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, November 15, 2012
7:00 P.M.

AGENDA

Agenda Item	Presenter	Page
1. Call to Order/Roll Call/Salute to Flag	**(Pierce)**	
2. Comments by the Chair	**(Pierce)**	
3. Board Policy Committee Report *(Attachment)*	**(Klein)**	*Pg 5*
4. Public Comments *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.*	**(Pierce)**	
5. SFPUC Report	**(Kelly/Labonte)**	
6. Consent Calendar *(Attachments)*	**(Pierce)**	
A. Approve Minutes of the September 20, 2012 Meeting		*Pg 25*
B. Receive and File Budget Status Report – As of September 30, 2012		*Pg 29*
C. Receive and File Quarterly Investment Report – as of September 30, 2012		*Pg 31*
D. Receive and File Directors' Reimbursement Report – As of September. 30, 2012		*Pg 33*
E. Authorization to Negotiate and Execute a Contract Amendment with PG&E for the Washing Machine Rebate Program.		*Pg 35*
The Committee voted unanimously to recommend authorization of the proposed Board action.		
7. Action Calendar	**(Jensen)**	
A. Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC – Policy Decisions *(Attachment)*		*Pg 37*

__Recommendation:__ **That the Board:**

1. **Authorize the CEO/General Manager to include a fixed volumetric surcharge setting methodology in the bond structure.**

   The Committee voted unanimously to advise the CEO/General Manager to pursue the modified volumetric surcharge approach.

2. **Authorize the CEO/General Manager to use a blended interest rate on the allocation of debt service.**

The Committee voted to recommend Board approval of the blended approach for the allocation of debt service.

B. Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC - Actions Needed to Proceed *(Attachment)* *Pg 43*

Recommendation: **That the Board:**

1. **Authorize the CEO/General Manager to amend the contract with KNN for their financial advisory services until the completion of the financing.**
2. **Authorize the CEO/General Manager to appoint a bank to be selected through a RFP process as the Trustee for the bonds.**

   The Committee voted unanimously to recommend Board approval of items B1 and B2.

3. **Authorize the CEO/General Manager to appoint Morgan Stanley and Citigroup Global Markets as underwriter Co-Managers for the bond issuance and increase the maximum underwriters' discount.**
4. **Authorize a maximum underwriters' discount of 0.0375% ($3.75 per $1,000 in par amount or "per bond").**

Recommendations #3 and #4 originated following the Committee meeting. .

C. Approval of the Bay Area Water Supply and Conservation Agency Revenue Bonds Series 2013A and Series 2013B (Taxable) Financing Structure and Documents for an Amount Not-To-Exceed $385 Million with a Term Ending No Later Than December 31, 2034. *(Attachment Under Separate Cover - Electronically)* *Pg 53*

Recommendation: **That the Board adopt a resolution approving the following actions:**

1. **Approve the issuance and structure of the Bay Area Water Supply and Conservation Agency Revenue Bonds Series 2013A and Series 2013B (Taxable) in an amount not-to-exceed $385 million with a term ending no later than December 31, 2034.**

   The Committee was presented with, and had discussion of the structure of the revenue bonds. No action was requested.

2. **Approve the substantially final forms of financing documents provided with this staff report, including the Revenue Bond Indenture, First Supplemental Indenture, the Continuing Disclosure Certificate, the Preliminary Official Statement, a Prepayment and Collection Agreement with the SFPUC and the Bond Purchase Agreement.**
3. **Authorize the CEO/General Manager to execute these financing documents at the appropriate time conditioned upon satisfaction of specified criteria.**

   a. **The bond interest rates and final financing structure will need to result in a net present value savings of not less than 4% (or approximately $14.2 million) over the term of the bonds.**

   b. **San Francisco must provide, in advance of receiving any funds, a written pledge to use bond proceeds in a manner consistent with federal laws and regulations. This is memorialized in the Prepayment and Collection Agreement**

The Committee voted unanimously to recommend Board approval of items #C2 and C3.

D. Review of BAWSCA's Statement of Investment Policy and Proposed Modifications *(Attachment)* *Pg 57*

Recommendation: **That the Board approve the revised language modifications to the Investment Policy:**

The Committee voted unanimously to present the amendments to the Investment Policy to the Board with potential action by the Board if it so chooses.

8. Reports **(Jensen)**

A. Board Policy Calendar *(Attachment)* *Pg 67*

B. Correspondence Packet & CEO/General Manager's Letter *(Under Separate Cover)*

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

11. Date, Time and Location of Future Meetings **(Pierce)**
(See attached schedule of meetings)

12. Adjourn to next meeting scheduled for January 17, 2013 at 7pm **(Pierce)**

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

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.

(This page intentionally left blank.)

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 Members

FROM: Arthur R. Jensen, Chief Executive Officer/General Manager

DATE: November 9, 2012

SUBJECT: Summary of Board Policy Committee meeting held October 10, 2012

Committee Chair Larry Klein called the meeting to order at 1:30 pm. A list of Committee members present (8) and absent (2), and of other attendees is attached.

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

Comments by Chair:. Chair Klein noted that the agenda includes a significant item on the bond issuance. He wants the committee to feel comfortable with its recommendation to the Board, and therefore expects a thorough discussion.

Public Comments: There were no public comments.

Consent Calendar: Director Anderson made a motion, seconded by Director O'Connell, that the minutes from the meeting of August 8, 2012, be approved. The motion carried with one abstention.

Action Items:

A. Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC: Mr. Jensen pointed out additional details on the set of recommendations being presented to the Committee. He explained that:

1) Work is continuing and the recommendations that will go to the Board in November will have more detail than what is currently available for presentation to the Committee.

2) There are certain things that cannot be known or may remain unknown even by the November Board meeting. For example, Mr. Jensen noted that after the preliminary credit assessment become available, there may be potential opportunities to enhance the bond structure to improve the final credit rating. BAWSCA and its Finance team are working to set parameters that would need to be met before moving forward with a bond issuance.

3) Lastly, one recommendation requests the authorization of the CEO/General Manager to execute financing documents at the appropriate time conditioned upon satisfaction of specified criteria. While the specified criteria were noted in the memo, they were not included in the motion. Following discussion of the item, the Committee will be asked to act on the recommendation as listed on the agenda, but with the addition of 2 conditions:

a) The bond interest rates and final financing structure will need to result in a net present value savings of not less than $20 million over the term of the bonds.

b) San Francisco must provide, in advance of receiving any funds, a written pledge to use bond proceeds in a manner consistent with federal laws and regulations.

Mr. Jensen stated that his presentation will go through the key issues of interest to the board members and each agency's financial representatives, as well the current structure of the financial plan. There are some questions on which input is needed from the committee as an advisory body to the CEO and the Board.

Mr. Jensen began his presentation by emphasizing that the objective of the bond issuance remains the same; to help water customers by saving them money on cost of water purchased from San Francisco. This can be achieved if the following conditions are met:

- The bond issuance complies with all relevant laws and rules.
- By securing the best practical credit rating, issuing bonds at the lowest practical interest rates, and with the allocation of debt service being reasonably distributed among the member agencies.
- Financial risk to BAWSCA and its member agencies is low, or significantly greater than under the "no action" alternative
- A guiding principle is whether the results compare favorably to the "no action" alternative, which is continuing to pay San Francisco at an interest rate of 5.13%.

Mr. Jensen emphasized that the credit ratings and interest rates must be practical because the goal is to strike a balance in enhancing credit ratings and lowering interest rates without spending too much money to do so. He also emphasized his choice of using the word reasonable over fair in reference to the allocation of debt among the member agencies, because the final results should be reasonable for all the member agencies.

In highlighting the objective of keeping the financial risks to BAWSCA member agencies low, and having the results comparable to the "no action" alternative, Mr. Jensen summarized the history of the existing $360 million debt being repaid to San Francisco through wholesale water rates.

<u>Background -- presentation on source or debt to be paid:</u>

In 1984, Wholesale Customers signed an agreement to pay San Francisco for their share of investments to the capital facilities. The method of repayment preferred by San Francisco at that time was Utility Method, in which San Francisco pays for facilities using current revenues or issuing bonds, and is responsible for paying the bonds off. The wholesale customers would repay San Francisco by paying depreciation and rate of return over the life of facility. A pumping unit has a 15 year lifetime, while a dam may have a lifetime of 200 years or more. Under the Utility Method, Wholesale Customers would repay San Francisco for facilities over several generations.

During the negotiation of the new Water Supply Agreement (WSA), KNN did a study that looked at changing from the Utility Method to a Cash Method. With the Cash Method, Wholesale Customers would pay San Francisco a proportionate share of revenue funded projects and a proportionate of debt service, if the SFPUC issued debt. The payments would be in real time.

At the time the old agreement was about to expire and the new agreement take effect, there was an unpaid debt of about $360 million for facilities that San Francisco had constructed, and for which the Wholesale Customers had not yet completely paid their share under the old contract. The member agencies and the SFPUC agreed to amortize the remaining debt over the 25-year term of the new agreement at an agreed upon interest rate of 5.13%.

The 2009 Water Supply Agreement also provided that the Wholesale Customers could prepay that debt through BAWSA, in whole or in part, without penalty.

In the fall of 2011, San Francisco proposed that BAWSCA examine prepaying the debt. San Francisco needed the money, and BAWSCA was likely able to borrow money at an interest rate less than 5.13% thereby saving the Wholesale Customers money.

Mr. Jensen clarified that the 5.13% interest rate is NOT a bond interest rate, but an interest rate that is embedded in the Wholesale Customers' agreement with San Francisco.

Director McLeod asked that if the bond issuance moves forward, would BAWSCA member agencies have influence on what San Francisco spends the money on? Mr. Jensen stated that BAWSCA can impose certain requirements: 1) The money cannot be spent on investments that will have a net effect of increasing Wholesale Customers' rates, and 2) there are legal restrictions that San Francisco will have to abide by in the use of tax-exempt proceeds.

Director McLeod asked if there are any other major winners in this transaction besides San Francisco and the Wholesale Customers. Legal Counsel, Allison Schutte, and Financial Counsel, David Brodsly, stated that BAWSCA and the SFPUC would get the direct benefits of the bond issuance.

Director Weed commented that in an auditor's perspective, it can be anticipated that San Francisco will have a separate account for the bond funds, which can report how the money in the account is being invested. Mr. Brodsly stated that he expects there would be a separate account for tax purposes since the funds would be subject to rebate.

Ms. Schutte explained that as part of the closing, San Francisco will be required to sign an agreement that dictates where the money will be spent. There will be a suite of projects in the agreement, and BAWSCA will be checking in on San Francisco to ensure they adhere to the terms of the agreement.

Mr. Jensen explained that the bond issuance is for Wholesale Customers to pay the money they owe San Francisco. If BAWSCA and its member agencies choose the “no action” alternative, San Francisco will still receive payments from the Wholesale Customers and spend the money at its own discretion. BAWSCA’s requirement of how San Francisco spends the funds from the bond issuance is to the extent that San Francisco complies with the law so that it does not violate BAWSCA‘s bond covenants.

Ms. Schutte stated that there will be a reporting requirement for San Francisco that can be further highlighted for the Board in November.

Director Weed expressed his concern that the funds will be spent in such a way that will increase wholesale water rates, and suggested to restrict the use of funds on the WSIP projects only.

Mr. Jensen stated that wholesale water rates will be affected if the money is spent on the regional water system for expenses that have not already been anticipated in the rate projection. BAWSCA is working with San Francisco so that there are no unintended consequences that results to higher rates for the Wholesale Customers. Mr. Jensen stated that there will be an attachment to the agreement with San Francisco listing what the expected expenditures will be.

The committee agreed with Director Breault’s summary that the intention of the bond issuance is to get the Wholesale Customers’ debt to San Francisco acknowledged as “paid” without an unintended consequence of Wholesale Customer rates going up.

Mr. Jensen reported that BAWSCA and its financial team are working to ensure written documents for the bond issuance comply with all applicable laws and rules. The staff memo provided to the Committee identifies the various necessary documents, and included drafts of the Revenue Bond Indenture, First Supplemental Indenture, and Continuing Disclosure Certificate for the Committee’s review.

An action item for the Board in November is to authorize the CEO/General Manager to select a Trustee through an RFP process, and authorize the selected Trustee to receive the money. The relationship with the Trustee is codified in the Revenue Bond Indenture.

BAWSCA is securing the best practical credit ratings to ensure member agencies are able to save money. BAWSCA has asked the bond rating agency to evaluate a conservative structure and provide a preliminary credit assessment. Possible enhancements could be considered before requesting a final credit rating.

Some of the characteristics for achieving a positive credit outlook include having a reserve balance equal to 50% of the maximum annual debt service and a secure revenue stream. Mr. Jensen explained that having a secure revenue stream was the reason behind AB 2167. The legislation allows the BAWSCA Board, if it chooses, to authorize San Francisco to do the revenue collection. This is important to the bond buyers as San Francisco's historical billing system is seen as a secure revenue stream.

Mr. Jensen emphasized that the preliminary credit assessment will provide a basis for evaluating potential credit enhancements. BAWSCA wants to issue bonds at the lowest practical interest rate.

In response to Director Klein's question, Mr. Brodsly said that it is not yet possible to know how the bonds will be rated. He reported that Standard and Poor had a positive reaction with BAWSCA's credit picture, and Mr. Brodsly stated that he is confident BAWSCA will get an A or A+ rating.

Mr. Brodsly stated that to get a higher rating, it might be at an additional cost or at the expense of a portion of the savings, and since the goal is to maximize savings as opposed to getting the highest bond rating, a bit of compromise with the rating is practical.

In response to Director O'Connell's question, Mr. Brodsly confirmed that Cal Water has an A+ credit rating. Mr. Brodsly briefly explained that a rating methodology for some entities involves a "bottom-up" look where individual member agencies are looked at for their average credit rating. BAWSCA's bond issuance will be looked at "Top-down" as it is a regional water agency that provides the service to a sizable, productive and largely affluent region.

Mr. Jensen went over a table of the Overall Plan of Finance reflecting assumptions and market conditions as of September 25th. The total proceeds of $383 million from the bond issuance are broken down into Tax Exempt and Taxable Bonds. The total proceeds from the prepayment funds amount to $367 million. The difference between the bond proceeds and the prepayment funds covers the estimated $2.1 million cost of issuance and a stabilization fund. Mr. Jensen noted that the stabilization fund is 50% of annual debt services. He emphasized that it is a revenue stabilization fund as opposed to a rate stabilization fund, and noted that the revenue stabilization fund is important to rate agencies and bond buyers when assessing the risks, determining the credit rating, and establishing interest rates.

The net present value savings for member agencies is estimated to be $20-$34 million over the 21 ½ year term of the bonds. The annual present value savings is $1.0 - $2.1 million spread out among the 26 member agencies.

For comparison, Mr. Jensen noted that the Wholesale Revenue Requirement that San Francisco collects each year is currently in the neighborhood of $200 million and will be going up to $300 million and above, as the WSIP is completed. The repayment of the $360 million is approximately 10% of the current annual Wholesale Revenue Requirement.

Mr. Jensen stated that an important discussion is how the debt service, and therefore savings, is distributed among the agencies. BAWSCA and the financial team are working to ensure the allocation of debt service is reasonably distributed.

Mr. Jensen continued his presentation explaining that there are two issues to be considered.

The first issue is how to set a surcharge for recovering the debt service from member agencies. The second is how to allocate the interest expense among the member agencies.

Two contrasting methods can be used for setting the surcharge. One method would be to use a volumetric approach, where each agency is charged based on the amount of water purchased during the year. A second method would be to charge each agency a fixed amount, regardless of how much water were used in a particular period.

Each method has advantages and disadvantages.

San Francisco currently uses a volumetric approach to allocating the Wholesale Customers' payments for use of the Regional Water System, including repayment of old debt. The SFPUC's current method for setting wholesale water rates allocates costs proportionate to the amount of water purchased by each agency.

This method can result in under or over collection of revenue, depending on how much water an agency purchases in a given year. Wet years, dry years, economic boom or decline, and conservation efforts can all affect the amount of water purchased. The potential under collection of revenue is seen as a risk to the bond buyers.

A more appealing method to bond buyers would be for agencies to be charged a fixed amount, regardless of how much water is purchased. This approach is certain to recover the necessary revenue each year. This method, however, would differ significantly from the "no action" alternative in that agencies might pay more or less than they would have paid the SFPUC under the "no action" alternative.

Mr. Jensen presented a slide demonstrating that each individual agency's percentage of total purchases from San Francisco changes overtime, but cannot be predicted.

The Financing Team has come up with a method that exhibits the advantages of both approaches. The recommended and an anticipated approach to pursue is a modified volumetric approach, in which fixed allocations are set each year, and reconciled the following year based on how much water each agency actually purchased form the SFPUC.

The surcharge could be set for each agency by multiplying the (fixed) annual debt service by each agency's percentage of total purchases in a prior year (also a fixed, known number).

Each spring, the surcharge could be calculated. Because the amount of revenue received form each agency would not reflect that agency's purchases made during the current year, reconciliation would be made so that all members would pay their fair share over the term of the bonds.

Mr. Jensen stated that this approach would appeal of the low risk to the bond buyers, and should result in a low bond interest rate. The method should also appeal to the member agencies because the percentage of the debt they would pay would more closely match the percentage they would pay San Francisco under the base case.

Mr. Jensen emphasized that the agencies' total purchases from San Francisco changes over time because their usage varies over time. Whether it goes up or down, how much agencies are charged will be adjusted. If for example, San Francisco interrupted water service to San Jose and Santa Clara, the amount they had been paying would have to be made up by the remaining agencies. Director Breault commented that it would be the same scenario with the existing revenue requirement, only at a 5.13% interest rate. Mr. Jensen agreed.

Mr. Jensen noted that in developing a structure for setting the charges, it is important to have a plan that works today and that can be modified in the future. If, for example, Santa Clara and San Jose's services were interrupted, or ACWD's consumption goes down as much as 50%, the board should have the ability to consider revisions to the method for setting surcharges.

Mr. Jensen noted it would be to the member agencies' advantage if the allocation of debt service was not a part of the bond covenant. If it were, it would be locked in for 21 ½ years and cannot be changed. Additionally, if the board chooses to finalize the allocation of debt service before it acts on the bond issuance, the potential chances to enhance the credit rating would be eliminated.

Director McLeod asked about the potential loss of the interest earnings if there is a major difference between agencies' payments and later adjustment. She noted that if an agency takes a big step down, they are going to lose the value of that money for the next 2 years, and get the old value following reconciliation.

Mr. Jensen stated that such effects should be relatively small and that the value of fine-tuning the calculations would be less than the effort to do so.

Director Guzzetta suggested the Committee keep in mind the magnitude of the dollars being discussed in comparison to the $300 million revenue requirement that Wholesale Customers have to pay San Francisco every year. That amount increases every year. The distribution of savings amounts to less than 2%.

Director McLeod stated that for some jurisdictions and their annual budget, some of those small incremental numbers mean whether or not to close a library. It is worth having the discussion and having everyone realize and agree in the end, that the money could be lost over time. Director McLeod pointed out that even though it's an incremental amount of money, it's real money for some jurisdictions.

Mr. Jensen acknowledged the importance of the dollars for each jurisdiction, and noted that the Board will be provided information that shows the estimated savings to each agency.

Director Guzzetta stated that while he understands that one can look at the dollar savings in the context of their annual budget, it would be difficult to estimate the demand within the level of accuracy of what this dollar savings will be.

Director O'Connell commented that without the bond issuance, BAWSCA member agencies will have no savings, plus an increasing revenue requirement every year.

Mr. Jensen continued his presentation explaining the second issue is how interest expenses could be distributed among the member agencies.

Mr. Jensen noted that BAWSCA's bond issuance will include both taxable and tax-exempt bonds, which have different interest rates. The question is how should interest costs be allocated to member agencies.

Mr. Jensen explained that San Francisco has been generally able to issue tax-exempt bonds for nearly all the cost of the WSIP because the total purchases of Cal Water and Stanford from the Regional Water System amount to less than 10% of system-wide water sales. San Francisco has issued a small amount of taxable debt in recent years.

BAWSCA would not be able to do issue only tax-exempt bonds because Cal Water and Stanford's purchases from the Regional Water System amount to more than 20% of the purchases of the BAWSCA agencies alone (not counting San Francisco). As a result, BAWSCA's bond issuance will need to issue some taxable debt.

With a uniform distribution of interest payments among all the members, publicly-owned agencies would pay a portion of the higher taxable interest rates. BAWSCA and the Finance Team analyzed the significance of the different types of approaches.

A comparison was made between a blended or uniform debt service allocation and a non-blended debt service allocation, where public agencies would pay the tax-exempt interest rate and Cal Water and Stanford would pay the taxable interest rate. The difference in savings represents $5 million in present value over the 21 ½ years.

The exact size of the additional increment to public agencies depends on various factors including how the debt service is allocated.

Mr. Jensen presented a table that showed the comparison of savings for the public agencies and the private agencies when using the blended versus non-blended debt service allocation.

Mr. Jensen stated that he is presenting the conclusions and considerations gathered from the analysis to provide the committee with objective information and to obtain the Committee's input to the CEO and the Board.

The analysis shows that all agencies would save money with either approach under current market conditions. Currently, the taxable and tax-exempt interest rates are fairly close. If the taxable interest rate were to rise significantly, it would be less advantageous for Cal Water and Stanford to participate. In the extreme, they might be better off continuing to pay San Francisco 5.13% interest. This possibility appears unlikely at this time.

Mr. Jensen went over the following issues that should be considered before making a decision:

- What is the principal behind privately-owned utilities being charged a different interest rate?

The simple answer is because they are profit-making organizations. However, under California Public Utility Commission (CPUC) regulation, privately-owned utilities are only allowed to make a rate of return on capital investments they make in their own water systems, as an incentive to maintain and improve their infrastructure. The CPUC does not allow privately-owned utilities to mark-up operating costs, such as the cost of buying water from the SFPUC. Those costs are passed on directly to the residential or business customers. Because BAWSCA's surcharge to pay debt service would be considered an operating cost, Cal Water will make no profit from BAWSCA's issuance of bonds.

- Does the SFPUC issue taxable debt and how are interest costs allocated?

  Mr. Jensen reported that San Francisco has issued taxable debts in the form of commercial paper. The difference in interest rates, while small, has been allocated to all Wholesale Customers through the uniform wholesale water rates set by the SFPUC.

- What would be the significance of interest rates to a typical residential water bill?

  The difference between a blended and non-blended interest rate for a typical residential water bill would be about $0.25 per month. That value represents an average over the service area, based on average water use in FY 2010-11.

- Are there other inherent subsidies in the existing SFPUC rates, and in any water utilities' rates?

  Mr. Jensen stated that while this is not an issue over which BAWSCA has authority, it is important to recognize that Wholesale Customers currently pay a uniform rate to San Francisco to cover all costs of running and maintaining the Regional Water System, including their two-thirds share of the $3.6 billion for rebuilding the system.

Mr. Jensen noted that the Board has never had to deal with the issue of interest rate allocation before. In the past, the board has set charges by allocating costs in proportion to usage amongst the membership, as has been done for annual assessments, and as was done for the water management charge. On other issues, such as subscription water conservation programs, the Board has allocated costs to the beneficiaries of those programs. The Board retains the authority over how future water management charges might be allocated.

Mr. Jensen asked for the Committee's comments and discussion of the issues presented.

Director Klein stated that he had the same concerns that were raised by Committee members during the presentation, but feels that when taking into account the present value, some of the fine tuning of the process would require more accounting expense than the savings. He stated that government subsidies widely exist, and that at some point the analysis should stop so that the quest for a perfect result does not prevent achieving a good result.

In response to Director Weed's questions, Mr. Brodsly stated that the bond issuance will be two series of bonds, one tax-exempt and one taxable. Both series of bonds will be secured by the same revenue pledge. Mr. Brodsly stated that one large pool would create a stronger credit than two entirely separate pools.

From the standpoint of the taxable bonds, Director Weed asked if there would be some way that the issuance of bonds for privately-owned entities could be structured as a capital investment, on which they would pay higher interest but be able to make a rate of return.

Mr. Brodsly stated no, for the same reason that the expense is going to be viewed as an operating cost for both the publicly-owned agencies and the privately-owned agencies, rather than as a capital investment.

Director Weed pointed out that in the overall structure, San Francisco is still going to get the money and have the freedom to spend it, with limited restrictions.

Director O'Connell noted that the bond issuance is to pay money owed to San Francisco that Wholesale Customers would be paying under the "no action" alternative. The difference is, it is at a better interest rate for the Wholesale Customers.

Director Weed stated a traditional bond is pledged against a certain asset. Even though it stays within the water enterprise, as Mr. Brodsly stated, the money San Francisco gets from the bond issuance is still not pledged against an asset, which is what a traditional use of a bond is.

Director Anderson commented that the important point he got from reading the documents is that the agencies are not individually liable. The rest of the reading requires professional explanation but he feels comfortable to make a motion for recommendation #4A) authorize the GEO/General Manager to execute these financing documents at the appropriate time conditioned upon satisfaction of specific criteria.

Mr. Jensen clarified that recommendation #4A includes two provisions which are conditions on the CEO/GM to enable or trigger the bond sale.

The two provisions are:

1) The bond interest rates and final financing structure will need to result in a net present value savings of not less than $20 million over the term of the bonds; and 2) San Francisco must provide, in advance of receiving any funds, a written pledge to use bond proceeds in a manner consistent with federal laws and regulations.

For the first criterion, Mr. Jensen asked for input on what number might represent the lowest acceptable net savings for proceeding with the bonds. He said the lower estimate of potential savings is $20 million, but it would not make sense to abandon the effort if the savings would be only $19.9 million. Should the Board consider $10 million? Mr. Jensen stated that the number can't be determined on a savings per agency basis but rather, on the aggregate. Whatever the number is, it ought to be several times larger than the cost of issuance estimated at $2.1 million.

The second criterion relates to tax laws that restrict how San Francisco may use proceeds from tax-exempt bonds. The criteria can reference the agreement BAWSCA is currently negotiating with the SFPUC. This provision of that agreement will protect BAWSCA and its member agencies against unintended consequences.

Director Guzzetta pointed out that if Cal Water were charged the higher interest rate, it would have no effect on the company or its shareholders. It would affect its customers because the cost is a simple pass through from Cal Water to its customers. The fairness issue is that Cal Water customers should pay the same as all the other customers.

Director Pierce commented that all Wholesale Customers are currently paying its debt owed to San Francisco at a uniform 5.13% interest rate.

Director O'Connell noted that the recommendation does not include a decision on setting the rates, and asked when it will be brought to the board.

Mr. Jensen explained that the Board will receive a specific recommendation at its November meeting. At this time the matter before the Committee does not include a recommendation on the how debt service should be allocated because work has been ongoing and input from the Committee is desired at this time.

Mr. Jensen also stated that the Board should not take an action that might limit BAWSCA's ability to enhance its credit rating once the preliminary credit assessment has been received. If there are opportunities to enhance the credit rating, it would be in the agencies collective interest to allow the CEO/General Manager to achieve that. The wording of recommendations to the Board should avoid limiting the Board's ability to make prudent revisions over the 21-year term of the bonds.

Mr. Jensen stated that he is not asking the Committee or the Board to provide an open-ended authorization, nor is he intending to take a move or action that would be perceived as unfair to any of the agencies. But it is in the agencies' collective interest not to restrict its flexibility by being overly specific at this time.

Mr. Brodsly stated that the modified volumetric approach is technically the stronger credit and will translate into additional savings. It might be in the form of a higher credit rating or a lower reserve requirement, or even in the form of market recognition. But, to be able to confidently present to the rating agencies will bring a positive credit result.

Mr. Brodsly added that the tax issue will not be a credit factor for the rating agencies. The rating agencies' investors will care about how they get paid back. They will not necessarily care how what the method of pay back is, but if we want to have the advantage of the modified volumetric method, BAWSCA would have to commit to a billing system in which a fixed amount is levied against each member every year.

Director Klein expanded on Mr. Jensen's comments and stated that while there are four specific recommendations for the Committee to act on under the agenda item #5A, additional motions or motions to amend a recommendation by members of the Committee is appropriate.

Director Weed made 3 points of clarification. First, that the proposed savings be expressed as a percentage with an approximate dollar value. A percentage is an easier reference point than just a dollar amount. Second, to clarify that the length of the bond is the same as the length of payback, which is 21 ½ years. Third, that BAWSCA should have the ability to re-finance the bonds in 10 years.

After discussion, the committee agreed to amend the wording of the first criteria under recommendation #4A based on Director Weed's clarification point about the percentage of savings.

Director Weed made a motion, seconded by Director McLeod, to amend the first criteria under recommendation #4A so that it states that the result savings will include a percentage value of 4% of the present outstanding debt owed to San Francisco, or $15 million. The Committee approved the motion with 7 ayes and 1 abstention.

Director Weed added that in November, the Board should be presented with the anticipated bond structure with a term equal to the payback length of 21 ½ years, and with the ability to refinance after the standard period of 10 years. This is a guideline as opposed to conditions.

Ms. Schutte noted that these issues are fundamental to the structure of the bond deal and will be in the draft bond documents. She will work with Mr. Jensen to ensure that in November, the Board is presented with the clear structure of the bond, including the term, call provisions and other critical items.

Director Breault made an observation about the table that compares the blended and non-blended approach for allocating interest. The blended approach provides public agencies that represent 75% of water purchases, with 75% of the savings. Cal Water and Stanford represent 25% of water purchases, and would receive a 25% of the savings. The non-blended approach provides Cal Water and Stanford with a 10% savings, and the public agencies with 90% of the savings. Director Breault suggested the savings be presented in a way that reflects the effect on retail water customers.

Chair Klein brought back the motion made by Director Anderson, seconded by Director Pierce, that the Committee recommend Board approval of four actions in November.

Discussion on the motion:

Chair Klein noted that the blended versus non-blended rate is not a part of the motion. It is for a later time, unless a member of the committee wants to make a motion to give direction to staff, that would be appropriate.

Director Breault stated that the motion implies that the committee is not directing the CEO/General Manager whether to use the blended or non-blended approach. He pointed out that whether or not this item will come back for the Committee's discussion, it is best to be clear with what the Committee advises the CEO/General Manager.

Director O'Connell pointed out that the motion includes no recommendation on the surcharge setting or interest expense allocation.

Mr. Jensen stated that if the Committee wants to act on the debt service allocation, he recommends the Modified Volumetric approach on the matter of setting the charge, provided that the Board does not act on it as a condition for the sale of the bonds. Doing so will remove the Board's ability to change it later, and set it for the next 21 ½ years. It could be added to the recommendation as #5.

On the matter of using a blended versus non-blended approach for the allocation of interest expense, he would need a clear recommendation from the Committee or the freedom to act in the best interests of all member agencies.

Chair Klein will open further discussion on the debt service allocation, following a vote on the motion at hand: **Director Anderson's motion that the Committee recommend Board approval of four actions in November, with the revisions to 4A, seconded by Director Pierce:**

Chair Klein called for a vote on the motion:

1. **Authorize the CEO/General Manager to amend the contract with KNN for their financial advisory services until the completion of the financing.**

2. **Authorize the CEO/General Manager to appoint a bank to be selected through a RFP process as the Trustee for the bonds.**

3. **Adopt a Resolution approving in substantially final form the various financing documents, including the Revenue Bond Indenture, First Supplemental Indenture, the Continuing Disclosure Certificate, the Preliminary Official Statement, a Prepayment and Collection Agreement with the SFPUC and the Bond Purchase Agreement.**

4. **Authorize the CEO/General Manager to execute these financing documents at the appropriate time conditioned upon satisfaction of specified criteria.**
   a. *The bond interest rates and final financing structure will need to result in a net present value savings of not less than 4% or about $15 million over the term of the bonds.*

   b. *San Francisco must provide, in advance of receiving any funds, a written pledge to use bond proceeds in a manner consistent with federal laws and regulations.*

The motion carried unanimously.

Director O'Connell made an additional motion to provide an advisory to the CEO/General Manager to pursue the modified volumetric approach. Director Pierce seconded the motion. There was no discussion on the motion. The motion carried unanimously.

Director Pierce commented that the presentation to the Board in November should be done in a way that allows people to understand the information within the context of the memberships' current percentages in savings. She noted that rate payers are currently paying equally, and if that can be continued, or not, the information should be presented both ways so that the Board can make the necessary policy decisions.

Mr. Jensen appreciated the questions and comments from members of the Committee, and noted that it was critical to present the methodologies and the numbers for the Committee's discussion, as well as the Board's consideration in November. He acknowledged Director Breault's suggestion to present the information based on the percentages of savings distributed in the context of the end-user's perspective.

Mr. Jensen will work with Legal Counsel in determining whether the methodologies should be included in the motion, and whether it is included or not, the information will be presented to the Board so that there is transparency and the opportunity to discuss.

Chair Klein stated that the interest expense allocation and whether to use blended versus non-blended is a policy issue, and is a matter that should be discussed and decided by the Board.

Chair Klein made a motion that the Committee make a recommendation that the Board adopt the blended approach in allocating the interest expense. The motion was seconded by Director O'Connell.

Discussion on the motion:

Director McLeod stated that private and public agencies function differently with different drivers and issues. There is the overall concept of rate structures and changing rates to customers. She expressed her concern that there has not been enough discussion and additional factors should considered by the Committee for it to make a recommendation to the Board about the methods. She felt that more information should be provided and that the item should be deferred for further discussion by the full Board.

Mr. Jensen explained that the ability to move quickly to issue the bonds in January is for the purpose of taking advantage of the market conditions. He and the financial team agree that the BAWSCA Board should make fully informed decisions and that additional information can be brought to the Board in November. While there are no indications that market conditions will change in the January, deferring decisions to the January Board meeting would have adverse impacts.

Director McLeod made a substitute motion that information be provided to the Board for further discussion at the November Board meeting, with no recommendation from the Committee. Mr. Anderson seconded the motion.

Discussion and Comments on the substitute motion:

Director Guzzetta believed that the Committee should provide some guidance to the full Board. He noted that the current process for the existing obligation is that everybody pays the same. Using a method other than the blended method will be a major change in the way member agencies have been servicing the existing debt with the SFPUC. Director Guzzetta stated that it would be appropriate to make a recommendation to not change the process, and allow the full Board to make the decision to support the recommendation, or not.

Chair Klein stated that he will vote against the substitute motion because the Committee's role is to make recommendations to the full Board.

Chair Klein called the vote on the substitute motion. The motion failed by 5 noes, and 3 ayes.

Chair Klein brought back the main motion he made to recommend the blended approach to the Board.

In response to Director McLeod, Director Guzzetta further explained Cal Water's rate structure and how it will be affected by the bond issuance. He stated that with a non-blended allocation of interest expense all member agencies would save money, but Cal Water's customers would save less than customers of a public agency.

Mr. Jensen clarified that the details being presented to the Committee about the rate setting and interest cost allocation became available after the staff memo was finalized for the committee. These details will be included in the memo for the board in November.

Mr. Jensen acknowledged Director McLeod's comments about the inherent differences in the make-up of private and public agencies, and suggested the underlying policy issue is whether the company would experience financial gain at the expense of public agencies.

Mr. Jensen asked Director McLeod if it would be helpful to provide, in the memo to the Board, clarification that Cal Water's rates are regulated such that Cal Water does not make profit from the interest rate allocation, and that the impact would be directly on the rate payers, businesses and residence served by both the public and private agencies. Director McLeod agreed that would be helpful.

Director Pierce noted that including the similarities and differences of the methods and how the debt has been paid for by the agencies in the past would be a helpful comparison for the Board in looking at the blended and non-blended analysis.

The motion carried with 5 ayes, 2 noes, and 1 abstention.

B. Amendments to BAWSCA Investment Policy: Mr. Jensen reported that the Investment Policy must be consistent with the Bond documents. The Committee is being asked to recommend Board adoption of the proposed revisions.

Mr. Jensen stated that the revisions maintain the objectives the Board established when the policy was first adopted. The objectives, in the order of priority, are Safety of principal, Liquidity, and Return on Investment.

Ms. Schutte reported that the current policy is extremely conservative and serves the function of a bank account in Local Agency Investment Fund (LAIF). She went over the four categories that would need to be added to the Policy, as noted in the staff memo. They include:

a. Federal Securities,
b. FDIC insured deposits,
c. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by federal agencies, and
d. Money market mutual funds rated AAA by Standard and Poor's or Moody's.

Ms. Schutte explained that these categories continue to be conservative. The policy comes to the Board for review each year, and the Board can choose to review and revise the policy more often, if it chooses.

Director O'Connell made a motion, seconded by Director Anderson.

Discussion on the substitute motion:

Director McLeod suggested the Committee consider including social responsibility as an additional investment objective. She recognized that doing so can put the policy in the political realm, but, it provides a way to identify an issue of concern, subject to the Board's further discussion. It also provides general guidance to staff in looking at potential portfolios, and establishes a clear direction that social responsibility is a consideration in the use of public funds.

Director Guzzetta commented that it can really complicate things when it comes time to invest, and questioned what criteria would be used to identify the areas of concern in a portfolio?

In response to Director Guzzetta's question, Ms. Schutte stated that in her experience with other agencies, social responsibility has not been a part of their investment policies.

Director Klein questioned the purpose of the four categories. Ms. Schutte explained that the categories need to be added to the policy to make it consistent with the Bond Indenture. Because the current policy is so conservative, it wouldn't allow BAWSCA to take advantage of many the investment possibilities contained in the Bond Indenture.

Ms. Schutte further explained that since BAWSCA has never issued bonds before, the categories being added were not necessary in the current policy.

Mr. Brodsly clarified that the bond proceeds will result to at least $13 million in the reserve that will be with the bond trustee. The bond trustee is subject to BAWSCA's investment policy.

Mr. Jensen stated that the Committee does not have to act on a recommendation to the Board. He proposed to move the item to the Board with further information and the revised and red-lined version of the policy for the Board's discussion and consideration in November.

Given the pressing time to complete all requirements for the bond issuance, Mr. Jensen suggested taking the issue of social responsibility under discussion at a later time.

Director O'Connell stated that it's not clear from the memo that if the Investment Policy does not include the four categories being proposed, the $13 million from the bond issuance will sit at conservative interest rates. To best address the bond issuance, staff is recommending that the four categories be added. With that in mind, Director O'Connell moved to add all four categories to BAWSCA's Investment Policy. Director Anderson seconded.

Director McLeod made a friendly amendment to the motion, that when the item comes back to the Board in November, that there be some potential discussion on the issue of social responsibility in the policy. She is concerned that the issue will get lost, and would like to see some direction for the staff to make the referral.

Chair Klein and Director Pierce suggested that a separate motion be made.

Mr. Jensen pledged to note in the staff memo for the Board, that there was discussion of whether or not the investment policy, now or in the future, should include a consideration of social responsibility. He would need to review how the issue has been treated by other agencies and become familiar with it before committing to include the issue in the policy's objective.

The Committee agreed to include the issue in the next BPC agenda.

Director Klein stated his concern with the obscurity of the language used in the four categories. He pointed out that Federal Securities is very broad and noted that some are riskier than others. There are some federal securities that are not secured by the full faith and credit of the United States, and it is unclear whether those will be excluded. He has similar concerns with the mention of bonds, debentures and notes issued or guaranteed by federal agencies. There can be real differences between ones that are issued, but not guaranteed.

Director Weed made a substitute motion to revise the recommendation to say, "The types of permitted investments may be revised to be consistent with the Revenue Bond Indenture." and that the details on investment provisions will be further discussed at the Board meeting. The substitute motion was seconded by Director Anderson.

Discussion on the substitute motion:

Director O'Connell stated that the revisions to the policy have to satisfy the objectives established by the Board; Safety, Liquidity, and Return on Investment. She argued that if there was a federal security that was not secured, that would be disqualified because it does not satisfy the policy's objective for Safety.

Director Klein stated that while that is a valid point, BAWSCA may not want to be as aggressive as the bond holders would like to allow us to be.

Director Guzzetta felt that the Committee does not have the information to make a logical recommendation on what appropriate investments should be. There were some good points raised and questions left unanswered. The Investment Policy must be a document that provides good guidance for BAWSCA, and while he is not against revising the policy, he cannot support the proposed revisions without further discussion.

Director Weed suggested that it would be most efficient for the Committee to develop the definitive language of the investment policy for the Board's consideration. In response to his question of when the policy needs to be finalized for the purpose of the bond issuance, Mr. Brodsly stated that the policy should be finalized before the bond issuance.

Director McLeod said that the item should come to the Board in November as a potential item for action, and not just as an informational item, so that if the Board feels confident in moving forward with the additional information provided, then action can be taken.

The Committee concurred.

Chair Klein made a motion, seconded by Director O'Connell, that the amendments to the Investment Policy be forwarded to the Board in November as a report with potential for action by the Board if it so chooses. Otherwise, the item will go back to the Committee for further discussion in December and the Board's final action in January. The motion carried unanimously.

C. Authorization to Negotiate and Execute a Contract Amendment with PG&E for the Washing Machine Rebate Program: Ms. Sandkulla reported that the administration of the Washing Machine Rebate Program (WMRP) is included in the FY 2012-13 work plan adopted by the Board in May. The action before the Committee is to recommend Board authorization to negotiate and execute a contract amendment with PG&E to extend its administrative services for the implementation of the WMRP.

Ms. Sandkulla explained that PG&E's contract is on a calendar basis, and will end as of December 31, 2012. The contract includes a 6 month closeout period of up to June 30, 2012.

The contract amendment will extend PG&E's administrative services to implement the WMRP through calendar year 2013. There are no major program changes expected, and rebate levels will stay the same.

Ms. Sandkulla reported that the program has grown from issuing 1,000 rebates per year in 2002, to a current 7,000 rebates per year among all participating agencies. Participation is at a 100% among the BAWSCA membership, with Santa Clara agencies participating through SCVWD, and ACWD participating independently. .

Director Pierce made a motion, seconded by Director McLeod, that the Committee recommend the Board to authorize the CEO/General Manager to negotiate and execute a contract amendment with PG&E for administrative and rebate processing services through June 30, 2014 associated with implementation of the Washing Machine Rebate Program from January 1 through December 31, 2013; and offer participation to member agencies through June 30, 2014. The motion carried unanimously.

Brief Reports:

A. Proposal to Drain Hetch Hetchy:. Mr. Jensen stated that BAWSCA's position remains the same. He reported that he spoke on BAWSCA's position with Cities Association of Santa Clara County (CASCC), and will be making the same presentation to City/County Association of Governments (C/CAG) on October 11th. Mr. Jensen noted that he is happy to speak to interested groups in the service area of Hayward and ACWD. . . .

B. Mid-Year Budget Review: Mr. Jensen reported that an assessment of the budget will be provided to the Board Policy Committe in December highlighting the progress made in the current fiscal year. Any adjustments or additions to the work plan will be included in the report, and recommendations as to what to do with the General Reserve will be addressed during the budget process.

Comments by Committee Members: Director Weed noted that the Calaveras Dam project is relocating approximately 3 million cubic yards of additional earth, which would need approval from the Division of Safety of Dams (DOSD). He expressed his concerns with the implications to Wholesale Customers that might result from the SFPUC's bond issuance against a project that does not have state approval for the construction.

Ms. Sandkulla explained that the additional grading work is to move a hill on the left abutment because it was determined that during a seismic event, that hill would become unstable and hit the Dam. The SFPUC is working very closely with DSOD through the entire process and they have received staff and expert approval on their approach.

Ms. Sandkulla has discussed the issue with the SFPUC several times, and the SFPUC is confident that DSOD is on board with their approach. DSOD has not issued a written approval because their process requires them to make their own assessment, and this can take time. While there is a slight risk to moving forward without the written approval, the alternative is to wait and stop.

Ms. Sandkulla further explained that the SFPUC has been issuing bonds since the beginning of the WSIP, and there were no approval to do a majority of the projects at the outset of the program. The WSIP was launched without approval by any of the CEQA documents, DSOD, Fish and Game, and Fish and Wildlife. And only just recently did the SFPUC get approval from DSOD for the Calaveras Dam Project. While this is an issue of concern, the SFPUC has had significant records of issuing bonds in advance of getting final approval for their projects.

BAWSCA will continue to follow the Calaveras Dam Project and will provide a report to the Board in November.

Adjournment: The meeting was adjourned at 4:11pm. The next meeting is December 12, 2012.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – October 10, 2012

Roster of Attendees:

Committee Members Present

Larry Klein, City of Palo Alto (Chair)

Rob Guzzetta, California Water Service Company (Vice-Chair)

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

Ruben Abrica, City of East Palo Alto

Tom Piccolotti, North Coast County Water District

BAWSCA Staff:

Art Jensen	CEO/General Manager
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 Brodsly	KNN Public Finance

Public Attendees:

Tarun Narayan	City of Palo Alto
Nico Procos	City of Hayward
Michelle Sargent	San Francisco Public Utilities Commission
Michael Yee	Alameda County Water District

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
September 20, 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. Eighteen (18) members of the Board were present at the time of roll call, constituting a quorum. One director arrived later. A list of Directors present (19) and absent (7) is attached.

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

3. **Board Policy Committee Report:** Committee Vice-Chair Robert Guzzetta provided a report on the discussions and actions that took place at the BPC meeting held on August 8, 2012.

4. **Public Comments:** Public comments were received from Wynn Grcich.

5. **SFPUC Report:** Steve Ritchie provided a report on the status of the Water System Improvement Program (WSIP) projects, and the appointment of Harlan Kelly as the SFPUC General Manager.

6. **Consent Calendar:**

   Director Quigg made a motion, seconded by Director Kasten, to approve the Minutes of the July 19th Board Meeting, and to receive and file the Pre-Audit Budget Status Report as of June 30, 2012. The motion carried unanimously.

7. **Action Calendar:**

   A. Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC:

   Director Griffith made a motion, seconded by Director O'Mahony, that the Board take the following actions:

   1. **Authorize the CEO/General Manager to amend the contract with Orrick, Harrington & Sutcliffe, LLP, subject to legal counsel's review, to begin Phase 3 of the Bond Counsel services, to appoint Orrick as Disclosure counsel and to increase the not-to-exceed amount by $220,000. Payment would be made from bond proceeds.**
   2. **Authorize the CEO/General Manager to engage Moody's and S&P to secure credit ratings for the BAWSCA bonds at a cost of $200,000. Payment would be paid from bond proceeds upon a successful bond issuance, although a payment of $120,000 for preliminary ratings would be necessary even if bonds are not issued.**

3. **Authorize the CEO/General manager to transfer $120,000 from the General Reserve for payments to rating agencies, if bonds are not issued.**
4. **Adopt a resolution which encourages the governing bodies of all member agencies to seriously consider adopting the Participant Resolution.**

By roll call vote, the motion carried unanimously.

8. **Special Report and Action Item**:

A. Long-Term Reliable Water Supply Strategy Phase II A Report: Ms. Dutton presented the findings and recommendations of the Strategy's Phase IIA Report.

B. Long-Term Reliable Water Supply Strategy – Recommended Actions:

Director Richardson made a motion, seconded by Director Laporte, that the board:

1. **Complete the Reprogrammed Phase II A Work by December 2014.**
   a. **Authorize the CEO/General Manager to issue Notice to Proceeds to CDM Smith and Bud Wendell to complete the reprogrammed work within the original contract not-to-exceed amounts; and**
   b. **Authorize the CEO/General Manager to amend the existing contract with Hanson Birdgett, LLP to complet the reprogrammed work and to increase the contract by $65,000 for a revised not-to-exceed amount of $141,000. Funds are available from the unspent balance of the WMC.**
2. **Develop a Plan for a Pilot Water Transfer wit EBMUD by June 2013**
   a. **Authorize the CEO/General Manager to negotiate and execute a contract with CDM Smith for $72,000 to provide technical support for the development of the Plan;**
   b. **Authorize the CEO/General Manager to negotiate and execute a contract with Hanson Bridgett, LLP for $58,000 to provide legal support for the development of the Plan; and**
   c. **Authorize a transfer of $130,000 from the BAWSCA General Reserve.**

The motion carried unanimously.

9. **Reports:**

A. Water System Improvement Program: Ms. Sandkula provided a report on the Calaveras Dam Project. BAWSCA is closely following how the SFPUC is addressing the challenges of the site's geological features including the naturally occurring asbestos and the instability of the land formation on the left abutment.

B. Status of Initiative to Drain Hetch Hetchy: Mr. Jensen reported that he presented BAWSCA's position on the initiative to the Board of Directors of the Cities Association of Santa Clara County (CASCC). He is pleased to report that the CASCC Board voted to support BAWSCA's position. Mr. Jensen will also be addressing the San Mateo City and County Association of Governments, and would be happy to speak similarly with organizations in Alameda County. Copies of the Statement as of September 20, 2012 were provided to members of the Board. He noted that revisions to the new version include minor word changes that do not affect the policy approach.

Mr. Jensen reported that correspondence was received from Restore Hetch Hetchy, and that he will review it to determine the appropriate follow up.

C. Status of 2 mgd Water Transfer between the SFPUC and MID: Mr. Jensen reported that the negotiations between the SFPUC and MID have been suspended. BAWSCA is following up with the SFPUC on the issue of meeting their Level of Service (LOS) goals for their wholesale customers.

D. Third Year Administration of the Water Supply Agreement: Mr. Jensen reported that the administration of the Water Supply Agreement continues to be on track.

E. Board Policy Calendar: Mr. Jensen noted that a report on the Mid-Year review will come to the Board in November to provide an opportunity to present status of the budget, necessary changes, if any, to the work plan, and review and discussion of what to do with the General Reserve. The CEO's performance evaluation will also be scheduled in November.

10. **Date, Time and Location of Next Meeting:** The next meeting is scheduled on November 15, 2012, in the Wind Room, Foster City Community Center.

11. **Adjournment:** The meeting adjourned at 9:30pm.

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer/General Manager

ARJ/le
Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
September 20, 2012

Attendance Roster

Present:

Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
Jim Griffith	City of Sunnyvale
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Tom Kasten	Town of Hillsborough
Marty Laporte	Stanford
Jamie McLeod	City of Santa Clara
Al Mendall	City of Hayward
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Sepi Richardson	City of Brisbane
John Weed	Alameda County Water District

Absent:

Charlie Bronitsky	City of Foster City
Kelly Ferguson	City of Menlo Park
Armando Gomez	City of Milpitas
Mike Kasperzak	City of Mountain View
Larry Klein	City of Palo Alto
Chuck Reed	City of San Jose
Louis Vella	Mid-Peninsula Water District

26

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/General Manager

FROM: Deborah Grimes

DATE: November 7, 2012

SUBJECT: Budget Status Report as of September 30, 2012

This memorandum shows fiscal year budget status for FY 2012-13. 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 three month period ending September 30, 2012, 25 percent into the fiscal year, total expenditures were $533,518 or 21 percent of the total budget of $2,585,504,

Table 1. Operating Budget Summary as of September 30, 2012

Cost Category	Budget	Year-To-Date Expenses	Percent
Consultants /Direct Expenditures			
Reliability	835,162	104,160	12%
Fair Pricing	195,000	98,563	51%
Administration	91,000	25,338	28%
Subtotal	*1,121,162*	*228,061*	*20%*
Administration and General			
Salary & Benefits	1,099,742	260,646	24%
Other Expenses			
BAWSCA	280,600	44,811	16%
BAWUA	1,100	0	0%
Subtotal	*2,502,604*	*533,518*	*21%*
Capital Expenses	4,000	0	0%
Budgeted Contingency	77,500	0	0%
Regional Financing Authority	1,400	0	0%
Grand Total	*2,585,504*	*533,518*	*21%*

Overview:

Overall expenditures are tracking within budget.

Consultants
The $140,000 budget for technical review and tracking of the SFPUC's Water System Improvement Program was 17 percent expended. The Operating Budget allocation of $150,000 for strategic counsel was 33 percent expended. The Operating Budget allocation of $451,000 budget for legal counsel was 20 percent expended. The $225,162 budget for water management and conservation-related activities was 9 percent expended.

Administration and Other Expenses
Budgets for salaries and other expenses were 24 and 16 percent expended, respectively.

Use of CEO's Discretionary Spending Authority:

None.

Use of Reserve Fund Balance:

The BAWSCA reserve balance shown below does not yet reflect the deposit of unspent funds from FY 2011-12 that will be made following completion of the FY 2011-12 audit. At the September 2012 board meeting, the board authorized a transfer of $130,000 from the General Reserve for work associated with the development of a plan for a Pilot Water Transfer with EBMUD as part of the Long-Term Reliable Water Supply Strategy, that transfer is reflected in the balance below.

Unspent funds at the end of FY 2011-12 are approximately $277,943. Once the FY 2011-12 audit has been completed, those funds will be transferred to the Reserve, bringing the balance to approximately $1,064,840.

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 07/31/12)	Account Balance (As of 09/30/12)
General Reserve	$916,897	$786,897

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. All Water Management Charge revenue, totaling $2,321,998 has been collected by the SFPUC and received by BAWSCA. Expenditures for strategic and legal support of the Long-Term Reliable Water Supply Strategy are within their respective budgets. Consultant invoices received and paid through September 30, 2012 total $1,291,475.

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: **November 6, 2012**

SUBJECT: **Investment Report – As of September 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. The Board is scheduled to review and consider modifications to the investment policy at the November 15th 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.

06/30/12	09/30/12
$3,063,255	$2,978,173

Of the total in the BAWSCA LAIF account as of September 30, 2012, $916,897 represents BAWSCA's General Reserve Fund, equivalent to approximately 35 percent of FY 2012-13 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:

06/30/12	09/30/12
0. 48%	0.35%

(This page intentionally left blank.)

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: **November 6, 2012**

SUBJECT: **Directors' Reimbursement Quarterly Report for the Period Ending September 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 September 30, 2012.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Authorization to Negotiate and Execute a Contract Amendment with PG&E for the Washing Machine Rebate Program**

Summary:

Since January 2008, PG&E has administered a joint Water Utility and Energy Utility Residential Washing Machine Rebate Program (WMRP) in partnership with BAWSCA and the other major water utilities in the Bay Area. The current WMRP will end December 31, 2012. BAWSCA's current administrative contract with PG&E expires June 30, 2013 as it anticipates a 6 month close out period for the current program. However, in order to continue the WMRP through all of calendar year 2013, a new contract with PG&E needs to be executed.

Participating BAWSCA member agencies have expressed an interest to continue the joint WMRP with PG&E. A new contract between BAWSCA and PG&E would allow continuation of the current WMRP to at least June 30, 2013 at which time BAWSCA would have the opportunity to modify its participation in the WMRP through December 31, 2013 consistent with the desires of the participating member agencies.

Fiscal Impact:

None. As a subscription program, all costs are paid by participating BAWSCA agencies with all expenses, payments, and bank transactions associated with subscription programs accounted for separately from BAWSCA's operating budget.

Board Policy Committee Action:

The Committee voted unanimously to recommend the proposed Board action.

Recommendation:

That the Board authorize the Chief Executive Officer to:

1) **Negotiate and execute a contract amendment with PG&E, subject to legal counsel's final review, for administrative and rebate processing services through June 30, 2014 associated with implementation of the Washing Machine Rebate Program from January 1 through December 31, 2013, and**
2) **Offer participation in the program to BAWSCA member agencies through December 31, 2013.**

Discussion:

Since 2001, BAWSCA has partnered with other major Bay Area water utilities to offer the Bay Area Water Utility Clothes Washer Rebate Program (WMRP). In January 2008, PG&E began administration of the WMRP on behalf of the Bay Area water utilities to offer a new combined Water Utility and Energy Utility rebate program to Bay Area residents.

The change to PG&E as the administrator of the program has increased visibility of the program, increasing rebate activity up to 30% in some areas. Customers have indicated a high rate of satisfaction with the current format of the WMRP because they are able to complete a single rebate application form and get rebates from both PG&E and the Bay Area water utilities.

PG&E is proposing no increases in costs or new costs for administering the program in calendar year 2013.

BAWSCA agency participation in BAWSCA's conservation programs, including the WMRP, typically operates on a fiscal year basis, as this is consistent with the budget cycles of most of the BAWSCA agencies. In contrast, PG&E operates on a calendar year basis, which is why the current WMRP ends December 31, 2012. BAWSCA's current contract with PG&E expires on June 30, 2013 which allows for a 6-month close-out period. In the event that PG&E or BAWSCA were to elect not to continue the WMRP beyond December 31, 2012, the six-month close-out period accommodates the three months that customers have to submit a rebate request, plus processing time for the rebates and resolution of all accounting.

A contract amendment with PG&E extending the existing contract through June 30, 2014 would allow for the current WMRP to continue through December 31, 2013 with a 6-month close-out period allowance.

Alternatives to the Recommended Action:

Two primary alternatives exist to the recommended action.

1. Offer Program Using Different/New Rebate Administrator: Prior to using PG&E as the rebate administrator for this program, the Bay Area water utilities contracted with Electric Gas Industry Associates (EGIA) to administer the program. Other entities also exist that would potentially be willing to administer a regional WMRP. The EGIA administrative fees for the WMRP were greater than PG&E's current administrative fees. Furthermore, customers have indicated a high rate of satisfaction with the current format of the WMRP because they are able to complete a single rebate application form and get rebates from both PG&E and the Bay Area water utilities. At this time no other Bay Area water utilities have indicated a desire to change WMRP administrators. In addition, customer satisfaction rates might decrease if BAWSCA did not continue to utilize PG&E as the program administrator because they would no longer be able to fill out a single rebate application. Lastly, if BAWSCA decided to go with a different WMRP administrator, a full request for proposal process would be required, which would delay the continuation of the WMRP until a new contract was in place.
2. Not Offer Program: The WMRP has been the most successful conservation program offered within the BAWSCA service area to date. Since 2001, the number of agencies, total budgets, and total number of rebates issued has increased each year. Continued implementation of the WMRP with expanded customer participation is one of the five key conservation measures included in BAWSCA's 2009 Water Conservation Implementation Plan. Full implementation of these five measures will be critical to achieving sufficient conservation savings to continue to provide reliable supplies to all BAWSCA member agencies through 2018.

Background:

The Bay Area Water Utility Clothes Washer Rebate Program began on October 1, 2001. In 2002, the regional program expanded with eight other Bay Area water agencies joining to offer a single Bay Area Water Utility Clothes Washer Rebate Program covering a region of 2.7 million residential customers. In addition to BAWSCA, other participants in this regional program include Contra Costa Water District, Zone 7 Water Agency, East Bay Municipal Utility District, Alameda County Water District, Santa Clara Valley Water District, Marin Municipal Utility District, Sonoma County Water Agency, and City of Davis. SFPUC joined in July 1, 2006.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC – Policy Decisions**

Summary:

The objective of a potential bond issuance to prepay a capital debt BAWSCA's member agencies owe San Francisco is to save those agencies and their water customers money. In August 2012, BAWSCA's Financing Team (experienced financial managers and staff from KNN, Orrick, Hanson Bridgett and BAWSCA) concluded that it is feasible to issue bonds and save BAWSCA's member agencies money.

This item asks the Board to approve two recommendations about how the debt service for this bond issue would be allocated among participating members. The Board Policy Committee supported both recommendations.

The Board's consideration and approval of the bond documents, in substantially final form, and other actions needed to proceed with the bond issuance are presented to the Board as separate agenda items.

Fiscal Impact:

No impact on BAWSCA's annual operating budget.

Board Policy Committee Action:

At its October 10th meeting, the Committee voted unanimously to advise the CEO/General Manager to pursue the modified volumetric approach. On a separate motion, the Committee voted to recommend Board approval of the blended approach for the allocation of debt service.

Recommendation:

That the Board:

1. **Authorize the CEO/General Manager to include a fixed volumetric surcharge setting methodology in the bond structure.**
2. **Authorize the CEO/General Manager to use a blended interest rate on the allocation of debt service. (Recommended by the Board Policy Committee)**

Discussion:

Summary of the basis for each recommendation: The Board Policy Committee considered both policy issues at its October 10th meeting. The two recommendations and the basis for the recommended action is summarized below and presented in detail later in this memorandum.

1. An annual fixed surcharge, based on prior years' water purchases, with annual adjustments for actual purchases, would eliminate revenue uncertainty and risk for bondholders, while preserving the current feature that each agency would pay in proportion to actual water usage. This approach would reduce borrowing costs for BAWSCA's financing and increase overall savings.

2. To satisfy federal tax restrictions, BAWSCA must issue a portion of the bonds as taxable to accommodate participation by California Water Service Company (CalWater) and Stanford University. Both entities pass costs, and savings, on to their retail water customers. Taxable bonds would have a higher interest rate than tax-exempt bonds. Using a blended interest rate, all end-use customers would experience equivalent savings, as measured dollars per unit of water.

Fixed Volumetric Surcharge Setting Methodology

The method BAWSCA proposes to use for setting the Surcharge is similar to how the SFPUC collects the current payments, but different in two important ways

Issue. The SFPUC currently sets wholesale water rates for a given year based upon an estimated Wholesale Revenue Requirement (WRR) for the year divided by an estimated volume of water to be purchased by the BAWSCA members in the given year. The WRR includes the SFPUC's administrative, operational, maintenance, and capital costs associated with providing the BAWSCA members with water.

The water actually used in the coming fiscal year is unlikely to match the estimate used by San Francisco in setting rates. This fact of volumetric rate setting method creates an inter-year volumetric risk that the amount of money collected in a given year will not equal the WRR for that year. The risk of over or under collecting revenue is also subject to actual expenditures which may be greater or less than those used to estimate the WRR. The financial interests of Wholesale Customers and San Francisco are protected because the WSA requires any surpluses or shortfalls generated in a given year to be placed in a "balancing account" and rolled into the next year's rate setting.

The inherent revenue risks associated with a volumetric rate setting process, is that if BAWSCA were to use an identical approach to the collection of funds to pay debt service, it would introduce risks that potential bond investors would find undesirable.

Recommended solution. Instead, BAWSCA proposes using a "fixed volumetric" surcharge setting which would eliminate the inter-year volumetric risk to bondholders, reducing the borrowing cost for BAWSCA's financing and increasing savings.

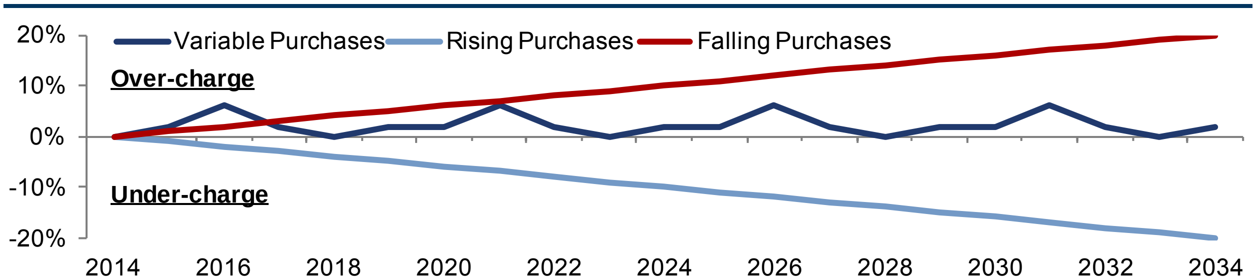
The surcharge for each BAWSCA member would be a fixed amount each year. Each member's annual fixed amount would be calculated by multiplying the next fiscal year's debt service, plus any amounts for replenishment of the Stabilization Fund, by that agency's percentage of total wholesale customer purchases during the most recent full year. The following year, when the actual percentage of water purchases is known, there will be a "true up" adjustment so that payments reflect each agency's actual percentage of water purchases.

The results achieved by this method are (1) revenue collected each year will match exactly what is needed each year, which is important to bond buyers, and (2) each agency's aggregate payments will reflect the percentage they would have paid San Francisco under the WSA.

Some agencies have access to significant amount of other supplies. The WSA requires those agencies to purchase minimum amounts of water from the Regional Water System whether the water is actually delivered or not. Such minimum take-or-pay contracts are held by the Alameda County Water District, City of Milpitas, City of Mountain View and City of Sunnyvale. This approach was originally invoked by San Francisco to mitigate the potential for "stranded" capital investments. Maintaining the minimum annual purchase requirements in the surcharge setting carries forward the same allocation scheme as the WSA. Without the annual true-up calculations, the cumulative amounts charged to each agency could differ greatly form their fair share based on their use of the Regional Water System. The following graphic shows examples of how the cumulative payments for water agencies might differ:

- ***Variable Purchases Scenario:*** An agency's percentage of total water purchases vary from year to year with no rising or falling trend;
- ***Rising Purchases Scenario:*** An agency's percentage of water purchases rises over time;
- ***Falling Purchases Scenario:*** An agency's percentage of water purchases falls over time.

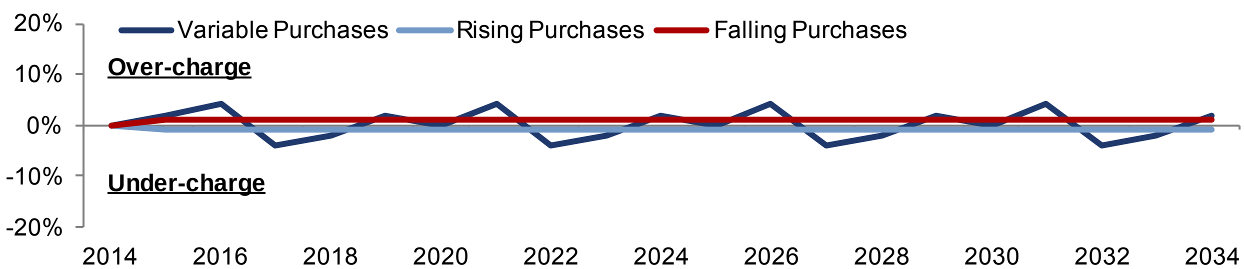
Cumulative Over / (Under) Payments Diverge as a % of Total Cost Recovery Payment Without True-up



As can be seen in the graphic, without the true-up mechanism, a member who is consistently increasing their water purchases as a percent of the total would be undercharged cost recovery debt service. Conversely, without the true-up mechanism, a member who is decreasing their water purchases consistently will be overcharged cost recovery debt service. Only a member that has either volatile water purchase patterns that net out to be about the same on average over time, or that has a consistent water purchase pattern, is charged something closer to their fair share of cost recovery debt service.

True-Up Mechanism: By adding annual "true-up" payments based upon the over/under charge in the last full year, BAWSCA could mitigate concerns about never "catching up" to rising or falling water purchases. The graph below illustrates the true-up mechanism's effectiveness at mitigating each member's over/under payment on an ongoing basis, based on the same set of scenarios as outlined above.

Cumulative Over / (Under) Payments as a % of Total Cost Recovery Payment with True-up



Blended Interest Rate on Allocation of Debt Service

Issue: Under federal tax law, the portions of the bond debt service that are expected to be paid with revenue from the California Water Service Company (CalWater) and Stanford University are expected to be ineligible for financing with tax-exempt debt. Interest rates on taxable bonds are higher than for tax-exempt bonds.

As BAWSCA considered how to allocate the cost of debt service to pay off the potential bonds, the question of how to allocate interest expense needed to be resolved. One method would be to allocate tax-exempt interest to publically-owned agencies and taxable interest to privately-owned agencies. A second method would be to allocate a uniform, blended interest rate to all agencies. Both methods were examined.

Context -- SFPUC wholesale water rate setting. The way that the SFPUC currently sets wholesale water rates, all of BAWSCA's agencies are charged an identical rate in dollars per Hundred cubic feet of water ($/Ccf). The rate is the same regardless of where the agency is located along the system, how much they are using of their contract entitlement to the capacity of the system (Individual Supply Guarantee), or other factors that might characterize the benefits they receive from the system.

Similarly, San Francisco currently issues taxable commercial paper for a portion of the WSIP projects to accommodate CalWater and Stanford's use of the system. It does not separate those taxable expenses out and allocate them as a separate rate to Cal Water and Stanford.

The SFPUC's current wholesale water rate also contains a component to recover the outstanding balance for old capital investments that would be prepaid by BAWSCA's issuance of bonds.

Context – Effect on water companies and water customers: One public policy question is whether a uniform surcharge generates financial gain for either CalWater or Stanford at the expense of the public agencies.

The simple answer is, "No." CalWater, which is regulated by the California Public Utilities Commission (CPUC), is only entitled to earn a return on capital investments it makes in its own system. CalWater cannot make a return on investment on any of the capital investments made by the SFPUC, including the repayment of old capital and the payments toward the $4.6 Billion to rebuild the SFPUC system. CalWater is required to pass through to its retail customers such operating expenses without mark-up.

The same would be true for payments to BAWSCA for debt service on newly issued bonds – CalWater would pass those costs on to its retail customers without financial gain. Similarly, Stanford would also treat the surcharges as operating costs and pass them directly onto its retail and institutional customers.

Recommended solution: In conclusion, the difference between using a uniform or blended interest rate and allocating different interest rates to CalWater and Stanford would be a difference in charges to, and savings realized by, the retail business or residential water customers or end users.

For these reasons, the Board Policy Committee voted to recommend a blended interest rate be approved by the Board.

The table below shows the numerical difference between the two methods of allocating interest. If different surcharges were levied to CalWater and Stanford based on the higher interest for taxable bonds, the savings for the customers of those two agencies would be reduced by $5.9 million. Those customers would pay almost 24% of the cost of system facilities but be allocated only 4.6% of the savings if the old capital costs are repaid early.

Stated another way, while the current wholesale cost of water is $2.93 per Ccf, the difference in the two methods would amount to only $0.0038 per Ccf.

	Non-Blended Surcharge Savings			Blended Surcharge Savings		
	A	B	C=A+B	D=C*75.7%	E=C*24.3%	F=E-B
Fiscal Year	Public Agencies Savings	CWS & Stanford Savings	Total Savings	Public Agencies Savings	CWS & Stanford Savings	Difference
2013	0	0	0	0	0	0
2014 - 2033	1,986,428	20,476	2,006,904	1,520,063	486,841	466,365
2034	11,963,664	3,212,564	15,176,229	11,494,735	3,681,494	468,929
Total	**$51,692,230**	**$3,622,081**	**$55,314,310**	**$41,896,004**	**$13,418,306**	**$9,796,225**
PV Total	**$28,424,546**	**$1,357,978**	**$29,782,524**	**$22,557,793**	**$7,224,731**	**$5,866,753**
% of Total	**95.4%**	**4.6%**		**75.7%**	**24.3%**	

Note: Rates as of October 29, 2012, assumes 1.00% earnings rate in the Stabilization Fund. All numbers assume a mid/high-A category rating. Present value savings figures include fund releases which are treated as positive cashflows received at final maturity as well as ongoing investment earnings in the Stabilization Fund. Discount rate of 5.13% used for PV calculations.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC – Actions Needed to Proceed**

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 August 2012, BAWSCA's Financing Team (experienced financial managers and staff from KNN, Orrick, Hanson Bridgett and BAWSCA) concluded that it is feasible to issue bonds and save BAWSCA's member agencies money.

This item asks the Board's approval of four actions needed to proceed with the bond issuance.

Fiscal Impact:

Payment to KNN for financial advisory services during the financing would be a fixed fee of $155,000. An upfront cost to the Bank of New York as the selected Trustee will be $600. The ongoing annual cost will be the same amount of $600. The maximum underwriters' discount in the bond resolution is higher than in the original estimates; an increase of the maximum underwriters' discount above prior estimates would represent an additional $344,000 if the maximum authorized discount were actually used.

The financial advisory cost, the ongoing trustee cost, and the underwriters' compensation will be contingent upon the successful sale of bonds and paid from the bond proceeds.

Board Policy Committee Action:

The Committee voted unanimously to recommend the first two proposed actions. The second two recommendations originated following the Committee meeting

Recommendation:

That the Board:

1. **Authorize the CEO/General Manager to amend the contract with KNN for their financial advisory services until the completion of the financing.**
2. **Authorize the CEO/General Manager to appoint a bank to be selected through an RFP process as the Trustee for the bonds.**

The CEO recommends that the Board:

3. **Authorize the CEO/General Manger to appoint Morgan Stanley and Citigroup Global Markets as Co-Managing Underwriters for the bond issuance.**
4. **Authorize a maximum underwriters' discount of 0.0375% ($3.75 per $1,000 in par amount or "per bond").**

Discussion:

The Board's approval of the following four actions would be needed in order to proceed with the issuance of bonds.

The first two items were discussed with and by the Board Policy Committee, and the Committee recommended Board approval of both items.

1. Authorize the CEO/General Manager to amend the contract with KNN Public Finance for their financial advisory services until the completion of the financing. As is the case for Bond Counsel and Disclosure Counsel services being provided by Orrick, and the underwriting services being provided by Goldman Sachs and De La Rosa & Co., payment for KNN's work on this phase of the financing would be contingent on issuing bonds and would be paid using bond proceeds. The fee for KNN's services will be $155,000, which will include services provided since August 1, 2012.

2. Authorize the CEO/General Manager to appoint a bank to be selected through an RFP process as the Trustee for the bonds. At the direction of the CEO, KNN requested proposals from six qualified banks to serve as the trustee for the bond issue. The trustee will receive the proceeds, receive the surcharge payments from San Francisco, and make debt service payments to bond holders. We received six proposals. KNN is recommending that the Bank of New York be appointed, as their proposed fee was the lowest by a substantial margin ($600 a year, compared to fees of from $1,250 to $2,000). BNY has one of the most active corporate trust practices in the country.

Recommendations that have not been reviewed by the Committee:

3. Authorize the CEO/General Manger to appoint Morgan Stanley and Citigroup Global Markets as Co-Managing Underwriters for the bond issuance. Previously, the Board appointed Goldman Sachs and De La Rosa & Co. as the senior managers for BAWSCA's bond issuance. KNN has advised us that additional underwriting firms would be appropriate for a bond issue of the size contemplated by BAWSCA, to ensure the best possible distribution for the issue and thus the lowest interest rate. They have recommended that BAWSCA appoint two firms as "co-managers", who will assume a share of the underwriting liability. KNN and BAWSCA concur that the two firms ranked highest after the senior managers were Citigroup and Morgan Stanley. Furthermore, these firms have strong distribution, particularly in the traditional retail sector, and thus will contribute the widest potential distribution of BAWSCA's bonds.

4. Authorize a maximum underwriters' discount of 0.0375% ($3.75 per $1,000 in par amount or "per bond"). The underwriters' discount represents the difference between the price of the bonds to investors and the amount of proceeds delivered to the issue, and finances the underwriters' compensation and expenses.

   The documents presented to the Board Policy Committee did not yet contain the following underwriting parameters: maximum par amount, maximum term, maximum interest rate, and maximum underwriters' discount. At the time that the appointment of senior underwriters was recommended, we anticipated an underwriting spread of $2.75

based on the original proposals, This spread reflected the projected average takedown for the bonds (takedown represents the sales commission, and is estimated at $2.50 per $1,000 bond), as well as reimbursable expenses (originally estimated at $0.25 a bond).

Goldman Sachs has submitted a revised proposal for an increase in the allowance for their counsel, which is a reimbursable expense, and the addition of a management fee, which is often a component of compensation in particularly complex deals that require an inordinate amount of investment banking attention. The revised proposal would increase total underwriters' discount from $2.75 to $3.45 per bond. KNN indicates that typically the bond authorization provides some additional discretion to increase the underwriting discount, if appropriate, to accommodate changing market conditions. KNN recommends a maximum discount of $3.75 per $1,000 bond, which is incorporated in the authorizing resolution before the board. The actual discount will likely be lower, and will be determined at the time of the bond pricing, when interest rates are also set.

Attachments:

1) Copy of the Trustee RFP
2) Distribution list of the Trustee RFP

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY (THE "AGENCY")
2013 Revenue Bonds (Capital Cost Recovery Prepayment Program)

REQUEST FOR PROPOSALS TO PROVIDE TRUSTEE SERVICES

I. Introduction

The Bay Area Water Supply and Conservation Agency ("BAWSCA", or the "Agency") plans to issue 2013 Revenue Bonds (the "Bonds") to finance the prepayment of one of the capital charge components under its water supply agreement, and pay costs of issuance. The currently contemplated parameters for the Bonds are described in the table below.

Bay Area Water Supply and Conservation Agency – 2013 Revenue Bonds	
Par Amount (Approximate):	$350 Million
Number of Series:	2 (1 tax-exempt and 1 taxable series)
Term of Issue:	22 Years
Type of Bonds:	Current Interest
Underlying Security:	Revenues of the Agency (primarily charges due from members under water supply agreement)
Interest Rate Mode:	Fixed Rate
Frequency of Payments:	Semi-Annual Interest with Annual Principal
Anticipated Sale Date:	January 2013
Anticipated Closing Date:	January/February 2013
Accounts Held by Trustee:	Costs of Issuance Reserve/Stabilization Fund Revenue Fund Debt Service Accounts
Bond Counsel:	Orrick Herrington & Sutcliffe

KNN Public Finance, serving as financial advisor to the Agency, is requesting statements of qualifications and fee proposals from firms interested in serving as Trustee for the proposed financing. This RFP includes both the scope of services and the information firms are required to submit.

II. Scope of Work

The scope of the work to be performed by the Trustee will include, but not be limited to, administration of funds and accounts created under the Indenture. It is currently contemplated that these funds will include a Revenue Fund, the typical debt service accounts – Interest, Principal (including Sinking Account), and Redemption – and a Stabilization/Reserve Fund.

III. Selection Criteria

Any Trustee appointed under the provisions of the Indenture shall be a trust company, corporation or bank having the powers of a trust company, having a corporate trust office in the State of California, having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000), and subject to supervision or examination by federal or state authority.
Selection will be based upon the respondents' overall capabilities; fees; experience of the particular account representative(s) assigned; and the quality of the proposal. Selection of Trustee is expected to be made by November 1, 2012.

IV. Contents of Proposal (5 page limit, including cover page and attachments)

1. Briefly describe your commitment to the California public finance market. Summarize the number of public finance trust engagements you currently manage. How long have you maintained corporate/municipal trust offices in California?

2. Provide a description of your trust department's organization, and how you would administer the day-to-day management of the Agency's program with respect to staffing, management, client communications, and reporting. Specify office locations for each principal Trustee function, if multiple offices are involved. Identify key assigned personnel, including the primary and backup administrator, their office location, background and experience. Please indicate the number of accounts the designated administrator currently manages.

3. Briefly describe the communication tools to provide real-time trust account information electronically. Can the Agency download this information into Excel spreadsheets for use? Can the Agency elect to receive monthly statements solely in electronic format, so that it does not receive any hard copies? Do you have any additional reporting features which may be available to assist the Agency in reporting of funds held with the Trustee?

4. Provide the names, telephone numbers, and e-mail addresses of two (2) public agency clients, for which you currently provide similar trustee services, as well as one (1) bond counsel firm with which you have worked in a similar capacity.

5. Using the attached Trustee Bid Form (Attachment A), please provide a proposed fee schedule for all up-front and ongoing fees. Please include a schedule clearly stating what will be due and payable at the time of closing. Include a cap on counsel expenses and indicate the firm you intend to utilize as trustee counsel.

6. Please provide a statement that, if selected, you will be able to comply with the contemplated financing timeline outlined in the introduction section, and certify that all information submitted as part of the proposal is true and correct and that the person signing the proposal has full authority to do so on behalf of the company. All proposals must remain firm through April 1, 2013.

7. Please describe any other factors that you believe will assist the Agency in its selection.

V. Submission of Proposals

Your proposal must be received by **5 p.m. California Time on Wednesday, October 24, 2012**. Please direct responses to:

Nedko Nedev
KNN Public Finance
Ph: 510-208-8288
Email: nnedev@knninc.com

Proposals may be delivered electronically. Proposals received after 5 p.m. on October 24, 2012 will not be considered, nor will faxed submissions be considered whenever received.

All questions regarding this RFP should be directed to Nedko Nedev at (510) 208-8288.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY (THE "AGENCY")
2013 Revenue Bonds (Capital Cost Recovery Prepayment Program)

Trustee Bid Form

ATTACHMENT A

Firm Information	**Legal Counsel**
Firm Name and Address:	Firm Name and Address:
Primary Contact Person & Back-Up Contact Person (Name and Title, Location):	Contact Person (Name and Title):
Telephone Number:	Telephone Number:
Fax Number:	Fax Number:
E-Mail:	E-Mail:

	ASSUMPTIONS	CALCULATION	FEE
UP-FRONT FEES:			
Acceptance Fee - Trustee	Flat Fee		
First Year Administration	Flat Fee		
Bond Issuance	Book-Entry		
Legal Counsel	Not to Exceed		
Travel	Estimate		
COI Disbursements	12		
First Year Book-Entry	Flat Fee		
Out of Pocket	Estimate		
TOTAL			

ANNUAL FEES: The Agency requires that all ongoing fees be **set at a not-to-exceed price for the life of the issue**			
Annual Administration - Trustee	Flat Fee		
Redemption	Basis		
Book-Entry	Flat Fee		
Out of Pocket	Estimate/Basis		
TOTAL			

OTHER FEES			
On-line Availability of Monthly Reports (Number of days from month end, Cost)			
Fee for Sweep Account			
TOTAL			

OTHER INFO			
Any other fees not described elsewhere			
List provider of sweep account and yield (net to the issuer, after all applicable fees) for all money-market investments as of October 22, 2012			

Date ________________________________ Name ____

Title ________________________________ Signature____

Mr. Jose Matamoros, Vice President
THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.
700 South Flower Street, Suite 500
Los Angeles, CA 90017-4104
Tel: 213-630-6457
Fax: 213-630-6179
E-mail: jose.matamoros@bnymellon.com

Mr. Dean Levitt, Vice President
UNION BANK OF CALIFORNIA
350 California Street, 11th Floor
San Francisco, CA 94104
Tel: 415-705-5020
E-mail: dean.levitt@unionbank.com

Mr. Steve Torgeson, VP – Business Development
U.S. BANK NATIONAL ASSOCIATION
Corporate Trust Services, SF-CA-SFCT
One California Street, 10th Floor, Suite 1000
San Francisco, CA 94111
E-mail: steve.torgeson@usbank.com
Tel: 415-273-4544
Cell: 415-699-7498

Ms. Jane Snyder, Vice President
DEUTSCHE BANK NATIONAL TRUST COMPANY
1761 E. St. Andrew Place
Santa Ana, CA 92705-
Tel: 714-247-6038 (Snyder)
Fax: 714-247-6035
E-mail: jane.snyder@db.com

Mr. Stuart Weiss, VP - Business Development
WELLS FARGO BANK, N.A.
Corporate Trust Services
707 Wilshire Blvd., 17th Floor
MAC: E2818-176
Los Angeles, CA 90017
Tel: 213-614-3356 (Weiss)
Fax: 213-614-3355
E-mail: stuart.weiss@wellsfargo.com

Mr. John Deleray, Vice President, Senior Client Development Officer
WILMINGTON TRUST, N.A.
650 Town Center Drive, Suite 680
Costa Mesa, CA 92626-7121
Direct: 714-313-3858
E-mail: jdeleray@wilmingtontrust.com
Web: www.wilmingtontrust.com

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Approval of the Bay Area Water Supply and Conservation Agency Revenue Bonds Series 2013A and Series 2013B (Taxable) Financing Structure and Documents for An Amount Not To Exceed $385 Million with A Term Ending No Later Than December 31, 2034**

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. This item recommends the Board take three actions necessary to enable bonds to be issued to meet this objective.

Fiscal Impact:

Based on the anticipated bond structure and the current market conditions, the bond transaction could generate between $20 million and $34 million in net present value savings, or approximately 6% to 10% of the outstanding capital recovery amount of $354 million expected to be prepaid, assuming full participation by all BAWSCA agencies. The estimated cost of issuance is less than $2 million, all payable from bond proceeds. Non-contingent costs of issuance were estimated to be less than $400,000.

Board Policy Committee Action:

The Committee was presented with, and had discussion of the structure of the revenue bonds. No action was requested from the Committee.

The Committee voted unanimously to recommend Board approval of recommendation #2 and #3.

Recommendation:

That the Board:

1. **Approve the issuance and structure of the Bay Area Water Supply and Conservation Agency Revenue Bonds Series 2013A and Series 2013B (Taxable) in an amount not to exceed $385 million with a term ending no later than December 31, 2034.**
2. **Approve the substantially final forms of financing documents provided with this staff report, including the Revenue Bond Indenture, First Supplemental Indenture, the Continuing Disclosure Certificate, the Preliminary Official Statement, a Prepayment and Collection Agreement with the SFPUC and the Bond Purchase Agreement.**
3. **Authorize the CEO/General Manager to execute these financing documents at the appropriate time conditioned upon satisfaction of the following criteria:**
    a. **The bond interest rates and final financing structure will need to result in a net present value savings of not less than 4% (or approximately $14.2 million) over the term of the bonds.**

b. **San Francisco must provide, in advance of receiving any funds, a written pledge to use bond proceeds in a manner consistent with federal laws and regulations. This is memorialized in the Prepayment and Collection Agreement.**

Discussion:

Background. Since Fall 2011, BAWSCA and its advisors have been exploring the possibility of a potential bond issuance to prepay capital debt the agencies owe San Francisco in order to save BAWSCA's member agencies money.

BAWSCA's Financing Team, consisting of KNN, Orrick, Hanson Bridgett, Goldman Sachs, De La Rosa & Co. and BAWSCA, recommends that BAWSCA continue to pursue a bond issuance and aim for a bond closing in January 2013. At current rates, the bond transaction could generate between $20 million and $34 million in net present value savings, or approximately 6% to 10% of the outstanding capital recovery amount of $354 million.

Recommendations from the Board Policy Committee:

1. Approve the issuance and structure of the Bay Area Water Supply and Conservation Agency Revenue Bonds Series 2013A and Series 2013B (Taxable) in an amount not to exceed $385 million with a term ending no later than December 31, 2034. The table at the end of this memo (Table 1) presents the currently anticipated bond structure. The final structure will be a function of market conditions, which can affect the amount of bonds that need to be sold, and rating considerations, which will affect the size of the reserve fund and net savings.

2. Approve the substantially final forms of financing documents provided with this staff report, including the Revenue Bond Indenture, First Supplemental Indenture, the Continuing Disclosure Certificate, the Preliminary Official Statement, a Prepayment and Collection Agreement with the SFPUC and the Bond Purchase Agreement. The substantially final forms of the documents mentioned above are attached to this memorandum. The first five documents were prepared by BAWSCA's bond counsel, Orrick. The Bond Purchase Agreement was prepared by Underwriter's legal counsel, Stradling Yocca Carlson & Rauth. All financing documents have been reviewed by BAWSCA's legal counsel and the final forms of such documents will be subject to the approval of BAWSCA's legal counsel. Each of these financing documents is described briefly below.

   - Revenue Bond Indenture: Provides for the issuance of and security for bonds to finance the Capital Cost Recovery Prepayment Program and any future refunding bonds.

   - First Supplemental Indenture: Sets forth the specific terms of the initial series of bonds issued under the Revenue Bond Indenture.

   - Continuing Disclosure Certificate: Sets forth procedures for post-issuance disclosure as required by securities laws.

- Preliminary Official Statement: Disclosure document used to market the bonds in compliance with securities law.

- Prepayment and Collection Agreement with the SFPUC: Will provide for San Francisco's collection of the surcharge as part of its water billing and set forth other obligations of San Francisco in connection with the expenditure of bond proceeds and the administration of the surcharge. This agreement is the subject of negotiations with the SFPUC.

- Bond Purchase Agreement: Provides for the sale of the bonds to the Underwriters.

3. Authorize the CEO/General Manager to execute these financing documents at the appropriate time conditioned upon satisfaction of the following criteria.
    a. The bond interest rates and final financing structure will need to result in a net present value savings of not less than 4% (or approximately $14.2 million) over the term of the bonds.
    b. San Francisco must provide, in advance of receiving any funds, a written pledge to use bond proceeds in a manner consistent with federal laws and regulations.

    Many regular bond issuers have policies that state minimum savings goals for a refunding. As noted in a Government Finance Officer's Report on the subject, "a common threshold is that the savings (net of all issuance costs and any cash contribution to the refunding), as a percentage of the refunding bonds, should be at least 3-5 percent."

    Given the long lead time required to prepare the BAWSCA bond issue and the difficulty of remobilizing in the future, the BAWSCA Financing Team recommends that the CEO be given slightly wider latitude, setting a net present value savings condition of not less than 3% (or approximately $10.6 million).

If all conditions are met, bonds will be issued and the Board and member agencies will be notified immediately following the sale. A full report will be made to the Board at its January meeting.

Attachments: Under Separate Cover – Electronically at www.bawsca.org/agendas-documents/agendas/

1. Draft Revenue Bond Indenture
2. Draft First Supplemental Indenture
3. Draft Continuing Disclosure Certificate
4. Draft Preliminary Official Statement
5. Draft Prepayment and Collection Agreement with the SFPUC
6. Draft Bond Purchase Agreement

Table 1 - Proposed Bond Structure

		In Millions
Bond Proceeds	Total Par Amount	$343.6
	Premium	$37.6
	Total Proceeds	$381.2
Prepayment Funds	Tax-Exempt Proceeds	$268.3
	Taxable Proceeds	$85.9
	Total Proceeds Paid to SFPUC	$354.2
Capitalized Interest	Interest Funded by Proceeds	$11.9
Cost of Issuance	Cost of Issuance (From Bond Proceeds)	$1.9
Reserves	Stabilization Fund (From Bond Proceeds)	$13.2
Savings	PV Savings for All Members over Bond term	$20.0 - $34.0
	Average Annual Savings for All Members	$1.0 - 2.1
Term	Term of Bonds	Through 2034

Note: Rates as of October 29, 2012. Assumes stabilization fund equal to 50% of maximum annual debt service and a 1.00% earnings rate on that fund.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS

Agenda Title: **Review of BAWSCA's Statement of Investment Policy and Proposed Modifications**

Summary:

The Board's Investment Policy states the CEO/General Manager shall annually submit a Statement of Investment Policy to the Board, which the Board will consider at a public meeting. The previous review occurred on July 21, 2011.

Staff recommends modifying the Policy in anticipation of the need to invest the proceeds of a potential upcoming bond issuance.

Fiscal Impact:

The recommended changes to the Investment Policy would have no effect on BAWSCA's annual operating budget. BAWSCA's current policy does not provide direction for investing bond proceeds, and the recommended changes specify conservative investments for such purposes.

Board Policy Committee Action:

The Committee voted unanimously to present the amendments to the investment Policy to the Board with potential action by the Board if it so chooses.

Recommendation:

That the Board approve the revised modifications to the Investment Policy.

Discussion:

BAWSCA is preparing to issue bonds to prepay a capital debt the agencies owe San Francisco. The bonds would be issued pursuant to a Revenue Bond Indenture, dated January 1, 2013, by and between the Agency and the Trustee (Indenture).

Although the Indenture specifies investments in which BAWSCA would be permitted to invest bond proceeds, staff recommends adding an "Investment of Bond Proceeds" section to the Investment Policy to further restrict allowable investments for bond proceeds.

BAWSCA historically has invested its operating funds in only a limited number of conservative available investment vehicles. At this time, only three, highly conservative investment vehicles are recommended for depositing bond proceeds.

The recommended action would permit the Board to gradually expand the types of permissible investments for bond proceeds through Policy amendments over the life of the bonds. This approach provides BAWSCA the flexibility to adjust the investment vehicles that may be recommended by BAWSCA's financial advisors in the future.

The only other recommended change to the Policy is to note that FDIC insurance coverage up to $250,000 has been permanently extended to deposits in banks and savings associations.

Investment policies promulgated by other agencies were surveyed, including BAWSCA member agencies, such as the cities of Palo Alto, San Jose and Santa Clara, as well as the cities of San Francisco, San Diego and Orange County. The majority of policies reviewed explicitly exempted the investment of bond proceeds from the scope of the agency's Investment Policy, instead permitting bond proceeds to be invested in all permitted investments enumerated in individual bond indentures.

The recommended approach is more conservative than all public agencies in our sample.

The following categories of investments that are recommended to be authorized for bond proceeds is a subset of those that appear in the proposed Indenture:

1) Federal Securities, meaning direct and general obligations of the United States of America, such as Treasury bonds, notes and bills;
2) Money Market Mutual Funds highly rated by S&P and Moody's; and
3) Certificates of Deposit.

These categories are fully defined in the draft Investment Policy and the definitions are consistent with the language in the Indenture.

During discussion by the Board Policy Committee, the suggestion was made that the investment policy include an objective related to social responsibility. The discussion resulted in no unified action or advice. The CEO suggested the issue be pursued at a later date so that the revisions necessary to support bond issuance could be considered and acted upon, and pledged to note the discussion in the staff memo to the Board.

The Committee agreed to include the issue for discussion at the next Committee meeting.

Attachments:

1) Recommended Statement of Investment Policy, showing revisions in strike-and-bold format.
2) Recommended Statement of Investment Policy, incorporating recommended revisions.

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF INVESTMENT POLICY

1. Introduction

The investment policies and practices of the Bay Area Water Supply & Conservation Agency (BAWSCA) are based on state law and prudent money management. All funds will be invested in accordance with the Agency's Investment Policy and the California Government Code.

2. Scope

This policy applies to all funds and investment activities under the direction of the Agency, including funds held in the name of the Bay Area Water Users Association (BAWUA), a California nonprofit corporation of which the Agency is the sole member.

3. Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency.

Investments shall be made with the judgment and care which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived, and in accordance with the provisions of Government Code Section 53600 et seq.

4. Objectives

The primary objectives, in priority order, of the Agency's investment activities shall be:

A. Safety. Safety of principal is the foremost objective of the investment program. The Agency's funds shall be invested in a manner that seeks to ensure preservation of capital.

B. Liquidity. The Agency's investments will remain sufficiently liquid to enable the Agency to meet its cash flow requirements.

C. Return on Investment. The Agency's investments shall be designed with the objective of attaining a market rate of return consistent with the constraints imposed by its safety and liquidity objectives.

5. Delegation of Authority

The management and oversight responsibility for investments is hereby delegated to the CEO/General Manager who shall monitor and review all investments for consistency with this Investment Policy.

6. Investment of Funds

~~6.~~A. Permitted Investments and Depositories

~~A.~~(i) Agency funds may be deposited only in state or national banks and state or federal savings associations with offices in California that meet the requirements and conditions of the Government Code, as it may be amended from time to time.

~~B.~~(ii) Funds not deposited in banks or savings associations shall be invested in the Local Agency Investment Fund administered by the Treasurer of the State of California, in accordance with Government Code Section 16429.1.

~~7.~~B. Other Limitations

~~A.~~(i) The maximum amount of funds deposited with any bank or savings association shall be $250,000; provided that if funds are each separately insured by the Federal Deposit Insurance Corporation ("FDIC"), the General Manager may maintain separate accounts for the Agency and for BAWUA (to a maximum of $250,000 for each entity) at one bank or savings association. The temporary increase from $100,000 to $250,000 in the standard maximum deposit insurance amount ~~expires December 31, 2013. When this Policy is reviewed by the Board, Staff will provide status of FDIC coverage and will amend this section of the Policy as necessary.~~has been permanently extended by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

~~B.~~(ii) Investment maturities shall be based on a review of cash flow forecasts and shall be scheduled so as to allow the Agency to meet all projected obligations. The maturity of any certificate of deposit shall not exceed 12 months.

7. Investment of Bond Proceeds

Permitted Investments and Depositories. Pursuant to Government Code section 53601(m), a local agency may invest bond proceeds "in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance of those bonds." Typically, a local agency will specify in its investment policy that the investment of bond proceeds is out of the scope of the investment policy because permitted investments are specified in the bond indenture.

Instead, BAWSCA has determined that it would like to at least temporarily use its Investment Policy to restrict the vehicles permitted for the investment of bond proceeds to more conservative investments than are permitted by the Revenue Bond Indenture, dated January 1, 2013, by and between BAWSCA and the Trustee (the "Indenture"). This gives BAWSCA the flexibility to, through amendments to future Investment Policies, gradually expand permitted investments for bond proceeds to include some or all of the investment vehicles permitted in the Indenture. As such, notwithstanding language allowing a broader range of investment vehicles in the Indenture, bond proceeds may be invested only in the following instruments:

(i) "Federal Securities" meaning direct and general obligations of the United States of America, or those which are fully and unconditionally guaranteed as to timely payment of principal and interest by the same;

(ii) "Money Market Mutual Funds" meaning funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of "AAAm-G" or "AAAm" and, if rated by Moody's, having a rating by Moody's of "Aaa," including money market funds from which the Trustee or its affiliates derive a fee for investment advisory or other services to the fund or for which the Trustee or any of its affiliates serve as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee; and

(iii) "Certificates of Deposit" (including those placed by third parties pursuant to an agreement between the Agency and the Trustee), trust funds, trust accounts, overnight bank deposits, interest bearing money market accounts, time deposits, savings accounts, deposit accounts, bankers' acceptances or money market deposits which are fully insured by the Federal Deposit Insurance Corporation, including those of the Trustee or its affiliates.

8. **Reporting Requirements**

The CEO/General Manager shall provide the Board a quarterly investment report, which shall include the information ~~required by~~ specified in Government Code Section 53646.

9. **Annual Review of Investment Policy**

The CEO/General Manager shall annually submit a Statement of Investment Policy to the Board, which the Board will consider at a public meeting.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF INVESTMENT POLICY

1. Introduction

The investment policies and practices of the Bay Area Water Supply & Conservation Agency (BAWSCA) are based on state law and prudent money management. All funds will be invested in accordance with the Agency's Investment Policy and the California Government Code.

2. Scope

This policy applies to all funds and investment activities under the direction of the Agency, including funds held in the name of the Bay Area Water Users Association (BAWUA), a California nonprofit corporation of which the Agency is the sole member.

3. Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency.

Investments shall be made with the judgment and care which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived, and in accordance with the provisions of Government Code Section 53600 et seq.

4. Objectives

The primary objectives, in priority order, of the Agency's investment activities shall be:

A. Safety. Safety of principal is the foremost objective of the investment program. The Agency's funds shall be invested in a manner that seeks to ensure preservation of capital.

B. Liquidity. The Agency's investments will remain sufficiently liquid to enable the Agency to meet its cash flow requirements.

C. Return on Investment. The Agency's investments shall be designed with the objective of attaining a market rate of return consistent with the constraints imposed by its safety and liquidity objectives.

5. Delegation of Authority

The management and oversight responsibility for investments is hereby delegated to the CEO/General Manager who shall monitor and review all investments for consistency with this Investment Policy.

6. Investment of Funds

A. Permitted Investments and Depositories

(i) Agency funds may be deposited only in state or national banks and state or federal savings associations with offices in California that meet the requirements and conditions of the Government Code, as it may be amended from time to time.

(ii) Funds not deposited in banks or savings associations shall be invested in the Local Agency Investment Fund administered by the Treasurer of the State of California, in accordance with Government Code Section 16429.1.

B. Other Limitations

(i) The maximum amount of funds deposited with any bank or savings association shall be $250,000; provided that if funds are each separately insured by the Federal Deposit Insurance Corporation ("FDIC"), the General Manager may maintain separate accounts for the Agency and for BAWUA (to a maximum of $250,000 for each entity) at one bank or savings association. The temporary increase from $100,000 to $250,000 in the standard maximum deposit insurance amount has been permanently extended by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

(ii) Investment maturities shall be based on a review of cash flow forecasts and shall be scheduled so as to allow the Agency to meet all projected obligations. The maturity of any certificate of deposit shall not exceed 12 months.

7. Investment of Bond Proceeds

Permitted Investments and Depositories. Pursuant to Government Code section 53601(m), a local agency may invest bond proceeds "in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance of those bonds." Typically, a local agency will specify in its investment policy that the investment of bond proceeds is out of the scope of the investment policy because permitted investments are specified in the bond indenture.

Instead, BAWSCA has determined that it would like to at least temporarily use its Investment Policy to restrict the vehicles permitted for the investment of bond proceeds to more conservative investments than are permitted by the Revenue Bond Indenture, dated January 1, 2013, by and between BAWSCA and the Trustee (the "Indenture"). This gives BAWSCA the flexibility to, through amendments to future Investment Policies, gradually expand permitted investments for bond proceeds to include some or all of the investment vehicles permitted in the Indenture. As such, notwithstanding language allowing a broader range of investment vehicles in the Indenture, bond proceeds may be invested only in the following instruments:

(i) "Federal Securities" meaning direct and general obligations of the United States of America, or those which are fully and unconditionally guaranteed as to timely payment of principal and interest by the same;

(ii) "Money Market Mutual Funds" meaning funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of "AAAm-G" or "AAAm" and, if rated by Moody's, having a rating by Moody's of "Aaa," including money market funds from which the Trustee or its affiliates derive a fee for investment advisory or other services to the fund or for which the Trustee or any of its affiliates serve as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee; and

(iii) "Certificates of Deposit" (including those placed by third parties pursuant to an agreement between the Agency and the Trustee), trust funds, trust accounts, overnight bank deposits, interest bearing money market accounts, time deposits, savings accounts, deposit accounts, bankers' acceptances or money market deposits which are fully insured by the Federal Deposit Insurance Corporation, including those of the Trustee or its affiliates.

8. Reporting Requirements

The CEO/General Manager shall provide the Board a quarterly investment report, which shall include the information specified in Government Code Section 53646.

9. Annual Review of Investment Policy

The CEO/General Manager shall annually submit a Statement of Investment Policy to the Board, which the Board will consider at a public meeting.

(This page intentionally left blank.)

Board of Directors Policy Calendar for FY 2012-13

Board Meeting	Purpose	Issue or Topic
November	D&A D&A	Bond Issuance – Action Hetch Hetchy Reservoir – Protecting the Water Users
January	R D&A D D&A **D&A**	Bond Issuance - Status BAWSCA Mid-Year Review of Progress, Budget and Reserves Budget planning for FY 2013-14 Water Supply Strategy – Pilot Project **CEO/General Manager Performance Evaluation**
March	D	Discussion of preliminary Work Plan and budget for FY2013-14
May	D&A D&A	Adoption of Work Plan and Operating Budget for FY 2013-14 Approval of annual contracts for FY2013-14

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

(This page intentionally left blank.)

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.)	
Date	**Location**
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)	
Date	**Location**
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.)	
Date	**Location**
Wednesday, December 12, 2012	155 Bovet Rd., San Mateo – 1st Floor Conf. Rm.
Wednesday, February 13, 2013	155 Bovet Rd., San Mateo – 1st Floor Conf. Rm.
Wednesday, April 10, 2013	155 Bovet Rd., San Mateo – 1st Floor Conf. Rm.
Wednesday, June 12, 2013	155 Bovet Rd., San Mateo – 1st Floor Conf. Rm.
Wednesday, August 14, 2013	155 Bovet Rd., San Mateo – 1st Floor Conf. Rm.
Wednesday, October 9, 2013	155 Bovet Rd., San Mateo – 1st Floor Conf. Rm.
Wednesday, December 11, 2013	155 Bovet Rd., San Mateo – 1st Floor Conf. Rm.