

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, September 20, 2012

7:00 P.M.

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page</u>
1. Call to Order/Roll Call/Salute to Flag	(Pierce)	
2. Comments by the Chair	(Pierce)	
3. Board Policy Committee Report <i>(Attachment)</i>	(Klein)	<i>Pg 3</i>
4. Public Comments <i>Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Pierce)	
5. SFPUC Report		
6. Consent Calendar	(Pierce)	
A. Approve Minutes of the July 19, 2012 Meeting <i>(Attachment)</i>		<i>Pg 17</i>
B. Receive and File Pre-Audit Budget Status Report – As of June 30, 2012 <i>(Attachment)</i>		<i>Pg 21</i>
7. Action Calendar	(Pierce)	
A. Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC <i>(Attachment)</i>	(Jensen)	<i>Pg 23</i>
<u>Recommendation:</u> 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.		
<i>The Board Policy Committee unanimously recommends approval of the proposed Board action</i>		
8. Special Report and Action Item	(Sandkulla/Dutton)	
A. Long-Term Reliable Water Supply Strategy Phase II A Report Presentation of the findings, conclusions, and recommendations in the Phase II A Report. A copy of the Executive Summary was included with the July 19 th Board packet. The Executive Summary and full report can be viewed online at http://bawasca.org/water-supply/long-term-reliable-water-supply-strategy/ .		

Recommendation:

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 Bridgett, LLP to complete 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 with 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 Board Policy Committee unanimously recommends approval of the proposed Board action.

9. Reports

(Jensen)

- A. Water System Improvement Program – Update (*Attachment*)
- B. Status of Initiative to Drain Hetch Hetchy – Oral Report
- C. Status of 2 mgd Water Transfer between the SFPUC and MID – Oral Report
- D. Third Year Administration of the Water Supply Agreement (*Attachment*)
- E. Board Policy Calendar (*Attachment*)

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10. Directors' Discussion: Comments, Questions and Agenda Requests

(Pierce)

11. Date, Time and Location of Future Meetings

(Pierce)

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(See attached schedule of meetings)

12. Adjourn to next meeting scheduled for November 15, 2012 at 7pm

(Pierce)

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

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

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

BAWSCA
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: September 14, 2012
SUBJECT: Summary of Board Policy Committee meeting held August 8, 2012

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

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

Comments by Chair: There were no comments by the Chair.

Public Comments: There were no public comments.

Consent Calendar: Director Anderson made a motion, seconded by Director Pierce, that the minutes from the meeting of June 13, 2012, be approved. The motion carried unanimously.

Action Items:

- A. **Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC:** Mr. Jensen presented the results of the feasibility study performed to determine whether issuing bonds would save member agencies money, and to identify what Board actions were needed to proceed.

The feasibility report, included in the agenda packet, was prepared by BAWSCA and its team of consultants. The primary author was David Brodsky of KNN Public Finance. The report concludes that it is feasible for BAWSCA to issue bonds to BAWSCA member agencies money. The financing team recommends that BAWSCA continue to pursue the bond issuance and aim for a bond closing in January 2013.

Mr. Jensen reported that at current rates, a bond issuance could save no less than \$20 million in present value, assuming participation by all agencies. This level of savings equates to 6% of the \$367 million of outstanding debt owed to San Francisco.

Mr. Jensen stated the \$20 million savings over 21 years translates to approximately \$38,000 for Brisbane and Guadalupe Valley Improvement District, and for Cal Water it translates to \$4.5 million, based on their current percentage of water purchases from San Francisco.

An initial savings estimate of \$35 million was provided in the Fall prior to completion of the feasibility study. That earlier estimate represented what might be an average estimate of savings and was based on preliminary information. The value of \$20 million represents an estimate of the lower end of potential savings, and is based on more refined information. The range will be discussed with the Board in September along with information about the inherent sources of uncertainty.

Mr. Jensen went over the actions taken since January, when the consideration of a potential bond issuance was first presented to the Committee. He reported that AB 2167 was introduced in the State Legislature to establish a legal structure for issuing bonds, and explained that the bill explicitly expands BAWSCA's authority to issue bonds for the purpose of prepaying members' obligation to San Francisco. AB 2167 passed the Assembly and is awaiting Senate approval.

Key questions and considerations addressed in the feasibility study include the establishment of a revenue collection mechanism, tax-exempt interest rates, impact on BAWSCA members, and accommodating partial participation.

Mr. Jensen stated that establishing a revenue collection mechanism is important to ensure that the credit structure is acceptable to the bond market. Another objective is to create a fair mechanism for allocating costs. Currently, the capital costs that would be prepaid are a component of the annual Wholesale Revenue Requirement (WRR). The SFPUC currently allocates the WRR in proportion to each wholesale customer's water purchases. This form of cost allocation is based on how San Francisco currently sets rates. BAWSCA will use this current cost allocation as a basis of comparison for how repayment of BAWSCA's bonds might be allocated among the agencies.

Consideration of a revenue collection mechanism for BAWSCA is also being examined by BAWSCA's bond underwriters. AB 2167 would allow BAWSCA to have SFPUC add a surcharge to the wholesale water bill of each agency, collect the payments and forward them to BAWSCA or a trustee. Whether to establish the surcharge at volumetric pricing or fixed charge is currently being explored.

Mr. Jensen reported that the feasibility study looked at maximizing the amount of bonds that can be issued on a tax-exempt basis in order to lower the interest expense and maximize savings. For the portion of the prepayment that would correspond to CalWater's share, taxable bonds must be issued. The study concludes that with full participation, approximately 20% of the bonds must be taxable.

Bond counsel determined that federal law requires San Francisco to use tax-exempt bond proceeds for capital facilities owned and used by San Francisco. San Francisco would have greater latitude in the use of taxable bond proceeds. The financial team is continuing to examine how taxable and tax-exempt bonds might be issued and what agreements would be needed with San Francisco for the use of funds.

In reviewing potential impacts of the bond issuance to BAWSCA member agencies, Bond Counsel determined that the surcharges can and should be characterized as operating expenses as part of the cost of water, just as the current expenses are characterized today.

To implement the bond issuance, no amendments are needed for the 2009 Water Supply Agreement. Agencies would be requested to adopt a resolution electing to participate in the prepayment, and directing staff to assist in completing the financing. The resolution would serve as an advantage to the adopting governing bodies by providing transparency and to the bond buyers and investors as it can increase confidence, and therefore, lower interest rates.

To ensure that BAWSCA coordinates with the most appropriate individuals in each agency, a letter will be sent to agency managers asking them to appoint an appropriate staff member to receive future correspondence and represent the needs of their agency.

Mr. Jensen reported that there are no economic or risk management reasons for a member agency not to participate. However, partial participation will be accommodated in the event that an agency, for whatever reason, is unwilling to participate or unable to act on the resolution by the end of the calendar year. Non-participation by an agency should not prevent other agencies from realizing the savings generated by the bond issuance. Bonds can be issued for a partial prepayment so that non-participating agencies would continue to pay their current obligation at the current interest rate of 5.13%.

In response to Chair Klein, Mr. Jensen reported that there are no current indications from any member agencies that they don't want to participate in the bond issuance.

Director Weed reported that ACWD engaged in an independent bond counsel to review the bond issuance from his district's perspective.

Director Abrica suggested that BAWSCA consider passing a resolution of encouragement for agencies to adopt the resolution to participate in the bond issuance. Art suggested the Board resolution say the Board recommends agencies consider the matter seriously and schedule the bond participation resolution for consideration and action prior to the deadline. The Committee agreed. Chair Klein noted that some city councils only meet once in December, and that there may be a lack of time between November and December to process the adoption of the resolution.

The draft resolution for participation will be circulated to agencies immediately following the September Board meeting. The Committee asked that a draft of that resolution be provided to the Board in September. The Committee suggested that the transmittal of that resolution should note that the bond issuance would proceed based upon further findings and after an action by the Board in November.

Mr. Jensen noted that further refinements to the bond structure are anticipated and will be presented to the Board in September and November. Additional activities by the financial team through September include negotiations with San Francisco on a collection mechanism and other matters, preparation of initial bond legal and disclosure documents, and meeting with rating agencies on preliminary ratings.

The October Board Policy Committee will be a critical meeting. The Committee will be presented with final recommendations for Board action, including approval of bond documents, and delegation of authority to execute the documents. The Committee will receive drafts of all materials that will be considered by the Board for adoption in November.

Mr. Jensen presented the three Board action items required to move forward. They include authorizing the CEO/General Manager to amend the contract with Orrick to implement Phase III of the Bond Counsel services, authorize the CEO/General Manager to seek preliminary credit ratings from rating agencies, Moody's and S&P, and authorize the transfer of funds from the General Reserve for payments to rating agencies, if bonds are not issued. The payments to rating agencies would be made from the bond proceeds if they are successfully issued.

Mr. Jensen reported the status and potential impact of the bond issuance on the General Reserve balance. The funding of activities for the bond issuance is consistent with the Board adoption of the Budget and work plan for FY 2012-13. All of Orrick's future costs can be paid using bond proceeds, contingent upon the sale of bonds.

Receiving preliminary ratings from the rating agencies will cost \$120,000 whether or not bonds are issued. The adopted budget for this fiscal year noted that payment of costs not covered by the bond proceeds could be funded by the General Reserve. If the bonds are not issued, the payment of \$120,000 for the rating agencies would need to be taken out of the General Reserve. The current estimated General Reserve balance is \$1,262,000. There is more than enough available in the General Reserve to pay for the preliminary rating expense if bonds are not issued. The General Reserve balance would remain above the Board's guidelines, and subject to further action as discussed with the Board in May.

In May, the alternatives considered by the Board for managing the General Reserve included refunding a portion of the balance to agencies, and to reduce assessments going into FY2013-14. At that time, Mr. Jensen predicted the need to lower assessments going in to FY 2013-14 regardless of whether a portion of the General Reserve balance were spent or refunded. Mr. Jensen stated that his recommendations remain the same. With no further discussion, Director Anderson made a motion, seconded by Director Pierce, to recommend the Board to:

- a. 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.
- b. 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.
- c. Authorize the CEO/General Manager to transfer \$120,000 from the General Reserve for payments to rating agencies, if bonds are not issued.

- d. Adopt a resolution encouraging member agencies to seriously consider saving money by participating in BAWSCA's issuance of bonds to prepay the debt owed to San Francisco and for them to schedule the bond participation resolution for consideration and action prior to the deadline.

The motion carried unanimously.

- B. Long-Term Reliable Water Supply Strategy (Strategy) Phase II A Report and Recommendations: Water Resources Planner, Ms. Anona Dutton, presented the findings and recommendations of the Strategy's Phase II A Report. She stated that the Strategy was designed to determine the water supply needs of the region, and to develop and implement solutions to meet the identified needs. The phases of the Strategy are on schedule and within budget, and are being managed to use resources efficiently and to achieve the desired results. The date for completing development of the Strategy is December 2014.

Key findings of Phase II A show that limited additional supply is needed in normal years until 2035. The impacts of drought, however, continue to have significant economic and other impacts to the region. Therefore, future efforts of the Strategy will focus on meeting supply needs during drought.

Seventeen projects were evaluated that could potentially be developed to meet the identified need. Project evaluation criteria were developed according to the BAWSCA Board's objectives. In addition to the technical findings, Phase IIA identified a series of specific work items that BAWSCA needs to complete by December 2014 to finalize the Strategy.

Ms. Dutton reported that BAWSCA worked closely with member agencies and referenced the 2010 Urban Water Management Plans (UWMP) to project future water demands for the service area out to 2035. The projected total demand in 2035 is 315 mgd, which is roughly 50 mgd more than current demand. This projection reflects population and employment growth, as well as anticipated impacts of passive conservation.

Ms. Dutton reported that the current projected 2035 demand is less than the previously reported estimate of 343 mgd in both the 2005 UWMP's and the Phase I Report. She stated that the decrease is a function of the current decline in water use, among other things. She emphasized the uncertainty of how and when the precipitous decline in recent water use will recover, and noted that demand hardening will be a future issue.

The Phase II A report also documents BAWSCA agencies' ongoing conservation efforts that projects water savings of up to 48 mgd through 2035 with both passive and active conservation. Ms. Dutton noted that conservation remains a priority for BAWSCA agencies for several reasons, including eligibility for State grants, achieving local and State mandates, and realizing a cost effective means of developing new supply compared to SFPUC water or other sources. Greater efficiency, however, raises the issue of demand hardening, or the ability to accommodate drought water shortages.

Ms. Dutton presented a chart of the member agencies' anticipated water supply use portfolio in 2015 and 2035. It shows the member agencies' projected increase use of supplies beyond the supplies purchased from the SFPUC. Ms. Dutton explained that although member agen-

cies have reduced demands, they continue to invest in additional supply through active conservation, groundwater and recycled water. Despite the agencies' investments in additional supply, there remains an unmet need in the future.

Ms. Dutton explained that there are seven agencies with an unmet need during normal years in 2035. The need ranges between 4 and 13 mgd. The 9 mgd range accounts for the uncertainty in future SFPUC supply provided to San Jose and Santa Clara. Ms. Dutton stated that the SFPUC will need to decide soon whether they will continue to serve San Jose and Santa Clara beyond 2018.

The impact of drought to the SFPUC supplies is significant. The unmet water supply need from the SFPUC during drought ranges between 58 and 62 mgd. Ms. Dutton reported that in running the SFPUC's hydrological model, which spans an 82 year period (1920-2002), against the projected demands, it shows that on average, SFPUC supply experiences a drought once every 10 years. This results in an 18 to 29% cutback in the SFPUC service area. If the hydrology of the last decade is also considered, between 2002 and 2011, the frequency of drought appears to increase to once every 8 years.

Ms. Dutton stated that based on best estimates, drought cutbacks of 18 to 29% can potentially occur once every 8 to 10 years. For some BAWSCA agencies that depend on the SFPUC supplies, the cutback translates to a cutback to their SFPUC supplies of up to 40%. With demand hardening as an impending issue, meeting the cutbacks will be difficult even for agencies with alternative sources. Additionally, current studies show that there is an estimated economic impact to the BAWSCA region of greater than \$1 billion for each drought year.

Ms. Dutton reported that BAWSCA met with each of the seven agencies that has a supply need during normal years, and each agency is investigating alternatives to meet their need, independent of the Strategy. The drought year need is a regional issue, and therefore, future efforts of the Strategy will focus on this issue to achieve regional benefit.

In identifying the solution to the problem, Ms. Dutton reported that the 65 projects identified in Phase I were refined to seventeen projects during Phase II A. Based on Board input in May and July of 2010, criteria were developed to evaluate and rank the water supply projects for consideration. Ultimately, the goal is to increase supply reliability, provide high quality water, minimize cost of new water supplies, reduce potable water demand, minimize environmental impacts of new water supplies, and increase implementation potential of new water supplies.

For the purposes of Phase II A, BAWSCA focused on a subset of these criteria for which most information was available. Desalination, non-potable capture and reuse, recycled water, and water transfers were the four types of projects Phase II A closely evaluated for further consideration.

There are nine potential desalination projects that range from coastal desalination, brackish ground water, Bay water, and participation in the Bay Area Regional Desalination Project. Ms. Dutton noted that the yield of these projects has a potential range of 1 – 20 mgd per year, but the actual yield will depend upon the location and source of water. In addition to the

yield, issues that remain outstanding and will require further evaluation for desalination include the cost, public acceptance and permitting, and brine disposal.

Local capture and reuse projects include rainwater harvesting, greywater reuse, and storm-water capture. Preliminary analysis of the benefits of these projects were focused on residential implementation to offset irrigation. Further evaluation of the project potential would need to be done to address issues associated with yield. Supplies generated will depend on the residents' successful implementation, and, with the exception of greywater harvesting, supplies will depend on precipitation. Local implementation of these projects are happening in the service area, and BAWSCA is working closely with agencies to track success of existing projects to examine the viability of a wide scale implementation.

Three agency-led recycled water projects were retained in Phase II A. They are expansions of existing projects that include, Daly City's recycled water project to serve cemeteries in the Peninsula, Palo Alto's recycled water project to serve Stanford Research Park, and Redwood City is currently assessing what area its Recycled Water Project can serve if it were expanded. Each project expansion has an estimated yield of approximately 1 mgd per year. The projects are still in development and further evaluation is needed to address issues associated with actual yield, public acceptance and water quality. Agencies are taking the lead in developing additional project information that will be included in the next phase of the Strategy. BAWSCA is working closely with these three agencies.

In examining the potential of water transfers, BAWSCA looked at Sacramento Valley and the Delta/San Joaquin Valley as two primary source areas. Ms. Dutton noted that there are limited ways to convey water into the service area, and that water transfers into the BAWSCA service area would require the use of other water agency facilities and existing interties. BAWSCA looked at the Santa Clara Valley Water District (SCVWD) and East Bay Municipal Utility District (EBMUD) as potential conduits to bringing the transfer water into the service area. A range of yield potential is between 1 – and more than 5 mgd, depending on what different sellers are able to provide, as well as the capacity to wheel the water into the system. BAWSCA took the lead in developing information for this potential project, but additional work needs to be done to determine the abilities, cost of using other agency facilities, and project management.

In summary, Phase II A analyzed a diverse suite of projects and developed a list of 17 projects for further evaluation. The projects provide the benefit of additional supply to the region that is independent of SFPUC, and that provide drought protection. However, critical project information still needs to be confirmed, and additional work needs to be developed to complete the project ranking and analysis.

Ms. Dutton reported that specific tasks need to be completed to finalize the Strategy by December 2014. Staff recommendation for committee action for the completion of the Strategy include 1) completion of the reprogrammed Phase II A work, 2) development of a plan for a pilot water transfer, and 3) updating the water demand and conservation projections for the region, using a common methodology.

Ms. Dutton explained that the reprogrammed Phase II A work include efforts that were critical to the Strategy, but were deferred because they were not critical to the completion of Phase II

A. During the course of Phase II A, BAWSCA needed to recalibrate its efforts in response to some changed conditions resulting from the decrease in current and projected water demands, and availability of information that could be incorporated in the analysis. The budgets associated with the deferred tasks were retained.

The development of a plan for a pilot water transfer is being recommended for a number of beneficial reasons. Ms. Dutton reported that both EBMUD and SCVWD have expressed interest in partnering with BAWSCA on a water transfer effort. Specifically, EBMUD has approached BAWSCA about doing a pilot water transfer as early as Fall 2013. Water transfers are an option to address dry-year needs and a pilot program would identify cost, institutional, legal, and environmental issues associated with such an effort. It would provide key information on the feasibility of a long-term water transfer agreement at an aggressive schedule so that if conditions are right, BAWSCA can pull the trigger to implement such a pilot transfer.

By developing a pilot water transfer project with EBMUD, BAWSCA can position itself to secure available conveyance capacity, and be able to decide whether water transfer is something BAWSCA would want to execute in the long-term. Additionally, there are limited means of bringing water into the Bay Area, and EBMUD is a system that can. Because EBMUD is looking for a partner now, it would be in BAWSCA and its member agencies' best interest to take this timely opportunity that presents itself. By showing success in working with EBMUD, the more likely BAWSCA would be in a position to work with EBMUD to purchase the capacity, execute the program should the conditions presents itself, and enter into a long-term agreement.

Director Klein asked how much excess conveyance capacity EBMUD has between now and 2035. Ms. Dutton reported that EBMUD is currently doing a conveyance capacity study that will be finished in 2013. The intertie between EBMUD and the San Francisco system has a capacity of 20 mgd, but availability of all or a portion of that capacity will depend on competition for its use. Ms. Dutton noted that the Bay Area Regional Desalination Project is also looking at that conduit. Additional information will be available in 6 months.

Mr. Jensen commented that the various water supply projects can affect member agencies differently. The intertie between EBMUD and San Francisco, for example, can affect the City of Hayward. Mr. Jensen noted that any affected agencies will be included in the assessment of projects being considered.

Ms. Dutton reported that BAWSCA has been meeting with individual agencies to discuss the findings of Phase II A. It has met with eighteen agencies to date, and all have expressed their unanimous support for the recommendations. The results of the meetings with the remaining eight agencies will be reported at the September Board meeting.

Mr. Jensen presented the details and funding for the two recommended Board actions.

He noted that Recommendation #1, completing reprogrammed under Phase II A, is a reconfirmation of what the Board has already authorized. Over a year ago, Phase II A was reprogrammed due to changing conditions in water demand and demand projections. The work requires no additional funding for the technical consultant and no extension of time. Although authority has already been granted to complete the Strategy, it seemed appropriate to ask for

Board approval because the Strategy is a multi-year project and involves BAWSCA's largest single consulting contract.

Recommendation #2, developing a plan for a pilot water transfer with EBMUD, could be funded by the General Reserve. Mr. Jensen emphasized that the result would be a comprehensive plan that would enable a water transfer to be implemented if the need arose and the agencies acted to proceed. The work to develop the plan is evenly split between legal work by Hanson Bridgett and technical support from CDM-Smith. EBMUD is a ready and willing participant, and the opportunity could potentially go away if not explored at this time.

Director Breault asked for an overview of the scopes of work for Hanson Bridgett and Bud Wendell for the re-programmed work. Mr. Jensen explained that Strategic Counsel would have a minor role in this effort, and that their participation would ensure that BAWSCA clearly states the key issues the Board would need to address. Hanson Bridgett's scope of work involves additional time and management of the contracts.

In response to Director Weed's question, Mr. Jensen explained that the Phase II A did not look at inter-agency transfers of Individual Supply Guarantees for two reasons: 1) BAWSCA cannot assume that inter-agency transfers will be implemented as part of a long-term plan, and 2) it is not within BAWSCA's authority to require such transfer take place. If inter-agency transfers of Individual Supply Guarantees were to be implemented, it could change the amount of additional water agencies might need in the future.

Director Guzzetta noted that SCVWD seems to be interested in being able to participate in the discussions of water transfers. SCVWD has a huge groundwater reservoir that can be used to bank wet-year water, and perhaps this is where both customers of San Francisco and SCVWD can participate. Director Guzzetta asked if BAWSCA should be looking at the potentials of moving water for further discussion, as this could be a possible solution at a low cost.

Mr. Jensen stated that the report presents information on projects that member agencies have asked BAWSCA to assess. None of BAWSCA's member agencies in Santa Clara County have asked BAWSCA to examine transfers through their systems. BAWSCA has met with the SCVWD and will continue to cooperate on projects of mutual interest.

Director Abrica suggested that perhaps a sub-group outside of the BAWSCA structure can look at possibilities of inter-agency water transfers, particularly for the normal-year need of seven agencies. Mr. Jensen stated that if there is value to the member agencies and BAWSCA's involvement is desired, BAWSCA's potential role in interagency transfers of Individual Supply Guarantees could be examined.

Director Weed stated that ACWD has invested over \$100 million in dry-year water supply and does not have any requirement for additional normal or dry year supplies from San Francisco. He questions whether the supply need is really a regional issue, and suggested BAWSCA look at what agencies require during dry years.

Director Klein asked to hear more about the role, including the financial role, of Santa Clara and San Jose on the proposed 2 mgd water transfer between SFPUC and MID, and their fu-

ture plans about their interruptible water supply from San Francisco. He wanted the Board to have a better understanding of the 2 agencies' equity on the proposed water transfer compared the rest of the member agencies.

Mr. Jensen will provide further clarification to the Board. For the committee's understanding, Mr. Jensen explained that Santa Clara and San Jose both want to continue to be served by San Francisco, however there is no current plan in place on how that would happen after 2018. He noted that the range of amounts in the normal and dry year presented in the staff report pertain to whether or not Santa Clara and San Jose will be served by San Francisco. There are no projects being proposed by BAWSCA that would serve the needs of those two agencies.

Director Weed noted that brackish water desalination is ACWD's least expensive water source, and makes recycled water a poor consideration for ACWD. Mr. Jensen agreed that brackish water desalination can be more cost-effective than some other alternatives, and that is the reason why brackish ground water was retained as one of the potential projects. He noted that brackish water desalination projects can provide water directly to a local agency's distribution system, without passing through San Francisco's pipes and without paying San Francisco for transporting that amount of water.

Director Pierce expressed her support for Director Abrica's comments about inter-agency transfers, and suggested BAWSCA consider being a source of information about water and contractual limitations. She said that in discussions of regional housing, for example, BAWSCA's knowledge could provide information to cities and planning departments that they would otherwise not have. She added this suggestion was not to add to the existing fiscal year work plan, but simply to recognize the opportunity when the need comes along.

Director Weed asked to look into the water quality for the transfer water, and noted that there may be a cost to the receiving agency based on the difference in water quality. Ms. Dutton stated that those elements are included in the development of the pilot water transfer plan with EBMUD.

Director Breault asked if the pilot water transfer plan will identify the environmental impact reviews that will need to be done, and whether there is an accounting benefit to transfer funds from the General Reserve versus reallocating funds that have been previously approved for the Strategy. Mr. Jensen stated that the need for CEQA reviews will be identified. Mr. Jensen stated the remaining balance of the Water Management Charge is needed to complete the Strategy, and would be insufficient to fund the development of a pilot transfer plan.

Director Weed suggested looking into the role the Dumbarton Quarry might have in being a reservoir site located between the San Francisco and EBMUD systems.

Director Anderson made a motion, seconded by Director Breault, that the committee recommend Board approval to: 1) complete reprogrammed Phase II A work, and 2) develop a plan for a pilot water transfer with EBMUD. The motion carried unanimously.

Brief Reports:

- A. SFPUC 2mgd Water Transfer with MID: Mr. Jensen reported that the proposed water transfer between MID and the SFPUC remains under consideration as MID attempts to resolve concerns in the City of Modesto.

BAWSCA's statement about the proposed transfer is being refined to consider the comments received at the July Board meeting from members of the public and members of the Board. Additional information is expected from San Francisco in response to several questions: how a 2 mgd transfer can reduce drought shortages by as much as 10 percent, how to reconcile the disparate costs in dollars per acre-foot, and whether the water would be available in a dry year.

Mr. Jensen reported that given the relatively higher costs of drought protection alternatives, the avoided cost of economic impacts of drought shortage, and the immediate need for drought protection, BAWSCA supports San Francisco's pursuit for the water transfer unless an alternative is presented that has less environmental impact, has comparable costs, and can be implemented in the same timeframe.

Director Guzzetta commented that the magnitude of 2 mgd could be illustrated to show that it is a very small percentage of the river flow. This could clarify the size of the proposed transfer to those who might envision a significant amount of water is being taken away.

Director Weed stated that an extraordinary precedence that would be established by the water transfer is the change in perception of water as a right versus water as a commodity.

Mr. Jensen will provide the refined BAWSCA statement to members of the Board and Water Supply Management representatives as reference for the agencies' governing bodies.

- B. Proposal to Drain Hetch Hetchy – Status Report: Mr. Jensen reported that he declined an invitation to be in a panel to discuss the initiative to drain Hetch Hetchy. He stated that he declined because BAWSCA's interest is not in the current initiative but in pursuing the ability for people outside of San Francisco, or their representatives, to vote before any plan to replace the Hetch Hetchy reservoir could be implemented.

Mr. Jensen also reported that the initiative going before San Francisco voters would create a five-member task force to oversee development of the plans required by the initiative. The initiative states that one member of the task force would be the General Manager and CEO of BAWSCA. Mr. Jensen said he would not sit on the task force because: 1) the customers outside San Francisco pay two-thirds of the costs and deserve two-thirds of any vote, not one-fifth as a participant of the task force; and 2) he could be of more value representing the interests of the member agencies as BAWSCA's CEO than as a member of the task force.

- C. SFPUC General Manager Replacement - Update: Mr. Jensen reported that the Mayor is currently meeting with candidates.
- D. Annual Review of Investment Policy: Mr. Jensen reported that the annual review of the investment policy was delayed so that a revised policy could include any changes needed to accommodate the possible issuance of bonds. The investment policy, and any recommend-

ed changes, will be brought back to the committee in October, for Board consideration in November.

Comments by Committee Members: Director Pierce noted that she will discuss with Mr. Jensen preparations for CEO's annual evaluation by the Board.

Adjournment: The meeting was adjourned at 3:15pm. The next meeting is October 10, 2012.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – August 8, 2012

Roster of Attendees:

Committee Members Present

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

Committee Members Absent

Jamie McLeod, City of Santa Clara
Irene O'Connell, City of San Bruno (BAWSCA Vice-Chair)
Tom Piccolotti, North Coast County Water District

BAWSCA Staff:

Anona Dutton	Water Resources Planner
Christina Tang	Sr. Administrative Analyst
Lourdes Enriquez	Assistant to the Chief Executive Officer
Steve Miller	Legal Counsel, Hanson Bridgett, LLP
David Brodsky	KNN Public Finance (by teleconference)

Public Attendees:

Alex Ameri	City of Hayward
Michelle Sargent	San Francisco Public Utilities Commission
Craig Von Bargaen	Camp Dresser McKee

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

**July 19, 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. Nineteen (19) members of the Board were present, constituting a quorum. A list of Directors present (19) and absent (7) is attached.

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

3. The Board adjourned at 7:07pm to conduct the Board meeting of the San Francisco Bay Area Regional Financing Authority.

4. The Board reconvened at 7:10pm.

5. Board Policy Committee Report: Committee Chair Larry Klein provided a report on the discussions and actions that took place at the BPC meeting held on June 13, 2012.

6. Public Comments: Public comments were received from Wynn Greich and Michael Francois.

7. Consent Calendar:

Director Bronitsky made a motion, seconded by Director Mcleod, to approve the Minutes of the May 17th Board Meeting, receive and file the Budget Status, Investment, and Directors' Reimbursement Reports as of March 31, 2012, adopt the Personnel Handbook amendments, and approve the Professional Services Contract with Brown & Caldwell to Support the Implementation of the BAWSCA Water Conservation Database for FY 2012-13. The motion carried unanimously.

8. Special Report:

Mr. Jensen provided reports on the efforts to drain Hetch Hetchy Reservoir, SFPUC's proposed 2 mgd water transfer with the Modesto Irrigation District, and the potential issuance of bonds to prepay capital debt owed to San Francisco.

Director Klein commented that the Board should consider, sooner than later, what actions are appropriate in response to the efforts to drain Hetch Hetchy reservoir because timing is critical.

Public comments for Item 8A, Hetch Hetchy Reservoir, were received from Spreck Rosekrans and Wynn Greich.

Public comments for Item 8B, SFPUC 2 mgd Water Transfer with the Modesto Irrigation District, were received from Cindy Charles, Griff Derryberry, Peter Drekmeier, Maryann Moise Derwin, Haley Greenberg, Loran Fear, Melissa Hippard, Sonia Diermayer, Steve Menicucci, Ann Clark, Elizabeth Dougherty, Gloria Purcell.

Director Mendall asked what guarantee is there that the water transfer will go to BAWSCA member agencies, and what happens to the transfer if water consumption continues to decrease. Mr. Jensen responded that the allocation of water during drought is established by the Water Supply Agreement. If the water is not used, it would flow down the river.

Mr. Bronitsky asked questions about supply and cost allocation from the transfer. SFPUC Assistant General Manager of Water Enterprise, Mr. Ritchie, provided clarification, and Mr. Jensen offered to provide a source for the study on the economic impact of drought.

Director McLeod provided comments stating her reasons for opposing the water transfer.

Director Weed provided comments stating his support for the transfer.

Chair Pierce noted that the item requires no action by the Board. She requested that clarification on the cost for the water transfer be provided.

- 9. Action Calendar:** A 10-minute break preceded the action calendar. The meeting resumed at 8:48pm
- A. Authorization to Amend the contract with Orrick, Herrington & Sutcliffe, LLP:
Director Vella made a motion, seconded by Director Klein, to authorize the amendment of the contract with Orrick, Herrington & Sutcliffe, LLP. The motion carried unanimously.
- B. Authorization to Appoint Goldman Sachs and De La Rosa & Co.
Director Klein made a motion, seconded by Director Coverdell, to authorize the CEO/General Manager's appointment of Goldman Sachs and De La Rosa & Co., as underwriters for the potential bond issuance. The motion carried unanimously.
- 10. SFPUC Report:** Chair Pierce read aloud a letter commending Mr. Harrington for his years of service and wishing him the best following his retirement. SFPUC General Manager, Ed Harrington and Commission President, Anson Moran, addressed the Board. Mr. Harrington cited one significant challenge facing the SFPUC and the Wholesale Customers is consideration of alternative rate structures that would ensure sufficient revenues while encouraging conservation. Mr. Moran noted BAWSCA's strength is good for its members and for the SFPUC. He suggested BAWSCA and SFPUC consider ways for addressing issues jointly.
- 11. Study Session:** Chair Pierce tabled the Study Session to the next Board meeting on September 20, 2012.
- 12. Date, Time and Location of Next Meeting:** The next meeting is scheduled on September 20, 2012, in the Wind Room, Foster City Community Center.
- 13. 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
July 19, 2012

Attendance Roster

Present:

Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
Charlie Bronitsky	City of Foster City
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
Armando Gomez	City of Milpitas
Jim Griffith	City of Sunnyvale
Rob Guzzetta	California Water Service Company
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
Marty Laporte	Stanford
Jamie McLeod	City of Santa Clara
Al Mendall	City of Hayward
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Barbara Pierce	City of Redwood City
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District

Absent:

Kelly Ferguson	City of Menlo Park
Michael Guingona	City of Daly City
Mike Kasperzak	City of Mountain View
Tom Piccolotti	North Coast County Water District
Dan Quigg	City of Millbrae
Chuck Reed	City of San Jose
Sepi Richardson	City of Brisbane

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BAWSCA

Bay Area Water Supply & Conservation Agency

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

TO: Arthur R. Jensen, CEO/General Manager

FROM: Deborah Grimes

DATE: September 10, 2012

SUBJECT: Pre-Audit Budget Status Report as of June 30, 2012

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

Operating Budget Summary:

For the period ending June 30, 2012 total expenditures were \$2,276,977 or 87 percent of the total budget of \$2,619,705. At this time, approximately \$343,000, or 13 percent of the budget, will be unspent at the end of this fiscal year.

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

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	834,907	703,695	84%
Fair Pricing	283,00	196,132	69%
Administration	112,000	136,364	122%
Subtotal	1,229,907	1,036,192	84%
Administration and General			
Salary & Benefits	1,075,875	1,019,036	95%
Other Expenses			
BAWSCA	258,900	217,196	84%
BAWUA	1,100	0	0%
Subtotal	2,565,782	2,272,424	89%
Capital Expenses	6,000	4,366	73%
Budgeted Contingency	46,523	0	0%
Regional Financing Authority	1,400	187	13%
Grand Total	2,619,705	2,276,977	87%

Overview:

Overall expenditures are tracking within budget.

Consultants

The \$160,000 budget for technical review and tracking of the SFPUC's Water System Improvement Program was 81 percent expended. The Operating Budget allocation of \$190,000 for strategic counsel was 97 percent expended. The Operating Budget allocation of \$415,000 budget for legal counsel was 100 percent expended. Considerable legal work was required to address the potential bond issuance, legislation and other matters. The \$294,907 budget for water management and conservation-related activities was 65 percent expended.

Administration and Other Expenses

Budgets for salaries and other expenses were 95 and 84 percent expended, respectively.

Use of CEO's Discretionary Spending Authority:

In August, the CEO signed a \$16,000 contract with Brown and Caldwell to prepare a Request for Proposal related to the development of regional demands and conservation savings projections for BAWSCA's 26 member agencies. These funds were reallocated from the budget for core water conservation programs within the Operating Budget. This change will appear in the budget status report for the period ending September 30, 2012.

Use of Reserve Fund Balance:

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

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 05/31/12)	Account Balance (As of 06/30/12)
General Reserve	\$916,897	\$916,897

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

Phase 2 of the Long-Term Reliable Supply Strategy (Strategy) began FY 2010-11. Funding is provided through the Water Management Charge, approved by the Board in July 2010. 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 June 30, 2012 total \$1,210,286.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

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

Summary:

The objective of a potential bond issuance to prepay a capital debt the agencies owe San Francisco is to save BAWSCA's member agencies money. Since Fall 2011, BAWSCA and its advisors have been exploring the possibility of issuing such bonds. The purpose of this item is to present the Report on Feasibility and to request that the Board authorize the CEO to take three actions needed to proceed with the issuance of bonds.

The attached Feasibility Report concludes that it is feasible to issue bonds in order to save BAWSCA's member agencies money by prepaying a debt they owe to San Francisco. Details of the bond structure and repayment plan will continue to be refined and finalized over the next several months in order to maximize savings to member agencies.

To prepare for possible issuance of bonds, three additional outside services would be needed: Phase 3 of Bond Counsel services, Disclosure Counsel services and the services of credit rating agencies to provide preliminary ratings for BAWSCA. Scopes of work for each of the services are presented in this memo, as well as the method and amount of compensation for these services.

Each BAWSCA member agency participating in the prepayment (the "Prepayment Participant") will be asked to adopt a resolution electing to participate in the prepayment and directing agency staff to assist BAWSCA in completing the financing (the "Participant Resolution"). A draft Participant Resolution is attached to this memo.

Board Policy Committee Action:

At its August meeting, The Board Policy Committee (Committee) recommended the BAWSCA Board adopt a resolution. The purpose of the BAWSCA resolution is for the Board to encourage the governing bodies of all BAWSCA agencies to seriously consider adopting the Participant Resolution by the deadline.

The Committee voted unanimously to recommend the proposed Board actions.

Recommendation:

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.**

Fiscal Impact:

Payment to Orrick for services during Phase 3 would be a fixed fee of \$120,000. If the Board also authorizes the CEO to contract with Orrick for Disclosure Counsel services, these services would be provided for a fixed fee of \$100,000. In both cases, costs will be paid from bond proceeds and are wholly contingent upon the successful sale of bonds.

The cost of the credit ratings to be provided by Moody's and Standard and Poor's (S&P) is expected to be \$200,000. The cost would be applied to the final ratings cost and paid at closing along with all other costs of issuance. These costs are not entirely contingent on bond issuance. The liability for payment of \$120,000 on preliminary ratings would occur even if the bonds are not issued. Funds are available in BAWSCA's General Reserve.

Discussion:

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 consists of experienced financial managers and staff from KNN, Orrick, Hanson Bridgett and BAWSCA.

Conclusions of the feasibility investigation. Based on the information available to date, the Financing Team believes that issuing such bonds is feasible. At current rates, the bond transaction could generate in excess of \$20 million in present value savings, or approximately 6% of the outstanding capital recovery amount of \$367 million, as of December 30, 2012, assuming full participation.

The Report on Feasibility addresses the following topics:

- Establishing a legal structure to secure the bonds;
- Establishing a credit structure acceptable to the bond market;
- Determining a way in which a significant share of the bonds can be tax-exempt;
- Ensuring that the bond issue does not have unintended consequences; and
- Accommodating less than full participation by member agencies.

The Financing Team recommends that BAWSCA continue to pursue the bond issuance and aim for a bond closing in January 2013.

Required Board actions to continue preparation for possible issuance of bonds.

The Board Policy Committee recommended the Board approve the following four actions:

1. Authorize the CEO/General Manager to Amend the contract with Orrick for Bond Counsel services to be provided in the third phase of the contract. In July, the Board authorized an amendment to BAWSCA's contract with Orrick to authorize the firm to provide further legal advice to complete the feasibility analysis. The proposed amendment engages Orrick for the final phase of bond counsel services required in connection with the potential bond issuance.

BAWSCA's contract with Orrick for Bond Counsel services needs to be amended to include additional legal services in the third phase of the contract. In May 2012, BAWSCA selected Orrick as Bond Counsel. Bond Counsel provides a broad range of legal advice necessary to establish feasibility of the bond issuance and to achieve the objective of saving member agencies money. In July, the Board authorized the second phase of the contract,

authorizing Orrick to complete the tax and security analysis as a part of the feasibility evaluation. The third and final phase of the contract will authorize Orrick to provide ongoing Bond Counsel services through the bond closing. Payment to Orrick for services during Phase 3 could be paid based on an hourly rate with a not to exceed limit of \$150,000 or a fixed fee of \$120,000. Due to the common practice in the industry and the uncertainty involved in structuring this first-time bond issuance, the recommendation is to compensate Orrick for a fixed fee of \$120,000. Costs would be paid from bond proceeds and are wholly contingent upon the successful sale of bonds.

2. Authorize the CEO/General Manager to further amend Orrick's contract to appoint the firm as BAWSCA's Disclosure Counsel for the potential bond issuance. As Disclosure Counsel, Orrick will assist in preparing a preliminary and final official statement for the bonds, and also will provide the required disclosure opinion to the Underwriters, the so-called "10b-5 opinion."

BAWSCA must select a Disclosure Counsel to coordinate the preparation of the official statement for the transaction. The official statement is comparable to a prospectus in corporate finance and provides disclosure to investors and potential investors. Over the past decade, the prevailing practice has been for the issuer to hire a bond counsel firm to lead this activity as Disclosure Counsel. Besides managing the disclosure document, Disclosure Counsel renders an opinion to the underwriters. Some issuers choose to engage a firm separate from Bond Counsel to prepare the disclosure document. Given Orrick's prior investment in understanding BAWSCA and the firm's overall strong credentials in this area, it would be most efficient and in BAWSCA's best interests to have Orrick assume this role. If the Board authorizes the CEO to contract with Orrick for Disclosure Counsel services, these services would be provided for a fixed fee of \$100,000. Costs would be paid from bond proceeds and are wholly contingent upon the successful sale of bonds. (Attachment 2)

3. Authorize the CEO/General Manager to seek preliminary credit ratings from rating agencies Moody's and S&P. Consultations with rating agencies early on in the bond structuring process will ensure that the team is fully informed as to the rating implications of BAWSCA's structuring decisions.

Due to the unique characteristics of this bond issuance, KNN and our underwriters, Goldman Sachs and De La Rosa, recommend that rating agencies be engaged in early conversations to make sure that we are fully informed as to the rating implications of bond structuring alternatives. The rating agencies have a formal process to provide this feedback, culminating in the issuance of an indicative or preliminary rating. In requesting these preliminary ratings, BAWSCA will incur an obligation to pay a portion of the customary rating fee if the bonds are not sold. The full rating fees are expected to be about \$200,000 based on published schedules. The fees for preliminary ratings are typically 60% of the full charges. Therefore, while it is anticipated that all rating fees will be paid out of bond proceeds, BAWSCA would incur a non-contingent liability of about \$120,000 should the bonds not be issued.

4. Adopt a resolution which encourages the governing bodies of all member agencies to seriously consider adopting the Participant Resolution. The purpose of the Participant Resolution is to document that certain BAWSCA agencies are electing to participate in the prepayment and to direct agency staff to assist BAWSCA in completing the issuance of bonds.

It is not necessary to amend the 2009 Water Supply Agreement to implement the financing. However, each Prepayment Participant is asked to adopt a Participant Resolution electing to participate in the prepayment and directing agency staff to assist BAWSCA in completing the financing. A draft Participant Resolution is attached to this memo (Attachment 3). The Committee recommended that the Board adopt a BAWSCA resolution, which encourages the governing bodies of all member agencies to seriously consider adopting the Participant Resolution. (Attachment 4)

Impact Using a Portion of the General Reserve to Fund Preliminary Bond Ratings:

Receiving preliminary ratings from the rating agencies will cost \$120,000 whether or not bonds are issued. If bonds are issued, the cost of both preliminary and final ratings would be paid from bond proceeds. If the bonds are not issued, the payment of \$141,000 for the rating agencies would need to be taken out of the General Reserve. The adopted budget for this fiscal year noted that payment of costs not covered by the bond proceeds could be funded by the General Reserve. The current estimated General Reserve balance is \$1,262,000. There is more than enough available in the General Reserve to pay for the preliminary rating expense if bonds are not issued. The General Reserve balance would remain above the Board's guidelines, and subject to further action as discussed with the Board in May.

In May, the alternatives considered by the Board for managing the General Reserve included refunding a portion of the balance to agencies, and to reduce assessments going into FY 2013-14. The CEO predicted the need to lower assessments going into FY 2013-14 regardless of whether a portion of the General Reserve balance were spent or refunded. The recommendations remain the same.

Opinion on Impact of Bond Issuance on Member Agencies' Financials:

Finally, based on a review of the current financial reporting of members, and on advice from BAWSCA's consulting accountant Jeff Pearson at the accounting firm of Burr Pilger Mayer, LLP, it is BAWSCA's advisers' view that the participating members financial reporting will not change because of the bond issuance. A memo from Burr Pilger Mayer, LLP is attached for your reference. (Attachment 5)

Attachments:

1. Capital Cost Recovery Bonds: Report on Feasibility
2. Revised Scope of Work for Orrick, Herrington & Sutcliffe LLP
3. Participant Resolution Draft
4. BAWSCA Resolution Encouraging Member Agencies to Seriously Consider adopting the Participant Resolution
5. Memo from Burr Pilger Mayer, LLP

BAWSCA CAPITAL COST RECOVERY BONDS

REPORT ON FEASIBILITY

Updated September 13, 2012

David Brodsky, KNN Public Finance
Stephen Spitz, Orrick Herrington & Sutcliffe, LLP
Allison Schutte, Hanson Bridgett, LLP
Christina Tang, BAWSCA

For the past several months, BAWSCA and its advisors have been exploring the possibility of issuing bonds to prepay the portion of its members' obligations under the Water Supply Agreement (WSA) relating to unamortized capital improvements pre-dating the new WSA. Approximately \$367 million in capital cost recovery payments remain outstanding and are being repaid as part of the Wholesale Revenue Requirement (WRR) at an interest cost of 5.13%.

Based on the information available to date, BAWSCA and its advisors believe that completion of the bond issue is indeed feasible and, if interest rates remain low, would save participating agencies a significant amount. At current rates, the bond issue could generate no less than \$20 million in present value savings, or approximately 6% of the outstanding capital recovery amount, assuming full participation. We recommend that BAWSCA continue to pursue the financing, aiming for a closing in January, 2013.

In this report we address a number of the threshold questions required for this program to work:

- Establishing a legal structure to secure the bonds;
- Establishing a credit structure acceptable to the bond market that maintains the current system of allocating costs based on the volume of water purchased;
- Determining a way in which a significant share of the bonds can be tax-exempt;
- Ensuring that the bond issue does not have unintended consequences, such as increasing the amount of debt that members must report on their balance sheets; and
- Accommodating less than full participation by member agencies.

1. Actions taken to date.

Several key steps have already been taken toward the implementation of a refinancing program.

- BAWSCA Staff and its financial advisor (KNN Public Finance) performed an initial analysis of the feasibility of the program last Winter and provided updates at the May and July Board meetings.
- BAWSCA selected Orrick Herrington & Sutcliffe, LLP as bond counsel following a competitive Request for Proposal (RFP) process.

- AB 2167, legislation to facilitate the refinancing of this obligation, has been signed by the Governor.
- BAWSCA determined that it is most advantageous to the Agency to issue bonds on a negotiated basis. Following a competitive RFP process, the Board appointed Goldman Sachs and De La Rosa & Co. as co-senior underwriters.
- Staff has commenced meetings with SFPUC leadership and finance staff to secure San Francisco's role in facilitating the prepayment to ensure a smooth transition for agencies and to maintain tax exemption on the bonds.

2. Establishing a legal structure of issuing bonds.

While it is possible for BAWSCA to issue bonds under its existing enabling legislation, BAWSCA seized the opportunity to introduce legislation that would clarify BAWSCA's authority to issue bonds for this purpose and to introduce provisions to create a stronger credit for investors. Assembly Bill 2167, introduced by Jerry Hill, will add provisions to the Water Code to explicitly expand BAWSCA's authority to include the issuance of bonds for the specific purpose of prepaying BAWSCA members' obligation to San Francisco, through their water charges, for the costs of the existing assets, either through a prepayment, or through the acquisition from San Francisco of its receivable for that purpose. The alternative legal authorities were designed to accommodate the widest array of potential debt structures.

AB 2167 also adds a provision for BAWSCA to impose its charges as a surcharge collected by San Francisco, a feature designed to further enhance the marketability of BAWSCA's bonds.

3. Establishing a credit structure acceptable to the bond market.

Currently, the capital cost recovery charge is one of many components used to establish the annual WRR. Under the SFPUC's historical rate making practice, the WRR is divided by an estimate of the amount of water to be purchased by Wholesale Customers to calculate the annual water rate for each 100 cubic feet of water purchased. Thus, the payment of the capital cost recovery charge, a component of the WRR, are allocated each year based on each Wholesale Customer's consumption of water for that year.

One of the considerations in developing this financing program was to preserve a volumetric allocation of costs, including the cost of debt service on the bonds. Doing so would correspond to how agencies are currently paying San Francisco. The challenge of volumetric pricing is that, in any given year, BAWSCA members are likely to buy either more or less water than planned. The WSA has a mechanism called the "Balancing Account," whereby San Francisco either retains surpluses or accounts for deficits on a year to year basis. The amount of credit or deficit is then factored into the subsequent year's WRR. Through the Balancing Account, San Francisco provides BAWSCA a mechanism for dealing with year-to-year volumetric variability. The BAWSCA financing team is currently exploring various alternative mechanisms for maintaining volumetric pricing while ensuring that debt service is paid to investors on a timely basis under all water sale scenarios.

Besides a volumetric pricing, the financing team is also considering approaches based on fixed charges. Fixing annual revenues removes the risk of total deliveries being under budget, and could potentially provide greater certainty and greater savings. The BAWSCA financing team will only recommend a departure from a volumetric charge if there is a compelling reason to do so.

The final legal structure and payment mechanisms will need to balance the needs of the bond market for assurance of timely repayment notwithstanding volatility in sales volume with the needs of BAWSCA members for an efficient structure comparable to the existing cost allocation under the WSA. The financing team will report on the final recommended structure when the bond documents are brought forth for approval by the BAWSCA board in November.

4. Determining a way in which a significant share of the bonds can be tax-exempt.

The lower the interest rates on BAWSCA's bonds, the greater the amount of savings that can be generated out of the prepayment. One way to lower costs is to maximize the amount of bonds that can be issued on a tax-exempt basis. There are two distinct major challenges in this regard: (1) Federal tax law restrictions on the use of tax-exempt bonds to finance prepayments; and (2) the fact that a private business, California Water Service Company (Cal Water), is the largest single customer.

Federal tax law generally prohibits the issuance of tax-exempt bonds to finance a prepayment for water. BAWSCA's bond counsel, Orrick, Herrington & Sutcliffe LLP, has advised, however, that BAWSCA's prepayment on behalf of its governmental participants can be financed on a tax-exempt basis to the extent the prepayment can be treated as a "loan" to San Francisco, the proceeds of which are used by San Francisco for capital facilities owned and used by San Francisco. BAWSCA's staff and bond counsel have had preliminary discussions with San Francisco staff and are optimistic that San Francisco will have a sufficient amount of eligible expenditures for which to apply the prepayment.

Issuing bonds to finance BAWSCA's prepayment for Cal Water and Stanford University as tax-exempt bonds would require satisfying additional requirements and would impose additional obligations and restrictions on the various parties that are likely to prove to be impractical. Consequently, if all BAWSCA members were to elect to participate in the prepayment, approximately 20% of the bonds would need to be issued as taxable bonds.

5. Ensuring that the bond issue does not have unintended consequences.

As noted above, it is the intention of the financing team to design a debt service collection program that mirrors the existing payment structure. The team anticipates that debt service costs will be allocated based on annual water purchases. To the extent that water purchases are below expectations or in the unlikely event a member does not pay, the shortfall will be reallocated in the subsequent years to members through an increase in the cost of water, as currently happens with San Francisco's rate-making under the WSA.

One question that has been raised is whether these bonds would create an obligation that would require new reporting in members' own financial statements. Based on a review of the current financial reporting of members, and on advice from BAWSCA's consulting accountant Jeff Pearson at the accounting firm of Burr Pilger Mayer, LLP, it is our view that the obligation does not change simply because of the bond issuance. Both the current WRR payments and the new surcharge (which is paying debt service on bonds issued to pay a portion of the WRR) should continue to be characterized as the cost of water and reported as operating expenses.

It is not necessary to amend the WSA to implement the financing. However, we anticipate that each participating BAWSCA member will be asked to adopt a resolution electing to participate in the prepayment and directing agency staff to assist BAWSCA in completing the financing.

6. Accommodating less than full participation by member agencies.

While we do not see any economic or risk management reason for a member not to participate, it is nevertheless possible for a member to make such a choice, or merely to fail to adopt the required resolution in time to participate. We have determined that BAWSCA can issue bonds for a partial prepayment, leaving non-participants with the obligation they have currently under the WSA, at the current interest rate of 5.13% and with no share in the savings expected to be achieved. The Underwriters have modeled the algorithm to implement partial participation if it becomes necessary.

7. Schedule.

The following is a summary of the expected tasks required to undertake this financing program

August-September	Policy Committee and Board consideration of this report, implementation of phase three of the bond counsel contract, appointment of disclosure counsel and authorization to commit resources for seeking preliminary bond ratings
September-October	<ul style="list-style-type: none">▪ Finalize transaction structure▪ Negotiate agreement with San Francisco▪ Prepare initial bond legal and disclosure documents▪ Meet with rating agencies regarding preliminary rating
October-November	<ul style="list-style-type: none">▪ Policy Committee and Board consideration of resolution approving bond documents and delegated authority to staff to execute documents under certain parameters (e.g. the maximum interest rate)▪ San Francisco approval of agreement with BAWSCA
Fall	BAWSCA members adopt member-agency resolutions
December	Receive ratings
January, 2013	Market, price and close bond issue

8. Conclusion.

Based on the efforts to date, all of the major challenges to BAWSCA's bond issuance to prepay its capital obligation have either been addressed or a plan is in place to address them. A great deal of work remains to develop a credit structure, meet with rating agencies, and negotiate the arrangements with San Francisco necessary to complete this project. In addition, the economic feasibility of the bond issue will be dependent on market conditions at the time of sale. To date, interest rates continue to be favorable.

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Orrick, Herrington & Sutcliffe LLP
Bond Counsel & Disclosure Counsel

PURPOSE

In Fall 2011, BAWSCA began to investigate whether a bond issuance to prepay a capital debt the agencies owe San Francisco would benefit BAWSCA's member agencies and their water customers. Input from qualified Bond Counsel is needed to evaluate the feasibility and possible structures of a bond issuance and also to provide on-going support for prepaying the capital debt owed to San Francisco pursuant to the 2009 Water Supply Agreement. A Disclosure Counsel is also needed to assist in preparing a preliminary and final official statement for the issuance of bonds.

SCOPE OF WORK

Bond Counsel Services

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

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

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

Phase 3 (Optional Services for Issuance of Bonds):

Following feasibility being established, Bond Counsel would assist in implementing the issuance of bonds, including preparation of bond-related documents, coordination of the bond closing and delivery of an opinion on validity of bonds and tax-exemption. These documents are necessary for the pricing of the bonds. These optional services will be exercised in the sole discretion of BAWSCA following authorization by the BAWSCA Board of Directors.

Disclosure Counsel Services

Disclosure Counsel will be expected to provide the following services:

1. Preparing a preliminary and a final official statement for the Bonds. Such service will consist of participation in conferences with BAWSCA, the underwriters, their respective counsel, BAWSCA's financial advisor and other relevant participants, and assistance in completing information about the Bonds, the prepayment to be financed, and other material information. It will also include assistance in coordinating, posting, printing or reproduction of the official statement, the cost of which shall be the responsibility of BAWSCA.

2. Providing a so-called “10b-5 opinion”, in Orrick’s customary form, addressed only to the underwriters of the Bonds.

COMPENSATION

Bond Counsel Services

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

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

Phase 3 (Optional Services for Issuance of Bonds): If BAWSCA decides to proceed with Phase 3, compensation will be a fixed fee at \$120,000. The fee for Phase 3 services shall be wholly contingent upon the successful sale of bonds.

Disclosure Counsel Services

Disclosure Counsel services would be provided for a fixed fee of \$100,000, payment of which shall be wholly contingent upon the successful sale of bonds.

The following hourly rates apply only to services under Phases 1 and 2.

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

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

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
_____ AUTHORIZING THE MAKING OF A PREPAYMENT
UNDER A WATER SUPPLY AGREEMENT WITH THE CITY AND
COUNTY OF SAN FRANCISCO AND RELATED MATTERS

[City form – Needs to be conformed for special district]

WHEREAS, the City and County of San Francisco (“San Francisco”) and wholesale water customers of San Francisco in Alameda County, San Mateo County and Santa Clara County (the “Wholesale Customers”), including the City of _____ (the “City”), have entered into a Water Supply Agreement, dated July 2009 (the “WSA”), providing for the sale of water by San Francisco to the Wholesale Customers;

WHEREAS, the City and other Wholesale Customers are members of the Bay Area Water Supply and Conservation Agency (“BAWSCA”);

WHEREAS, pursuant to the terms of the WSA, the cost of water paid by the Wholesale Customers (including the City) includes a component designed to provide San Francisco capital cost recovery for “Existing Regional Assets” as defined in the WSA (“ERA Payments”);

WHEREAS, the WSA provides that the Wholesale Customers, acting through BAWSCA, may prepay the remaining principal balance of the ERA Payments, in whole or in part;

WHEREAS, substantial savings over the term of the WSA may be achievable through the prepayment through BAWSCA (the “Prepayment”) of the ERA Payments to be made by Wholesale Customers participating in such Prepayment (the “Prepayment Participants”);

WHEREAS, BAWSCA proposes to finance the Prepayment through an issuance of revenue bonds (the “Bonds”) by BAWSCA;

WHEREAS, to pay debt service on the Bonds and to satisfy BAWSCA’s other obligations related to the Bonds, BAWSCA will impose a charge on Prepayment Participants, which may be in the form of a surcharge on water sold by San Francisco under the WSA (the “Surcharge”);

WHEREAS, the Surcharge will be payable by the Prepayment Participants to San Francisco (for delivery to BAWSCA) together and on parity with the Prepayment Participants’ other payments to San Francisco under the WSA;

WHEREAS, the issuance of the Bonds and the making of the Prepayment are subject to a variety of conditions, including a determination by BAWSCA that savings for Prepayment Participants can be achieved thereby;

WHEREAS, this City Council has determined that it is in the best interests of the City for the City to be a Prepayment Participant;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF _____ AS FOLLOWS:

Section 1. The City hereby elects to be a Prepayment Participant and hereby authorizes BAWSCA to make the Prepayment on behalf of the City.

Section 2. The _____ of the City are each, acting individually, hereby authorized and directed to take, for and on behalf of the City, all such actions by the City as shall be necessary to enable BAWSCA to issue the Bonds and make the Prepayment, including, without limitation, the following:

(A) Certify that the Prepayment has been duly authorized by the City and will not violate any law or agreement (including agreements respecting obligations providing for the issuance of debt secured by the revenues of the City's water enterprise);

[(B) Certify that payment of the Surcharge by the City will constitute an operation and maintenance expense of the City payable from the revenues of the City's water enterprise prior to the payment of obligations payable from the net revenues of the City's water enterprise]¹;

(C) Certify that the information respecting the City and the City's water enterprise and the financial and operating data respecting the City's water enterprise included or incorporated by reference in the Official Statement delivered by BAWSCA in connection with the sale and issuance of the Bonds is true and correct; and

(D) Execute and deliver any continuing disclosure undertaking, or agreement to assist BAWSCA in connection with any BAWSCA continuing disclosure undertaking, required in connection with the sale of the Bonds.

Section 3. All actions heretofore taken by any officers, employees, or agents of the City with respect to the Prepayment and the Bonds are hereby approved, confirmed and ratified; and _____ and any such other officers, employees, or agents of the City as may be authorized by _____ are hereby authorized and directed, for and in the name of and on behalf of the City, to do any and all things and take any and all actions, which they, or any of them, may deem necessary or desirable to carry out, give effect to and comply with the terms and intent of this Resolution.

Section 4. This Resolution shall take effect immediately upon its adoption.

[¹ If City can't make this certification, a pledge of revenues and a rate covenant may be required]
OHSUSA:751054913.4

Passed and adopted by the City Council of the City of _____ on this
____ day of _____, 2012, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Mayor

City Clerk

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BAY AREA WATER SUPPLY & CONSERVATION AGENCY

RESOLUTION NO. 2012-07

**RESOLUTION ENCOURAGING ALL BAWSCA AGENCIES TO SERIOUSLY
CONSIDER ADOPTING THE PARTICIPANT RESOLUTION**

WHEREAS, pursuant to the terms of the 2009 Water Supply Agreement (“WSA”), the Wholesale Customers, acting through the Bay Area Water Supply and Conservation Agency (“BAWSCA”), may prepay the remaining unpaid existing assets principal balance to the City and County of San Francisco, in whole or in part, at any time without penalty or early payment premium;

WHEREAS, substantial savings over the term of the WSA may be achievable through the early prepayment through BAWSCA (the “Prepayment”);

WHEREAS, BAWSCA proposes to finance the Prepayment through an issuance of revenue bonds (the “Bonds”) by BAWSCA;

WHEREAS, each Wholesale Customer participating in such Prepayment (the “Prepayment Participant”) is asked to adopt a resolution electing to participate in the prepayment and directing agency staff to assist BAWSCA in completing the issuance of the Bonds (the “Participant Resolution”);

WHEREAS, the issuance of the Bonds and the making of the Prepayment are subject to a variety of conditions, including a determination by BAWSCA that savings for Prepayment Participants can be achieved thereby;

THEREFORE, BE IT RESOLVED by the Board of Directors of the Bay Area Water Supply & Conservation Agency, that the Board encourages the governing bodies of all Wholesale Customers to seriously consider adopting the Participant Resolution, by the deadline of December 23, 2012, a draft of which is attached hereto.

PASSED AND ADOPTED, this 20th day of September 2012 by the following vote:

AYES:

NOES:

ABSENT:

Chair, Board of Directors

ATTEST:

Secretary

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September 12, 2012

Bay Area Water Supply and Conservation Agency (BAWSCA)
155 Bovet Road, Suite 650
San Mateo, California 94402

Re: Potential Bond Issuance to Prepay Capital Debt Owed to the San Francisco Public Utility Commission (SFPUC)

Dear Sir/Madam:

BAWSCA has asked that we provide certain accounting guidance on the proposed financing transaction described above. Our comments are as follows:

Background and Plan of Finance:

BAWSCA and its advisors have been exploring the possibility of issuing bonds to repay the portion of its members' obligations under the Water Supply Agreement (WSA) relating to unamortized capital improvements pre-dating the new WSA. Approximately \$367 million in capital cost recovery payments remain outstanding and are being paid as part of the Wholesale Revenue Requirement (WRR) at an interest cost of 5.13%. Based on current interest rates, BAWSCA and its advisors believe that completion of the bond issue at lower interest rates would save participating agencies a significant amount of money. The bonds issued by BAWSCA would be paid from surcharges based on water consumption levied by BAWSCA on each participating agency. SFPUC would collect the surcharge payments from the agencies with the wholesale water bill payments and then forward the payments to BAWSCA. BAWSCA would then use the payments to meet its bond obligations.

Question:

How should participating agencies account for the cost of water when BAWSCA issues bonds to prepay the capital costs that the participating agencies owe to the SFPUC? Should the accounting for these costs be different from other water costs of the participating agencies?

Response:

There should be no change to the accounting of the cost of water for each participating agency under this financing program. There has been no substantive change to the WSA between the participating agencies and SFPUC. Therefore, each agency should record payments of the surcharge levied by BAWSCA as expenditures for water in the same way such agency has historically recorded expenditures for water paid to the SFPUC under the WSA.

From an accounting perspective, the potential bond issuance to prepay the capital recovery component of the water charge should not change the accounting or reporting practices at the participating agencies. The only change is that BAWSCA has proposed refinancing a debt-like component of the current SFPUC rate structure, which would result in savings for the participating agencies from lower interest rates.

Yours truly,



Jeff Pearson

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Long-Term Reliable Water Supply Strategy Phase II A Recommendations**

Summary:

The Phase II A of the Long-Term Reliable Water Supply Strategy (Strategy) was completed on schedule and within budget. The Phase II A Report was distributed to the Board in July and is available on BAWSCA's website. Attached to this memo is the Phase II A Executive Summary which presents the Phase II A results, conclusions, and recommendations. This item requests Board authorization to implement the following actions identified in the Phase II A Report:

1. Complete the Reprogrammed Phase II A Work; and
2. Develop a Plan for a Pilot Water Transfer with East Bay Municipal Utilities District (EBMUD).

Fiscal Impact:

In July 2010, the Board authorized collection of \$2,322,000 through the Water Management Charge (WMC) to fund Phase II A of the Strategy. Expenses to date total \$1,142,000 for the technical work by CDM Smith and \$106,000 for work by the legal and strategic counsels. For *Recommendation #1 - Complete the Reprogrammed Phase II A Work*, sufficient unspent WMC funds remain to fund this work. For *Recommendation #2 - Develop a Plan for a Pilot Water Transfer with EBMUD*, new contracts and funding are required. The total estimated cost for the Plan is \$130,000, which includes \$72,000 for technical work performed by CDM Smith and \$58,000 for legal work performed by Hanson Bridgett. Funding for the development of the Plan is available in the BAWSCA General Reserve. The impact on the General Reserve balance is discussed below.

Board Policy Committee Action:

The Committee voted unanimously to recommend approval of the recommended Board action.

Recommendation:

That the Board approve the following actions:

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 Bridgett to complete 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 with 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 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.

Discussion:

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

Phase II A of the Strategy is now complete. The results, conclusions, and the following three recommendations are presented in the Phase II A Report:

1. Complete the Reprogrammed Phase II A Work by December 2014.
2. Develop a Plan for a Pilot Water Transfer with EBMUD and/or the Santa Clara Valley Water District (SCVWD).
3. Update the Water Demand and Conservation Projections for BAWSCA Member Agencies Using a Common Methodology.

Since the release of the Draft and Final Phase II A Report, BAWSCA has met individually with each of the member agencies to discuss the Phase II A results and recommendations. Through these meetings, the BAWSCA agencies have expressed unanimous support for the three recommendations presented in the Phase II A Report.

Board action on *Recommendation #1: Complete the Reprogrammed Phase II A Work*, is necessary at this time in order to complete the Strategy on schedule by December 2014.

Board action on *Recommendation #2: Develop a Plan for a Pilot Water Transfer with EBMUD*, is necessary at this time in order to take advantage of the current opportunity with EBMUD. Immediate preparation of a Plan for a Pilot Water Transfer would prepare BAWSCA to execute a pilot water transfer in partnership with EBMUD as early as Fall 2013. Given that droughts are unpredictable, it would be prudent to have such a Plan developed and ready for implementation. Deferring action until a drought is underway exposes water customers to additional risk and may preclude access to supplies and conveyance capacity.

Finally, the Board's adopted Fiscal Year (FY) 2012-13 work plan includes the selection of a projection methodology and consultant associated with *Recommendation #3: Update the Water Demand and Conservation Projections for BAWSCA Member Agencies Using a Common Methodology*. It is anticipated that a request for the necessary resources to actually develop the water demand and conservation projections will be brought to the BAWSCA Board for consideration and action in Spring 2013.

Detailed Descriptions of the First Two Recommended Actions:

The first two recommendations from the Phase IIA Report are the subject of this memo and are described in greater detail below.

Recommendation #1: Complete the Reprogrammed Phase II A Work.

To respond to changed conditions and to present relevant solutions, the schedule, scope, and focus of the Strategy was modified during Phase II A. These changes (i.e., the Phase II A reprogramming) were communicated to the BAWSCA Board and the member agencies during Phase II A.

To complete the Strategy, it is necessary to conduct the following technical tasks which were deferred as part of the Phase II A reprogramming:

- Further refine project descriptions to: (1) incorporate the additional project information that is being developed by BAWSCA and others; and (2) include all of the information needed to compare the projects against the evaluation criteria;

- Complete analysis of the economic impacts of drought;
- Compare the benefits of alternative projects and cost allocations;
- Compare alternative costs of increased drought reliability to avoided economic impact and determine level of service goals;
- Evaluate and rank the projects, or groups of projects, against the evaluation criteria;
- Prepare the implementation plan for developing the recommended project, or groups of projects, to achieve the Strategy results; and
- Prepare Final Strategy Report.

In the coming year, legal support will be focused on interfacing with and providing legal support and opinions regarding the additional work of BAWSCA consultants, further analyzing the use of Regional Water System interties, preliminary CEQA analysis related to recommended projects, and analyzing the legal issues and institutional arrangements required for the recommended projects selected to achieve the Strategy goals.

The completion of the reprogrammed Phase II A work is critical to the development of the Final Strategy Report and the implementation plan by December 2014.

Recommendation #2: Develop Plan for a Pilot Water Transfer with EBMUD.

The Phase II A analysis identified water transfers as a promising option to address the identified drought year needs of the BAWSCA member agencies. However, there are a limited number of facilities that could be used to convey water to the BAWSCA service area from sources originating outside the Bay Area. Further, use of these facilities would require the resolution of several technical, legal, and institutional issues.

An efficient means to address these outstanding issues would be to conduct a pilot transfer of real water into the BAWSCA service area. EBMUD has approached BAWSCA with an interest in partnering with BAWSCA to conduct such a pilot transfer. The first step in implementing a pilot water transfer with EBMUD is the development of a Plan for a Pilot Water Transfer which would address the following areas:

- The goals and objectives of conducting the pilot water transfer for each party;
- The water supply or other conditions that would trigger the pilot water transfer;
- The potential source, transfer method, schedule, quantities and purchase and other costs for the pilot water transfer;
- The ability to convey transfer water to BAWSCA service area including use of EBMUD facilities, the existing intertie in Hayward, and the San Francisco Regional Water System;
- The permits, approvals and institutional arrangements needed; and
- The terms of a pilot water transfer agreement.

If the Board authorizes the development of the plan for a pilot water transfer with EBMUD, the working relationship between EBMUD and BAWSCA for this effort will be memorialized in a Memorandum of Understanding (MOU) which will be signed by the BAWSCA General Manager under his discretionary authority, subject to Legal Counsel review.

For the purposes of compliance with the California Environmental Quality Act (CEQA), the development of a plan for a pilot water transfer with EBMUD does not constitute a project and is not

subject to CEQA review. The CEQA review requirements for implementing the pilot water transfer will be evaluated and presented in the Plan.

Funding the Recommended Work:

In July 2010, the Board authorized collection of \$2,322,000 through the WMC to fund Phase II A of the Strategy. The entire amount was received from the BAWSCA member agencies by December 2011. The total budgets and expenditures to date are summarized below in Table 1. As can be seen in Table 1, there are sufficient unspent funds remaining from the original July 2010 authorization to fund all of the projected future effort associated with *Recommendation #1: Complete the Reprogrammed Phase II A Work*, with a remaining contingency of \$35,000.

Table 1 Historical and Projected Budget to Complete the Reprogrammed Phase II A Work							
Entity	Role	Phase II A Budget	Expenditures July 2010 to July 2012	Current Remaining Balance	Est. Cost to Complete Strategy	Additional Funds Needed	Potential Source of Funds
CDM Smith	Technical Support	\$2,100,000	\$1,142,000	\$960,000	\$960,000	None	-
Hanson Bridgett	Legal Counsel	\$76,000	\$66,000	\$10,000	\$75,000	\$65,000	Contingency
Bud Wendell	Strategic Counsel	\$46,000	\$40,000	\$6,000	\$6,000	None	-
Contingency		\$100,000	-	\$100,000	-	None	-
Total		\$2,322,000	\$1,248,000	\$1,076,000	\$1,041,000	\$65,000	-

The work associated with *Recommendation #2: Develop a Plan for a Pilot Water Transfer with EBMUD* was not anticipated to be completed within the Phase II A scope and budget. As such, the WMC that was collected did not include funds to support this effort. The technical and legal support to develop a Plan for a Pilot Water Transfer could potentially be funded through the existing BAWSCA General Reserve, see Table 2.

Table 2 Projected Budget to Complete the Plan for Pilot Water Transfer			
Entity	Role	Pilot Water Transfer Plan Budget	Potential Source of Funds
CDM Smith	Technical Support	\$72,000	BAWSCA General Reserve
Hanson Bridgett	Legal Counsel	\$58,000	BAWSCA General Reserve
Total		\$130,000	-

Impact of Funding Recommendation #2 Using a Portion of the General Reserve Balance:

Development of a pilot water transfer plan will cost \$130,000. The current estimated General Reserve balance is \$1,262,000. There is more than enough available in the General Reserve to pay for the development of this plan. The General Reserve balance would remain well above the Board's guidelines, and subject to further action as discussed with the Board in May.

Specifically, last May, the alternatives considered by the Board for managing the General Reserve included refunding a portion of the balance to agencies, and to reduce assessments going into FY 2013-14. At that time, the Chief Executive Officer predicted the need to lower assessments going into FY 2013-14 regardless of whether a portion of the General Reserve balance were spent or refunded. This recommendation remains the same at this time.

Alternative Actions Considered:

The following alternatives to the recommended actions have been considered:

- Alternative #1: The Recommended Actions. Specified tasks need to be performed to complete the Strategy by December 2014 and to develop a Plan for a Pilot Water Transfer by June 2013. **This alternative is recommended.**
- Alternative 2: Take No Action on Either Recommendation. If no action is taken by the Board to continue the recommended work on the Strategy, the Strategy effort will remain incomplete and BAWSCA's water management objective (i.e., to ensure that a reliable water supply is available where and when people within the BAWSCA service area need it) will not be achieved. This alternative is not recommended.
- Alternative #3: Support Only Recommendation #1. Completing the reprogrammed work is critical to the success of the Strategy effort. In addition, the development of a Plan for a Pilot Water Transfer is critical to developing a more complete understanding of the costs, benefits, and other issues associated with a potential BAWSCA–led dry year transfer project, which is one option being evaluated as part of the Strategy. Action on Recommendation #2 is important at this time given EBMUD's interest in pursuing a pilot transfer with BAWSCA potentially as soon as Fall 2013, and given the potential competition for use of the limited conveyance capacity in EBMUD's facilities. This alternative is not recommended.
- Alternative #4: Support Only Recommendation #2. Completing the reprogrammed work is critical to the success of the Strategy effort. If action is not taken on Recommendation #1, the work on the Strategy will not be completed by the scheduled date of December 2014. Stopping work on the Strategy now and starting it up again at some point in the future will incur additional costs. In addition, if the schedule for completion is delayed, then the information developed as part of the Strategy cannot be used to the benefit of the agencies in their 2015 Urban Water Management Plans or for other purposes. This alternative is not recommended.
- Alternative #5: Support Both Recommendations and Fund Recommendation #2 Through Imposition of a Second Water Management Charge. Use of the BAWSCA General Reserve to fund discrete efforts that benefit all of the member agencies appears to be an appropriate use of the BAWSCA General Reserve. There are more than sufficient funds in the BAWSCA General Reserve to fund the proposed effort. A second WMC would collect money from the BAWSCA agencies in the same proportion as they have already been collected for the BAWSCA General Reserve. This alternative is not recommended.

Attachment:

1. Phase II A Executive Summary

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Long-Term Reliable Water Supply Strategy - Phase II A: Executive Summary

The Bay Area Water Supply and Conservation Agency's (BAWSCA's) water management objective is to ensure that a reliable, high-quality supply of water is available where and when people within the BAWSCA member agency service area need it. The Long-Term Reliable Water Supply Strategy (Strategy) will quantify the water supply need of the BAWSCA member agencies through 2035, identify the water supply management projects (projects) that could be developed to meet that need, and prepare the implementation plan for the Strategy. Successful implementation of the Strategy is critical to ensuring that there will be sufficient and reliable water supplies for the BAWSCA member agencies and their customers in the future.

In this Executive Summary:

- ES.1 Strategy Initiated to Address Key Water Supply Issues
- ES.2 Strategy Development Adapted to Changed Conditions to Use Resources Efficiently
- ES.3 More Water Supply is Needed in Normal and Drought Years
- ES.4 The Frequency and Magnitude of SFPUC Supply Shortfalls Have Significant Impacts to the BAWSCA Member Agencies
- ES.5 A Refined List of Water Supply Management Projects Was Preliminarily Evaluated
- ES.6 Criteria Have Been Developed to Evaluate the Projects
- ES.7 Critical Work is On-Going That Will Inform Final Strategy Recommendations
- ES.8 Recommendations for Board Action in September 2012
- ES.9 Potential Longer-Term Actions

ES.1 Strategy Initiated to Address Key Water Supply Issues

At the request of the BAWSCA Board of Directors (Board) and its member agencies, BAWSCA initiated work on the Strategy in 2009 in response to the following circumstances:

1. Demand forecasts by the BAWSCA member agencies as part of their 2005 Urban Water Management Plans (UWMPs) suggested that additional supply would be needed to meet projected normal and drought year demands, even after accounting for aggressive conservation.
2. In October 2008, the San Francisco Public Utilities Commission (SFPUC) made the unilateral decision to establish a 184 million gallon per day (mgd) limitation on what the BAWSCA member agencies could purchase collectively from the San Francisco Regional Water System (SF RWS) through at least 2018.
3. In October 2008, SFPUC adopted a 20% level of service goal for the SF RWS. Based on the rules for drought allocation between SFPUC and the Wholesale

Customers that are documented in the 2009 Water Supply Agreement (WSA), this results in up to a 29% cutback to the BAWSCA member agencies during droughts. This has an estimated economic impact of up to \$7.7 billion per year in the BAWSCA member service area.

4. The reliability of the SFPUC supply could also be impacted by climate change and future regulatory actions or policy changes. As such, the BAWSCA member agencies expressed an interest in developing a source of supply that was independent of the SFPUC.

ES.2 Strategy Development Adapted to Changed Conditions to Use Resources Efficiently

The Strategy is being developed in phases to provide BAWSCA and the BAWSCA Board the opportunity to confirm the direction of the Strategy at key decision points, and redirect (reprogram) these efforts as appropriate to ensure that the goals of the Strategy are met. Figure ES-1 presents the general phasing of the Strategy development and implementation.

Phase I of the Strategy was completed in May 2010. The *Phase I Scoping Report* identified the range of anticipated demands and supply needs for the BAWSCA member agencies, described over 65 different projects that could potentially be developed in some combination to meet the identified needs, and provided the framework to evaluate those projects as part of the Strategy.

Phase II A of the Strategy is now complete and the results are documented in this report. These technical results and recommendations will be presented to the BAWSCA Board in July 2012. The associated policy decisions will be brought to the BAWSCA Board in September 2012 for anticipated action.

The Final Strategy Report is planned for completion by December 2014. This report will incorporate the results of additional work and present the recommended Strategy and the associated Strategy implementation plan (i.e., who will do what by when).

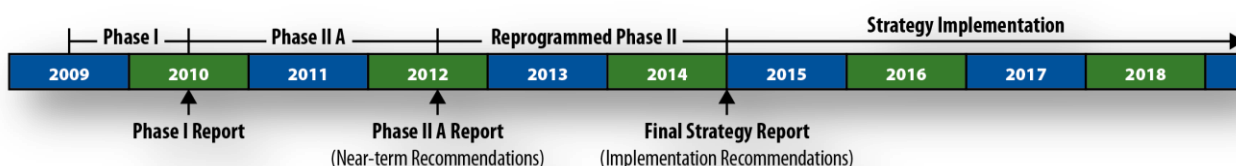


Figure ES-1
Strategy Development Phased to Ensure that the Desired Results will be Achieved

ES.3 More Water Supply is Needed in Normal and Drought Years

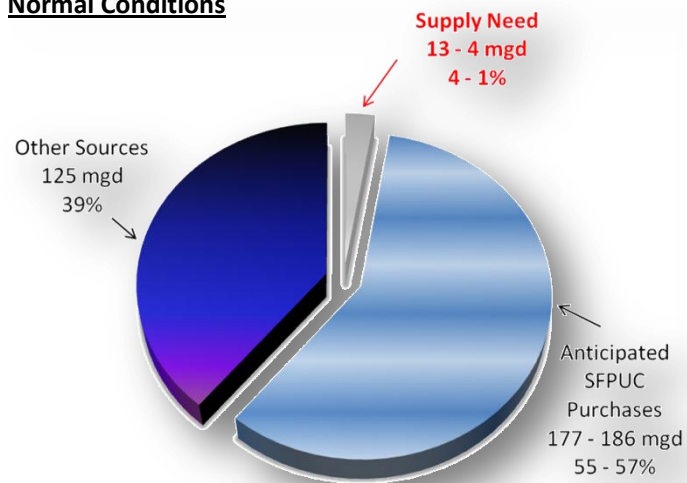
Phase II A of the Strategy updated the water demand and conservation projections and supply needs for the BAWSCA member agencies based primarily on information developed as part of the agencies' 2010 UWMPs. After

accounting for the impacts of passive and active conservation, the resulting projected water supply needs of 4 mgd to 13 mgd in normal years and 58 mgd to 62 mgd in drought years are shown in Figure ES-2.

The ranges in the projected needs reflect the current temporary and interruptible status of Santa Clara and San Jose (i.e., the higher end of the need range assumes that San Francisco will decide not to provide permanent supply to those cities in the future). Further, while the WSA allows for the permanent transfer of Individual Supply Guarantees (ISGs) between BAWSCA member agencies, as well as shorter-term transfers of drought allocations, no such transfers have occurred to date and the Strategy does not make any assumptions regarding these transfers occurring in the future.

The 2035 normal year need is potentially as little as 4 mgd and is localized to seven of the 26 BAWSCA member agencies. In contrast, the drought year need of up to 62 mgd is significant and is spread throughout the BAWSCA member agency service area as indicated in Figure ES-3. It is anticipated that future Strategy efforts will be most effectively focused on meeting the drought year need (rather than both normal and drought year needs) due to the magnitude of the economic and other impacts of drought to all of the BAWSCA member agencies.

Normal Conditions



Drought Conditions

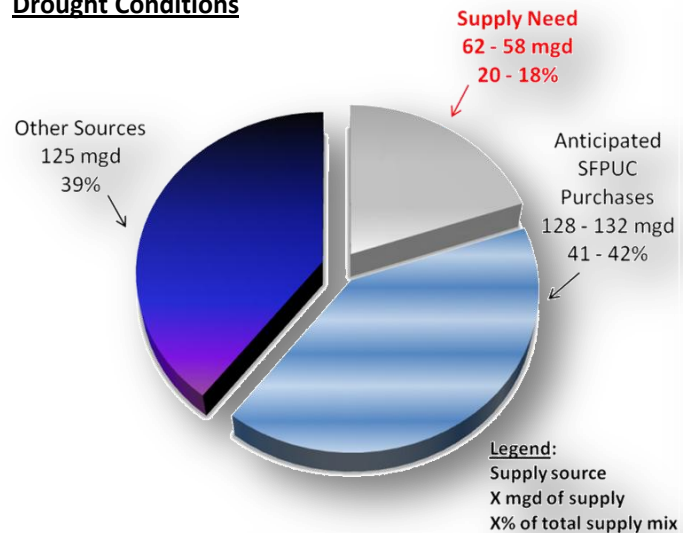


Figure ES-2
More Water Supply is Needed in Normal and Drought Years (2035)

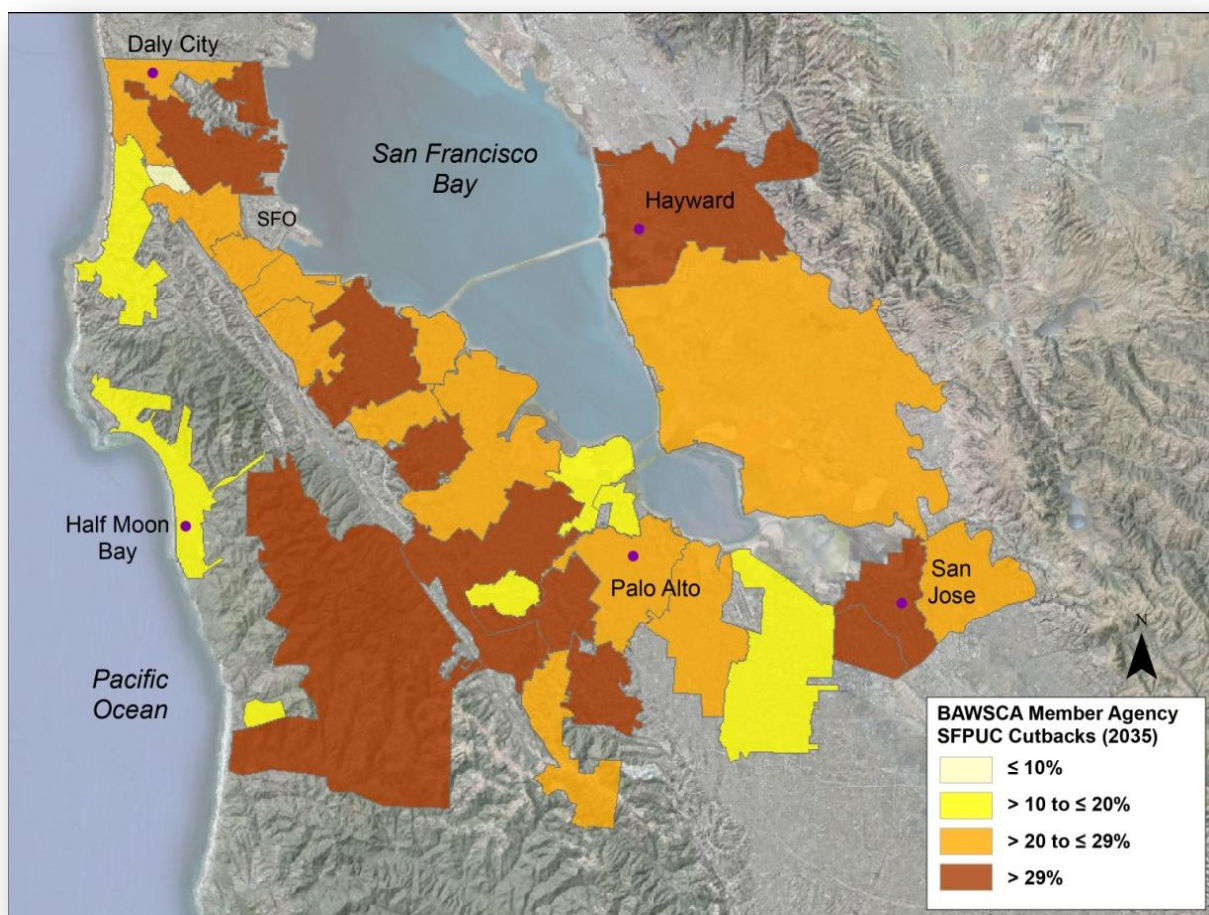


Figure ES-3
20% Supply Shortfalls on the SF RWS Result in an Average Cutback of 29% to the BAWSCA Member Agencies (2035)

ES.4 The Frequency and Magnitude of SFPUC Supply Shortfalls Have Significant Impacts to the BAWSCA Member Agencies

Based on the 2035 demand assumptions and using the SFPUC hydraulic system model, drought shortages of 10% to 20% on the SF RWS are estimated to occur up to 8 times during the 82-year historical hydrologic sequence (i.e., 1920 through 2002) that the SFPUC uses for water supply planning purposes. This is the equivalent of a drought event on the SF RWS every ten years, as shown in Figure ES-4.

If the 82-year hydrologic sequence is extended to include the recent droughts experienced by the SF RWS between 2002 and 2011, the frequency of shortages on the SF RWS appears to increase to 11 years over the last 92 years, with separate drought events occurring every eight years, on average. Two multiple dry year events, including the drought of record, occurred during the last 25 years.

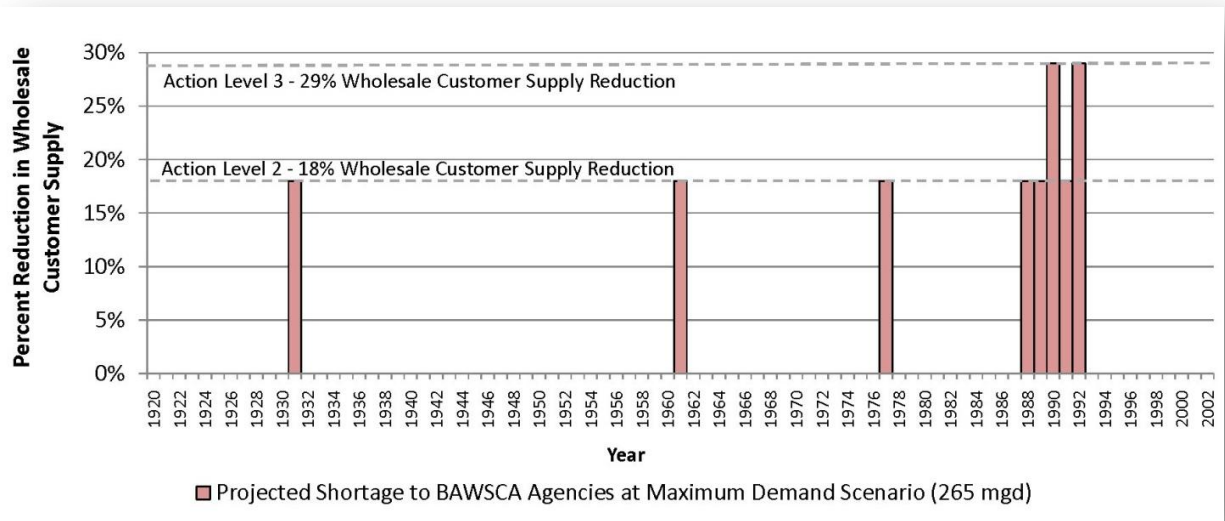


Figure ES-4
Drought Events that Create System-wide Supply Shortfalls of 10% to 20% Are Projected to Occur on Average Every Ten Years on the SF RWS

Based on the formula used in the 2009 WSA to allocate dry year water supplies between San Francisco and the Wholesale Customers (i.e., the Tier 1 Plan), a drought event that creates a 10% system-wide shortfall corresponds to an average 18% cutback to the Wholesale Customers, in aggregate, while a 20% system-wide shortfall corresponds to an average 29% cutback to the Wholesale Customers. The Tier 2 Plan, adopted by all 26 BAWSCA member agencies in March 2011, allocates the collective Wholesale Customer share among the BAWSCA member agencies. Under the rules of the Tier 2 Plan, the cutbacks vary for each BAWSCA member agency (i.e., under a 20% system-wide shortfall scenario, some agencies receive a cutback of up to 40% to their SFPUC supply, while some receive less than a 29% cutback).

Studies have estimated regional economic losses in the BAWSCA member agency service area of up to \$7.7 billion per year during a 20% system-wide shortfall on the SF RWS. Supply cutbacks of this magnitude can also result in voluntary or mandatory restrictions for outdoor water uses and increased water rates and excess use charges. These impacts are anticipated to be

Drought Impacts:

- Droughts occur 1 in every 10 years on the San Francisco Regional Water System
- Some BAWSCA agencies receive cutbacks of up to 40%
- Regional economic impacts up to \$7.7B annually

compounded in the future because per capita demand in the BAWSCA member agency service area is already low compared to other portions of the Bay Area and the State.

The potential impacts to the BAWSCA member agencies are regional and not just limited to the individual cities or water districts. For example, the severity of the potential drought's impact to commercial and industrial sectors could cause relocation of businesses for which a reliable water supply is critical. The loss of this commercial and industrial base would undoubtedly weaken the regional economy. Furthermore, the residents and voters in one community often work or own businesses in

another community within the BAWSCA member agency service area or neighboring communities. Therefore, a future drought year water supply shortfall in one BAWSCA member agency that results in loss of jobs or other impacts can have a detrimental effect on the customers of another BAWSCA member agency, even if that agency itself is not facing a supply shortfall.

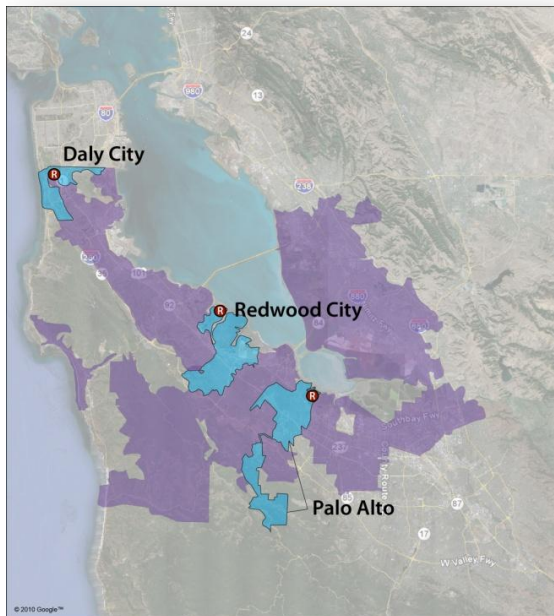
As a regional agency, it will be important for BAWSCA to have the necessary information (e.g., the cost of alternative water supplies and the economic impact of supply reductions) to consider the impacts of drought regionally when weighing the costs and benefits of investing in additional drought reliability.

ES.5 A Refined List of Water Supply Management Projects Was Preliminarily Evaluated

Over 65 projects were evaluated that could potentially be developed by BAWSCA and the BAWSCA member agencies to meet the identified supply needs through 2035. The project information developed to date has focused on preliminary estimates of the yield, cost, reliability, and implementation schedule. The objective has been to develop the information to a common level to the extent possible so that BAWSCA could begin to assess

which individual project or combination of projects could best meet the supply need. Four types of projects have emerged with the most promise for addressing the supply need (i.e., recycled water, local capture and reuse, desalination, and water transfer projects). These projects, and a preliminary summary of their characteristics, are presented below and on the following page.

Recycled Water Projects



- Three (3) Projects: Daly City, Redwood City, Palo Alto
- Yield ~ 1,000 acre-feet per year (AF/Year)
- Schedule ~ 6 to 8 years

ES-6

Local Capture & Reuse Projects



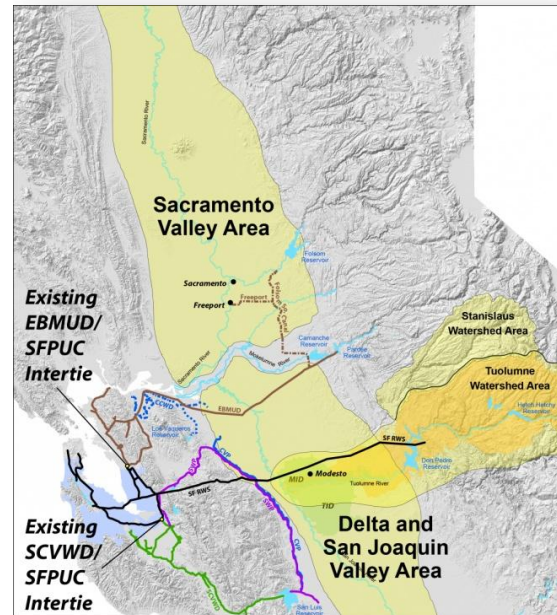
- Three (3) Projects: Rainwater, Stormwater, Greywater
- Yield ~ 200 to 700 AF/Year

Desalination Projects



- Nine (9) Projects: Coastal, Brackish Groundwater, Bay Water, BARDP
- Yield ~ 1,000 to 22,400 AF/Year
- Schedule ~ 6 to 15 years

Water Transfer Projects



- Two (2) Project Source Areas: Sacramento Valley, and Delta and San Joaquin Valley Areas
- Yield ~ 1,000 to more than 5,000 AF/Year
- Schedule ~ 2 to 5 years

ES.6 Criteria Have Been Developed to Evaluate the Projects

Both quantitative and qualitative criteria and metrics will be used to distinguish projects and portfolios and facilitate comparisons. The criteria objectives that have been developed are:

- Increase Supply Reliability;
- Provide High Level of Water Quality;
- Minimize Cost of New Water Supplies;
- Reduce Potable Water Demand;

- Minimize Environmental Impacts of New Water Supplies; and
- Increase Implementation Potential of New Water Supplies.

Once the project information has been sufficiently developed, the evaluation criteria would be used to compare projects and groups of projects (i.e., portfolios), in the ranking and evaluation step of the Strategy project evaluation and decision process.

ES.7 Critical Work is On-Going That Will Inform Final Strategy Recommendations

There is additional work currently being performed by other agencies. BAWSCA is coordinating closely with these agencies, as the results their efforts are expected to impact the the final Strategy recommendations and implementation plan. This work includes:

- East Bay Municipal Utilities District (EBMUD) Conveyance Capacity Study;
- BAWSCA member agency project development studies;
- The Bay Area Regional Desalination Project (BARDP) studies;
- SFPUC/Modesto Irrigation District water transfer agreement(s);

- SFPUC system hydraulic modeling that incorporates 2002 through 2011 hydrology; and
- SFPUC Economic Analysis to support the Federal Energy Regulatory Commission (FERC) re-licensing of New Don Pedro.

BAWSCA will continue to track and monitor these efforts and to work with the SFPUC and others to ensure that the full extent of potential impacts to the BAWSCA member agencies are identified. Results and findings from these efforts will be incorporated into the Final Strategy Report as appropriate.

ES.8 Recommendations for Board Action in September 2012

Three recommendations for the BAWSCA-led work efforts on the Strategy between now and December 2014 will be brought for action to the BAWSCA Board in September 2012:

Recommendation #1: Complete the Reprogrammed Phase II A Work and Other Identified Work to Complete the Strategy

To incorporate changed conditions (e.g., reduced demand and number of projects) and to present relevant solutions, the schedule, scope and focus of Phase II A was modified. To complete the Strategy, it is necessary to the complete the following tasks:

- Further refine project descriptions to (1) incorporate the additional project information that is being developed by BAWSCA and others, and (2) include all of the information needed to compare the projects against the project evaluation criteria;

Summary of Recommendations:

1. Complete the Reprogrammed Phase II A Work and Other Identified Work to Complete the Strategy
2. Develop a Plan for a Pilot Water Transfer with EBMUD and/or SCVWD
3. Update the Demand and Water Conservation Projections for BAWSCA Member Agencies Using a Common Methodology

- Complete analysis of the economic impacts of drought;
- Compare the benefits of alternative projects and cost allocations;
- Compare alternative costs of increased drought reliability to avoided economic impact and determine level of service goal;

- Evaluate and rank the projects, or groups of projects, against the project evaluation criteria;
- Prepare the implementation plan for developing the recommended project, or groups of projects, to achieve the Strategy results; and
- Prepare Final Strategy Report by December 2014.

During the development of Phase II A, several outstanding issues were identified associated with many of the Strategy elements (e.g., the demand projections, project information, etc.) that are not otherwise captured in the reprogrammed Phase II A work. The key recommended actions that should be taken by BAWSCA to resolve these outstanding issues include:

- Monitor changes in water demand in service area, including the implementation of water conservation measures;
- Work with BAWSCA member agencies to identify level of service goals; and
- Track and monitor existing local capture and reuse projects to evaluate potential benefits and support for these projects.

The completion of both the reprogrammed Phase II A work and the recommended BAWSCA actions by December 2014 is critical to the development the Final Strategy Report and implementation plan.

Recommendation #2: Develop a Plan for a Pilot Water Transfer with EBMUD and/or SCVWD

Water transfers appear to be a promising option to address the identified drought year needs of the BAWSCA member agencies. However, there are a limited number of facilities that could be used to convey water to the BAWSCA member agencies from sources originating outside the

Bay Area. Further, use of these facilities would require the resolution of several technical, legal and institutional issues. An efficient means to address these outstanding issues would be to conduct a pilot transfer of real water into the BAWSCA member agency service area. Additional reasons why the development of a Pilot Water Transfer Plan is recommended now are presented below:

- EBMUD and SCVWD have expressed an interest in potentially partnering with BAWSCA to enact a water transfer. Additional work would need to be done with these agencies to better assess the costs and feasibility of such transfers, including questions regarding water quality, system conveyance capacity constraints, and regulatory and permitting requirements.
- BAWSCA is in competition with other agencies for use of the available capacity in these other water systems. There may be a need for BAWSCA to act to secure (at a minimum) transfer capacity in a conveyance system, or risk losing that opportunity for good. Developing a Pilot Water Transfer Plan now would place BAWSCA in the best possible position to enact a water transfer as early as Fall 2013, and to make more informed decisions regarding water transfer options and conveyance capacity rights in the future.

Recommendation #3: Update the Demand and Water Conservation Projections for BAWSCA Member Agencies Using a Common Methodology

BAWSCA worked closely with its member agencies during Phase II A to combine the individual agency 2010 UWMP water demand and conservation projections for use at the regional level. However, given the inconsistencies in water demand and conservation projection methodologies, this process may not be sufficient for regional

planning purposes (i.e., as the basis for environmental documentation) or fully representative of the regional needs (i.e., may result in double-counting or exclusion of potential demands). Updating the water demand and conservation projections for the BAWSCA member agencies using a common methodology is recommended because:

- A more robust and consistent water demand and conservation projection methodology for the BAWSCA member agencies as a whole is necessary for effective planning at the regional level to support future local and regional investment decisions.
- Preparing updated water demand and conservation projections in advance of December 2014 will enable the agencies to use these demand estimates for their 2015

UWMPs and 20 by 2020 assessments. This will increase the level of consistency in regional planning among the BAWSCA member agencies and streamline their 2015 UWMP development process.

The adopted Fiscal Year (FY) 2012-13 BAWSCA Work Plan includes the selection of a water demand and conservation projection methodology and the development of a scope of work and budget to complete updated projections for all of the BAWSCA member agencies. It is anticipated that BAWSCA would present this information to the BAWSCA Board in Spring 2013, possibly as part of the FY 2013-14 budget process, and recommended that the Board act to fund the development of water demand and conservation projections for the BAWSCA member agencies using a common methodology.

ES.9 Potential Longer-Term Actions

Depending on the results of the work completed between now and 2014, additional recommendations for action may be presented to the Board. These recommendations for action could potentially include:

- ***Implement the pilot water transfer plan.*** In order to fully test BAWSCA's ability (both physically and institutionally) to import water to serve the member agencies during a drought, BAWSCA would need to, at a minimum, enact a pilot water transfer. Such a transfer would be based on the Pilot Water Transfer Plan and could occur as early as Fall 2013.
- ***Pursue long-term water transfer supplies and/or conveyance agreement.*** The Strategy analysis to date indicates that water transfers could be a viable option for meeting the long-term dry year water supply needs of the BAWSCA member agencies. Based on the information learned from the execution of a pilot water transfer, BAWSCA may recommend that the BAWSCA

Potential Long-Term Actions:

1. Implement the pilot water transfer plan
2. Pursue long-term water transfer supplies and/or conveyance agreement
3. Conduct project-specific field investigations

Board act to secure transfer capacity and/or transfer water.

- ***Conduct project-specific field investigations.*** While review of the available data and analytical and numerical modeling can provide some level of certainty regarding a project's characteristics, field investigations and testing are likely to be necessary to confirm key project elements. For example, in the case of the desalination projects, additional field investigations would be needed to verify subsurface yields, water quality, potential impacts on other

groundwater users, and project costs. If there is strong interest expressed by the BAWCSA Board or the member agencies to pursue development one of the identified

projects, BAWSCA may recommend that the BAWSCA Board act to authorize additional, project-specific investigations.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Water System Improvement Program - Update**

Summary:

The San Francisco Public Utilities Commission (SFPUC) is continuing to implement the Water System Improvement Program (WSIP). This memo provides a brief update on a few activities related to the WSIP.

Fiscal Impact:

None

Recommendation:

This item is for information only and does not require any action.

Discussion:

The Water System Improvement Program (WSIP) is a \$4.6 billion dollar, multi-year capital program to update the San Francisco Regional Water System to ensure that it will continue to provide a high-quality, reliable water supply to the BAWSCA member agencies and the customers they serve following a seismic event in the region. BAWSCA closely watches the SFPUC's implementation of the WSIP and monitors the SFPUC's progress in implementing the program on schedule, within budget, and to meet the adopted Level of Service goals.

This memo provides an update on three recent items related to the WSIP implementation: recent construction issues associated with Calaveras Dam Replacement Project, recent SFPUC reports to the State in compliance with AB 1823, and status of BAWSCA's mid-program assessment of the WSIP.

Calaveras Dam Replacement Project Cost and Schedule Impact

Earlier this summer, unexpected geologic conditions were encountered on the Calaveras Dam Replacement Project during the excavation of the slope above the new dam's left abutment. Field investigations conducted since that time have confirmed the need to modify some critical excavation activities. These newly discovered conditions, their schedule and cost impacts on the project, and options to mitigate and minimize impacts are currently being evaluated by the Calaveras Project Team, the Contractor, and the SFPUC.

The current approved budget for this project is \$415.6M with a completion date of December 2013. At this time, the minimum cost to the contractor for the delay and potential changes is estimated at \$60M. This preliminary estimate does not include the additional delivery costs due to schedule delay, environmental mitigation costs for the new disposal sites, or other areas of potential risk that are being examined at this time. Regarding schedule, it is likely that the project delay will be greater than one year. As of June 30, 2012, the SFPUC's Program Management Reserve had a balance of \$144.36M, which is sufficient to cover the current estimate for additional work.

Over the course of the next couple of months, the contractor will be working with the SFPUC to identify a recommended option for addressing the issues including a detailed cost proposal and

revised schedule. The exact magnitude of the impacts are expected to be known in late 2012 or early 2013.

Recent SFPUC Reports to State in Compliance with AB 1823

On July 20, 2012, the SFPUC sent notification to the California Seismic Safety Commission (CSSC) and the State Department of Public Health (DPH) that changes to the WSIP had been adopted by the Commission on June 12, 2012. This notification initiates a 90 day review period by the two state agencies in which they are to submit written comments to the Joint Legislative Audit Committee (JLAC) on the significance of the adopted changes to public health and safety. BAWSCA has been in communication with staff from both state agencies during this review period including providing comments on the draft CSSC report. BAWSCA will comment on the final CSSC and DPH report to JLAC as appropriate.

AB1823 also requires the SFPUC to prepare an Annual Report describing progress made on the implementation of the WSIP by September 1 each year and submit it to JLAC, CSSC, and DPH. BAWSCA has received this report and is reviewing it closely. Any comments that BAWSCA has on the report will be provided to the SFPUC, JLAC, CSSC, and DPH. This correspondence will also be distributed to the BAWSCA Board as appropriate.

BAWSCA continues to support the ongoing State oversight of the WSIP as it is important to the continued successful implementation of the WSIP.

BAWSCA's Mid-Program Assessment of the WSIP

BAWSCA is in the process of preparing a report presenting the results of a comprehensive review of the WSIP implementation to date. The report will include a discussion of the WSIP's successes and challenges to date, individual project performance, future challenges, recommendations for the SFPUC, and potential actions for BAWSCA. This report will be complete in January 2013.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **2009 Water Supply Agreement – Third Year Administration**

Administration of the 2009 Water Supply Agreement proceeds smoothly. All deadlines for action by the SFPUC and BAWSCA have been met.

The attached table summarizes the status of major milestones as of September 2012.

The Board meeting will include a brief oral report and an opportunity to respond to questions from directors.

Attachment:

1. Water Supply Agreement Compliance as of September 2012

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Water Supply Agreement Compliance as of September 2012

Section	Content	Status	Comment
3.06	SFPUC annual accounting of Water Management Charge remitted, due by Sept. 30. BAWSCA report on use of funds due by Dec. 30.	SFPUC submitted the last payment on March 2, 2012. Total payment of \$978,863 was received in FY 11-12	Funds to support the completion of BAWSCA's Water Supply Strategy
3.08	Form Joint Water Quality Committee	Committee formed and meetings held quarterly	Mr. Howard Salamanca accepted the position as Wholesale Customer Chair/Vice Chair in September 2012
3.10	SFPUC Annual Report on Regional Water System Improvement Program	SFPUC to submit before the end of September 2012	Report under review
3.14	SFPUC to contract with independent metering consultant to inspect, test, and service County-line meters, In-City reservoir water level equipment, and system meters	Metering consultant is currently under contract with SFPUC	Current contract extends through June 2014
3.14 (Attachment J)	SFPUC to test and calibrate venturi meters annually and all other metering equipment quarterly	Annual and quarterly meter testing and calibration is being performed	Meter calibration results and certifications are provided quarterly
4.05	BAWSCA to submit projected 2018 Wholesale purchases and workplan for achieving the Interim Supply Limitation to SFPUC annually by June 30	Completed	
5.04	SFPUC to provide certificate of proceeds for each bond sale	Done for each issue	Itemizes projects for which the wholesale customers pay their share of debt service
6.03	SFPUC to provide BAWSCA with proposed annual budget SFPUC provides formal notification of wholesale rate increase	Completed January 2012 Issued by SFPUC, May 15, 2012	BAWSCA reviewed and submitted comments Revised wholesale rate effective July 1, 2012 at \$2.93 per Ccf
7.02	SFPUC to arrange for annual audit of wholesale revenue requirement	FY2010-11 completed; FY11-12 to begin in December 2012	BAWSCA and SFPUC resolving remaining issues for FY2010-11
8.03	SFPUC management to meet with wholesale customers	Completed February 2012	

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Board of Directors Policy Calendar for FY 2012-13

Board Meeting	Purpose	Issue or Topic
September	D&A D&A D R R	Bond Issuance Feasibility Long-Term Reliable Water Supply Strategy - Recommendations Hetch Hetchy Reservoir – Protecting the Water Users Water Supply Agreement – Report on third year administration SFPUC Annual Report on WSIP Progress
November	D&A D&A D&A	Bond Issuance – Potential Action Hetch Hetchy Reservoir – Status of Initiative in SF CEO/General Manager Performance Evaluation
January	D&A D D&A	BAWSCA Mid-Year Review of Progress, Budget and Reserves Budget planning for FY 2013-14 Water Supply Strategy – Pilot Project
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

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

Meeting Schedule through December 2013

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

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

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

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