 2012. Ten firms responded to the RFP, with two of the firms submitting a joint proposal. A RFP review team was convened to evaluate each proposal on the basis of overall experience and capability, experience in serving as underwriters for water and wastewater revenue bonds and certificates of participation in California in the past three years, proposed rating strategy and bond structure, and proposed compensation. Based on the preliminary evaluation results, seven (7) firms were invited to oral interviews held on July 9th and 11th. The review team recommends Goldman Sachs be selected as the senior managing bond underwriter and De La Rosa & Co. be selected as co-senior managing underwriter for BAWSCA's potential bond issuance. It is expected that additional firms will be added to the underwriting team to help sell the bond issue at a later date.

Goldman Sachs (Goldman) is recommended as senior underwriter. The senior underwriter will assist in structuring the transaction, managing the bond sale, and taking most of the liability for underwriting unsold bonds. Goldman was selected based on its underwriting and distribution capabilities, the thoughtfulness of its structuring and credit strategy, and its experience in structuring complicated revenue credits. Goldman's fee proposal was in the low range of the proposals. Based on the proposal, staff anticipates that the underwriter's discount will be about \$2.75 per \$1,000 in bonds, or 0.275% of the par amount.

De La Rosa & Co. was chosen to serve as a co-senior underwriter, assisting in the structuring of the transaction and assuming the second largest underwriting liability. This California-headquartered firm was selected primarily based on the quality of the proposal, particularly regarding structure and credit, but also based on its experience in underwriting water revenue and other California bonds.

Attachments:

- A copy of the bond underwriter RFP
- The distribution list of the RFP
- The list of the firms that responded,
- The list of firms who were interviewed.

REQUEST FOR PROPOSALS
UNDERWRITER(S) FOR THE
BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
SECURITIZATION OF CAPITAL RECOVERY PAYMENTS

The Bay Area Water Supply and Conservation Agency (BAWSCA) is a public agency representing the interests of the wholesale purchasers of water from the San Francisco regional water system. KNN Public Finance serves as the financial advisor to BAWSCA. On behalf of BAWSCA, KNN Public Finance is soliciting proposals from qualified investment banking firms to provide banking and underwriting services in connection with the issuance of bonds to prepay approximately \$365 million in capital cost recovery payments currently being made under the 2009 Water Supply Agreement.

Please see the attached memorandum for additional background information (Enclosure 1), as well as Section 5.03 of the Water Supply Agreement, concerning capital recovery payments (Enclosure 2). Also, please see the attached bill that is currently pending in the State Senate, AB 2167, designed to facilitate this transaction (Enclosure 3).

Responses are to be delivered via e-mail on Monday, July 2 by 11:59 PM (California time) to Art Jensen (ajensen@bawasca.org), Christina Tang (ctang@bawasca.org), David Brodsky (dbrodsky@knninc.com) and Allison Schutte (aschutte@hansonbridgett.com). Please limit your responses to 10 pages, exclusive of the letter of transmittal. Resumes, any debt service runs, transaction history and schedules may be included in an appendix, which will not be counted towards the page limit. BAWSCA will accept joint proposals from more than one firm, although such joint proposals are not specifically requested.

Please reserve Monday July 9 or Wednesday July 11 as the tentative dates planned for finalist interviews, should interviews be conducted. Interviews will be conducted by BAWSCA staff, KNN, BAWSCA's Legal Counsel, Hanson Bridgett LLP, and representatives of member agencies.

A. BACKGROUND

Bay Area Water Supply and Conservation Agency (BAWSCA):

BAWSCA is a special district created by the separate, but parallel, actions of 26 local government agencies in the Bay Area, as authorized by AB 2058, which was enacted by the California Legislature in 2002. The agency's membership is comprised of the Wholesale Customers of the San Francisco water system. The legislative action to create BAWSCA was in response to concerns that the communities in the Bay Area that depend on the San Francisco regional water system faced serious problems which they would not be able to solve without the help of State law.

BAWSCA's goals are to protect the health, safety, and economic well being of 1.7 million people, businesses and community organizations in Alameda, San Mateo and Santa Clara counties that depend on the regional water system. The agency's governing board includes not only representatives from each of the 24 public agencies, but also from Stanford University and the California Water Service Company, both of which are

long-term wholesale purchasers of water from San Francisco.

BAWSCA is currently developing a strategy to meet the projected water needs of its member agencies through 2035 and to increase their water supply reliability under normal and drought conditions. Up to 13 million gallons per day (mgd) of additional water supply may be needed by 2035 to meet the needs of the current and future residents, businesses, and organizations in normal years. Even more water (i.e., up to 62 mgd) will be needed each year during extended drought conditions. The projects that may come from the strategy include water transfers, brackish groundwater desalination, and water recycling. Projects may be undertaken by BAWSCA, individual agency members or groups of members.

BAWSCA currently has a staff of seven. BAWSCA's annual operating budget is approximately \$2.7 million and the agency's assets consist primarily of general office equipment.

The Water Supply Agreement:

In 2009, the San Francisco Public Utility Commission (SFPUC) and the Wholesale Customers entered into the Water Supply Agreement (WSA), which replaced the prior Master Water Sales Contract. The 26 agencies authorized BAWSCA to negotiate that agreement on their behalf. The WSA has a 25-year term (with provisions for two, conditional 5-year extensions). Under the WSA, annual operating expenses including debt service on bonds sold to finance regional system improvements and regional capital projects funded from revenues will be allocated between San Francisco's retail customers and the Wholesale Customers on the basis of proportionate annual water use. Under the WSA, the SFPUC annually establishes water rates applicable to the Wholesale Customers. The wholesale water rates are based on an estimate of the level of revenues necessary to recoup the cost of distributing water to the Wholesale Customers in accordance with the methodology outlined in Article V of the WSA (the Wholesale Revenue Requirement or WRR). Under the SFPUC's historical practice, the WRR is divided by an estimate of the amount of water to be purchased by Wholesale Customers to calculate the annual water rate for each 100 cubic feet of water purchased.

One feature of the WSA is that the Wholesale Customers' share of net book value of existing regional assets as of June 30, 2009 will be recovered through level annual payment over the twenty-five year term of the WSA at an interest rate of 5.13%. The proposed financing would involve the issuance of bonds to prepay this component of the water rates, under terms in the WSA, replacing that component of the water cost with a new charge designed to secure and service the bonds.

Under Article VII, Section 7.02 of the WSA, the City is required to re-compute the WRR after the close of each fiscal year based on the actual costs incurred in the delivery of water to the Wholesale Customers. The difference between the wholesale revenues earned during the year and the "actual" Wholesale Revenue Requirement is recorded in a separate account (the Balancing Account) and represents the cumulative amount that is either owed to the Wholesale Customers (if the wholesale revenues exceed the Wholesale Revenue Requirement) or owed to the City (if the Wholesale Revenue Requirement exceeds the wholesale revenues paid). In accordance with Article VI of the WSA, the

amount recorded in the Balancing Account shall earn interest at a rate equal to the average rate received by the City during the year on the invested pooled funds of the City Treasurer, and shall be taken into consideration in the determination of subsequent wholesale water rates.

Plan of Finance:

BAWSCA has taken several actions towards accomplishing this financing, including directing staff to evaluate its feasibility and hiring Orrick, Herrington and Sutcliffe as bond counsel. It is anticipated that the Board will appoint one or more underwriters in July, appoint disclosure counsel and approve a plan of finance in September, and adopt a financing resolution in November. Pricing would occur in December or January, with closing occurring after the expected January 1 effective date of AB 2167.

During the feasibility evaluation, various options of calculating member agency payments to secure the bond have been considered. No amendments to the WSA will be contemplated.

Approximately 22% of the water purchased by Wholesale Customers is purchased by the California Water Service Company and approximately 1.5% is purchased by Stanford University. The balance of the Wholesale Customers are public agencies. It is BAWSCA's expectation that a portion of the debt will have to be issued on a taxable basis, but that bonds issued on behalf of the public members will be tax-exempt. At this point, it is not certain that all members will participate in the financing of the capital charge prepayment.

B. PROPOSAL CONTENT AND GENERAL REQUIREMENTS

1. Provide a brief description and overview of your firm, such as type of organization, years in business, business focus, location of headquarters and presence in California, including sales and trading. Describe any agreements, joint ventures and/or affiliations insofar as they relate to distribution of primary offerings to investors at original offering prices; describe the firm's institutional and retail sales capabilities; and describe your capabilities in marketing taxable debt.
2. Summarize your firm's experience in underwriting water and wastewater revenue bonds and certificates of participation since January 1, 2009, as well as any other transaction work you believe would be relevant to this engagement, including complex or new issuer experience from earlier dates. We are most interested in the experience of the proposed team and work in California. A transaction list may be provided as an appendix.
3. Identify the members of your team to be assigned to BAWSCA, including the underwriter who is expected to lead the pricing, and the role of each. Provide a brief resume for each, including experience with similar revenue bonds. Also include the office location(s) from which those members work.
4. Based on the information provided herein and other publically available information, please describe any recommendations you have for a credit structure that preserves the current general payment structure of a volumetric water charge.

Please include your recommendations regarding a funded reserve and debt service “coverage”.

5. What would be your recommended rating strategy? For example, how many ratings would you recommend, and would you recommend seeking indicative or some other private rating? To what extent do you believe the underlying participants’ credit will factor into the BAWSCA rating? What would be your rating level expectations for such a credit?
6. Please describe up to three case studies that exhibit similar characteristics to BAWSCA’s situation, including the role of your proposed team.
7. Provide three client references for similar issuers, preferably individuals who have worked directly with the proposed primary contact(s). Indicate name and title of the individual, issuer, email and phone number.
8. BAWSCA expects to appoint more than one firm to the underwriting team. Please comment on your recommendations regarding the size and composition of the syndicate and your recommendations as to the assignment of liabilities.
9. Please provide an indicative underwriting spread, broken down by average takedown, expenses and management fee, if any. Identify takedown by maturity of tax-exempt and taxable bonds and break out of expenses.
10. Based on the description of the bonds contained in this RFP and your proposed structure, rating expectations and fees, describe your pricing expectations for the bonds and rationale, assuming market conditions as of close on Tuesday, June 26. Include coupons, yields, serial/term structure and spreads to MMD or Treasuries as appropriate. The estimated scale and any supporting data for the price rationale you wish to include (such as comparable sales) may be included as an appendix.
11. Based on your firm’s net excess capital, what is your capability to underwrite?
12. Indicate whether your firm or any personnel proposed to work on this financing have been investigated or been subject to disciplinary action by FINRA, the SEC, or any other federal or State regulatory body over the past five years. If so, provide a description of such investigation or disciplinary action including the results of any investigation or disciplinary action (this disclosure may be included as an appendix).
13. Describe any work you have done for the SFPUC or BAWSCA members over the past five years; this experience can include bidding on competitive issues.
14. Please provide any other information that you feel demonstrates your firm’s ability to effectively structure, price and market the proposed bonds at favorable terms to BAWSCA.

C. SELECTION PROCEDURES

BAWSCA will review and screen all proposals received. Proposals will be evaluated for experience, professional qualifications, service approach, and cost. BAWSCA will likely

choose to interview several firms as part of the final selection process. BAWSCA intends to award a contract to the most qualified, responsible firm or firms submitting a responsive proposal.

Ranking will be based on a maximum of 100 points, weighted as indicated below. In determining the number of points a proposal will receive in each category, BAWSCA will consider the proposal material submitted, oral interviews (if applicable), and any other relevant information about a given Proposer. The following criteria will be used in the evaluation of the proposals:

- Qualifications and Experience of Firm 25 Points
- Qualifications and Experience of Personnel Assigned to the Project 25 Points
- Approach to the Scope of Services 35 Points
- Fee for Services 15 Points

BAWSCA may reject any proposal in which the approach, qualifications, or costs are not deemed to be within an acceptable or competitive range. BAWSCA may seek clarifications or additional information from any or all Proposers regarding their proposals, and may request modified proposals or best and final offers.

Following the initial review and screening of the written proposals, using the Selection Criteria described above, BAWSCA intends to invite one or more firms to participate in the final selection process, which may include:

- Participation in an oral interview.
- Submission of any additional information as requested by BAWSCA.

This RFP does not commit BAWSCA to awarding a contract. Proposers shall bear all costs incurred in the preparation of the proposal and participating in the proposal process. BAWSCA reserves the right to reject any and all proposals, the right in its sole discretion to accept the proposal it considers most favorable to BAWSCA's interest, and the right to waive minor irregularities. BAWSCA further reserves the right to reject all proposals and seek new proposals when such procedure is reasonable and in the best interest of BAWSCA.

E. DEADLINE FOR SUBMITTAL/CONTACT FOR QUESTIONS

Proposals must be received later than **11:59 p.m. Pacific Daylight Time July 2, 2012**. Proposals should be submitted by email to each of the following persons:

David Brodsky
KNN Public Finance
dbrodsky@knninc.com

Allison Schutte
Hanson Bridgett LLP
aschutte@hansonbridgett.com

Art Jensen, General Manager and CEO
Bay Area Water Supply and Conservation Agency
ajensen@bawsca.org

Christina Tang, Sr. Administrative Analyst
Bay Area Water Supply and Conservation Agency
ctang@bawsca.org

Questions should be directed to David Brodsky of KNN Public Finance, by telephone at 510-208-8205 or by e-mail at dbrodsky@knninc.com. Please do not contact other members of the BAWSCA team.

F. CONFIDENTIALITY

The California Public Records Act (Cal. Govt. Code § 6250 et seq.) mandates public access to government records. Therefore, unless the information is exempt from disclosure by law, the content of any request for explanation, exception or substitution, response to these specifications, protest or any other written communication between BAWSCA and the Proposer shall be available to the public.

If the Proposer believes any communication contains trade secrets or other proprietary information that the Proposer believes would cause substantial injury to the Proposer's competitive position if disclosed, the Proposer shall request that BAWSCA withhold from disclosure the proprietary information by marking each page containing such proprietary information as confidential. Proposer may not designate its entire proposal as confidential.

If the Proposer requests that BAWSCA withhold from disclosure information identified as confidential, and BAWSCA complies with the Proposer's request, the Proposer shall assume all responsibility for any challenges resulting from the non-disclosure, indemnify and hold harmless BAWSCA from and against all damages (including but not limited to attorneys' fees that may be awarded to the party requesting the Proposer information), and pay any and all costs and expenses related to the withholding of the Proposer information. The Proposer shall not make a claim, sue or maintain any legal action against BAWSCA or its directors, officers, employees or agents in connection with the withholding from disclosure of Proposer information.

If the Proposer does not request that BAWSCA withhold from disclosure information identified as confidential, BAWSCA shall have no obligation to withhold the information from disclosure and may release the information sought without liability to BAWSCA.

G. WAIVER

By submitting a proposal, the Proposer represents and warrants that it has sufficiently

informed itself in all matters affecting the performance of the work requested in this Request for Proposals; that Proposer has checked its proposal for errors and omissions; that the rates stated in its proposal are correct and as intended by it and are a complete and correct statement of its rates for performing the work requested in this Request for Proposals.

The Proposer waives any claim against BAWSCA for costs incurred in preparing a proposal and responding to this RFP.

Enclosures:

- (1) Memorandum outlining BAWSCA bond financing issue.
- (2) Water Supply Agreement.
- (3) Current form of AB 2167.

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BAWSCA
 Potential Underwriters
 (As of June 20, 2012)

Underwriters

	Telephone	Email
Goldman, Sachs & Company		
Ian Parker	415-393-7748	ian.parker@gs.com
Wells Fargo Bank, N.A.		
Michael Engelbrecht	213-614-4475	michael.j.engelbrecht@wellsfargo.com
Mitsubishi UFJ Securities (USA), Inc.		
Marc Hughes	415-489-3985	mhughes@us.sc.mufg.jp
Morgan Stanley & Co. Incorporated		
John Sheldon	415-576-2083	john.sheldon@morganstanley.com
Citigroup Global Markets Inc.		
David G. Houston	916-488-4750	david.houston@citi.com
JP Morgan		
Alex Burnett	415-315-7785	alex.burnett@jpmorgan.com
Barclays Capital Inc.		
Michael T. Gomez	415-274-5220	michael.gomez@barcap.com
Bank of America Merrill Lynch & Co.		
Jeff Bower	213-345-9580	jeffrey.bower@baml.com
De La Rosa & Co., Inc.		
Guillermo Garcia	415-217-3384	ggarcia@ejdelarosa.com

	Telephone	Email
Siebert Brandford Shank & Co., LLC		
Peter C. Wong	510-645-2245	pwong@sbsco.com
Stone & Youngberg a Division of Stifel Nicolaus		
Tom Innis	415-445-2326	tinnis@syllc.com
Backstrom McCarley Berry & Co., LLC		
Vincent E. McCarley	415-433-0270	vmccarley@bmcaco.com
Loop Capital Markets LLC		
Lisa A. Smith	310-442-1200 x 23	lisas@loopcap.com

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BAWSCA
 Potential Underwriters
 (As of July 2, 2012)

Firms Responded to the Underwriter RFP

	Telephone	Email
Goldman, Sachs & Company		
Ian Parker	415-393-7748	ian.parker@gs.com
Wells Fargo Bank, N.A.		
Michael Engelbrecht	213-614-4475	michael.j.engelbrecht@wellsfargo.com
Mitsubishi UFJ Securities (USA), Inc.		
Marc Hughes	415-489-3985	mhughes@us.sc.mufg.jp
Morgan Stanley & Co. Incorporated		
John Sheldon	415-576-2083	john.sheldon@morganstanley.com
Citigroup Global Markets Inc.		
David G. Houston	916-488-4750	david.houston@citi.com
JP Morgan		
Alex Burnett	415-315-7785	alex.burnett@jpmorgan.com
Bank of America Merrill Lynch & Co.		
Kim Nakahara	(415) 627-3195	kim.nakahara@baml.com
De La Rosa & Co., Inc.		
Guillermo Garcia	415-217-3384	ggarcia@ejdelarosa.com
Siebert Brandford Shank & Co., LLC		
Peter C. Wong	510-645-2245	pwong@sbsco.com
Stone & Youngberg a Division of Stifel Nicolaus		
Tom Innis	415-445-2326	tinnis@syllc.com

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BAWSCA
Potential Underwriters
(As of July 11, 2012)

Firms Interviewed on July 9 and July 11

	Telephone	Email
Goldman, Sachs & Company		
Ian Parker	415-393-7748	ian.parker@gs.com
Wells Fargo Bank, N.A.		
Michael Engelbrecht	213-614-4475	michael.j.engelbrecht@wellsfargo.com
Mitsubishi UFJ Securities (USA), Inc.		
Marc Hughes	415-489-3985	mhughes@us.sc.mufg.jp
Morgan Stanley & Co. Incorporated		
John Sheldon	415-576-2083	john.sheldon@morganstanley.com
Citigroup Global Markets Inc.		
David G. Houston	916-488-4750	david.houston@citi.com
Bank of America Merrill Lynch & Co.		
Kim Nakahara	(415) 627-3195	kim.nakahara@baml.com
De La Rosa & Co., Inc.		
Guillermo Garcia	415-217-3384	ggarcia@ejdelarosa.com

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Study Session: Long-Term Reliable Water Supply Strategy and the Phase II A Report**

Summary:

The Phase II A Report of the Long-Term Reliable Water Supply Strategy is complete and has been distributed with the agenda materials. The Report includes a short **Executive Summary** of the Phase II A results and recommendations.

The objectives for this study session are to: (1) review the results and recommendations presented in the Report; and (2) obtain Board input to frame policy issues related to the Strategy.

Board action to implement one or more of the recommended next steps associated with the completion of the Strategy is anticipated at the September 2012 Board meeting. In addition, several policy issues related to the Strategy will be brought to the Board in September for consideration and action.

Recommendation:

There is no recommended action for this item. Clarifying questions and input from the Board on the information presented is encouraged, as is review of the **Executive Summary**.

Discussion:

BAWSCA is developing the Strategy as a regional effort to quantify when, where, and how much additional supply reliability and new water supplies are needed throughout the BAWSCA service area through 2035. The Strategy will identify water supply management projects that can be developed by a single member agency, by a collection of the member agencies, or by BAWSCA to meet the identified needs where and when they occur.

The objectives of this study session are to:

- Review the findings, conclusions, and recommendations of the Strategy technical evaluations completed to date, as presented in the Phase II A Report; and
- Receive Board input on the framing of policy issues that relate to the Strategy.

Board action to implement one or more of the recommended next steps associated with the completion of the Strategy is anticipated at the September 2012 Board meeting.

Several policy issues related to the Strategy will also be brought to the Board in September for consideration and action (e.g., what is an acceptable level of drought reliability for the region given the economic impacts of supply shortfalls?). Additional policy issues related to the Strategy that require more information will be identified and will be brought to the Board for consideration and action later this fiscal year.

Attached under separate cover is the Phase II A Volume I Report.

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**Bay Area Water Supply and Conservation Agency
and Regional Financing Authority**

Meeting Schedule through December 2013

Schedule for BAWSCA Board Meetings (Meetings are held from approx. 7:00 – 9:00 p.m.)	
<u>Date</u>	<u>Location</u>
Thursday – July 19, 2012	Wind Room, Foster City Community Center
Thursday – September 20, 2012	Wind Room, Foster City Community Center
Thursday – November 15, 2012	Wind Room, Foster City Community Center
Thursday – January 17, 2013	Wind Room, Foster City Community Center
Thursday – March 21, 2013	Wind Room, Foster City Community Center
Thursday – May 16, 2013	Wind Room, Foster City Community Center
Thursday – July 18, 2013	Wind Room, Foster City Community Center
Thursday – September 19, 2013	Wind Room, Foster City Community Center
Thursday – November 21, 2013	Wind Room, Foster City Community Center

Schedule for RFA Board Meetings (Meeting time will be announced)	
<u>Date</u>	<u>Location</u>
Thursday – January 17, 2013	Wind Room, Foster City Community Center
Thursday – July 18, 2013	Wind Room, Foster City Community Center

Schedule for BAWSCA Board Policy Committee Meetings (Meetings held from 1:30-4:00 p.m.)	
<u>Date</u>	<u>Location</u>
Wednesday, August 8, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, October 10, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, December 12, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, February 13, 2013	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, April 10, 2013	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, June 12, 2013	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, August 14, 2013	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, October 9, 2013	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, December 11, 2013	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.

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