

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

August 8, 2012

1:30 p.m.

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

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page#</u>
1. <u>Call To Order, and Roll Call</u> Roster of Committee members (<i>Attachment</i>)	(Klein)	<i>Pg 3</i>
2. <u>Comments by Chair</u>	(Klein)	
3. <u>Public Comment</u> <i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Klein)	
4. <u>Consent Calendar</u> A. Approval of Minutes from the June 13, 2012 meeting (<i>Attachment</i>)	(Klein)	<i>Pg 5</i>
5. <u>Action Item</u> A. Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC (<i>Attachment</i>) <u>Issues:</u> 1. Is it feasible for BAWSCA to issue bonds and save member agencies money? 2. What Board actions are needed to proceed? <u>Information to Committee:</u> Staff report on feasibility and recommended next steps. Oral presentation on the status and possible use of the General Reserve to cover costs that may not be paid through bond proceeds. <u>Committee Action Requested:</u> Recommend Board approval of the proposed action(s) B. Long-Term Reliable Water Supply Strategy (Strategy) Phase II A Recommendations (<i>Attachment</i>) <u>Issue:</u> 1. What Board action is required to complete the reprogrammed activities of Phase IIA? 2. What action is recommended to examine potential water transfers for increasing dry year reliability? <u>Information to Committee:</u> Staff report on the status of the Strategy development, meetings with agencies, and recommended Board action. Oral presentation on the status and possible use of the General Reserve to cover costs to develop a plan for a pilot water transfer. <u>Committee Action Requested:</u> Recommend Board approval of the proposed action(s)	(Jensen) (Dutton)	<i>Pg 19</i> <i>Pg 31</i>

6. Brief Reports**(Jensen)**

- A. SFPUC 2mgd Water Transfer with MID – Status report and additional information.
- B. Proposal to Drain Hetch Hetchy – Status Report
- C. SFPUC General Manager Replacement – Update
- D. Annual Review of Investment Policy

7. Comments by Committee Members**(Klein)**

- 8. Adjournment to the next meeting on October 10, 2012 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo.** **(Klein)**

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Directions to BAWSCA

From 101: Take Hwy.92 Westbound towards Half Moon Bay. Exit at El Camino Northbound (move into the far left Lane) Left at the 1st stop light which is Bovet Road (Washington Mutual Building will be at the corner of Bovet and El Camino). Proceed West on Bovet Road past Albertson's to two tall buildings to your left. Turn left into the driveway between the two buildings and left again at the end of the driveway to the "Visitor" parking spaces in front of the parking structure.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Committee Roster:

Larry Klein, City of Palo Alto (Chair)

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

Ruben Abrica, City of East Palo Alto

Robert Anderson, Purissima Hills Water District

Randy Breault, City of Brisbane/GVMID

Jamie McLeod, City of Santa Clara

Irene O'Connell, City of San Bruno (BAWSCA Vice Chair)

Tom Piccolotti, North Coast County Water District

Barbara Pierce, Redwood City (BAWSCA Chair)

John Weed, Alameda County Water District

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

**June 13, 2012 – 1:30 p.m.
BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room**

MINUTES

1. Call to Order: 1:30 p.m.

Committee Chair Larry Klein called the meeting to order at 1:30pm. Nine members of the committee were present, constituting a quorum. A list of the directors present (9) and absent (1) and members of the community who attended is attached.

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

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

3. Consent Calendar:

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

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

5. Special Report:

Potential Bond Issuance to Prepay Debt Owed to SFPUC: Legal Counsel, Allison Schutte, and Financial Consultant, David Brodsky of KNN, reported on the status of the feasibility study to issue bonds to prepay debt owed to San Francisco. Ms. Schutte reported that the team has identified a potential structure that will allow most of the bonds to be tax exempt, which will support the objective for issuing the bonds: to save member agencies money. It is likely that the bonds will be secured by member surcharges which will be applied to water sales and

collected by San Francisco with water bills. The hope is to develop a payment structure that will be seamless to the customers and individual agencies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Director McLeod asked if there is potential for increased rates if some of the unknowns in the bond issuance kick in. Mr. Brodsky reiterated that the fundamental purpose for issuing the bonds is to replace a 5.13% obligation for something that is lower rate. There would be no reason to move forward if there proves to be no savings to issue bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Action Items:

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

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

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

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

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

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

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

BAWSCA has reduced its reliance with B&C since 2010-11. This value is expected to decrease for the subsequent fiscal year. The proposed \$50,000 contract is included in the approved operating budget and is focused on technical assistance for the utilization of the WCDB.

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

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

6. Reports:

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

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

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

Phase 1 of the study was completed in 2010 and provided the problems that needed to be looked at, and the realm of things that the Board and member agencies wanted to

investigate. The Phase IIA scoping report is nearing completion and will be presented at the July Board meeting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There were no further questions or comments from the Committee.

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

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

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

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

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

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

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

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

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

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

8. **Comments by Committee Members:** Director Weed reported that the City of Fremont recently issued a conditional use permit to fill a former quarry pit with approximately 6million cubic yards of fill. The pit, located in the Baylands Community Plan Area could potentially serve as a reservoir. He encourages agencies to recognize locations with opportunities for operational water supply asset and contingency water reserve for the San Francisco Bay Area.
8. **Adjournment:** The meeting was adjourned at 3:04pm. The next meeting is August 8, 2012.

Respectfully submitted,

Arthur R. Jensen, Chief Executive Officer and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board Policy Committee
June 13, 2012**

Attendance Roster

Committee Members Present:

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

Committee Members Absent:

Tom Piccolotti	North Coast County Water District
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BAWSCA Staff Members Present:

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

Guests:

Peter Drekmeier	Tuolumne River Trust
Marilyn Mosher	City of Hayward
Nico Procos	City of Palo Alto
Spreck Rosekrans	Restore Hetch Hetchy
Michelle Sargent	SFPUC
Craig Von Bargaen	CDM Smith

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE 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 body of work are presented below, as well as the method and amount of compensation for these services.

Fiscal Impact:

Payment to Orrick for services during Phrase 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.

Recommendation:

That the Committee recommend the Board authorize the CEO/General Manager to:

- a. 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 to transfer \$120,000 from the General Reserve for payments to rating agencies, if bonds are not issued.**

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 Bridget 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.

Next steps toward possible issuance of bonds. If after receiving comments and advice from the Board Policy Committee, and further information from the Financing Team, the CEO decides to recommend moving forward with issuance of bonds, a finalized feasibility report will be presented to the Board in September and the Board will be asked to consider the following three 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.
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."
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.

These three actions are described in more detail below.

1. 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 Phrase 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. 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.
3. 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.

Attachments:

1. Capital Cost Recovery Bonds: Report on Feasibility
2. Revised Scope of Work for Orrick, Herrington & Sutcliffe LLP

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BAWSCA CAPITAL COST RECOVERY BONDS

REPORT ON FEASIBILITY

August 2, 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, is pending in the Legislature.

- 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 added 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.

As of the date of this report, the bill has passed the Assembly and is awaiting Senate approval, which is expected. Once approved, the bill will be sent to the Governor, who will sign the bill into law, allow it to become law without his signature, or veto it.

3. Establishing a revenue collection mechanism

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. Issuing bonds at tax-exempt interest rates.

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. Impact on BAWSCA members.

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. Less than full participation.

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.

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

Phase 3 (Optional Services for Issuance of Bonds):

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

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE 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.
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. Sufficient unspent WMC funds remain to fund *Recommendation #1: Complete the Reprogrammed Phase II A Work*.

- Technical and strategic support to complete the reprogrammed work can be done within the not-to-exceed limits already approved for the contracts with CDM Smith and Bud Wendell.
- Legal support needed to complete the reprogrammed work would require a contract amendment with Hanson Bridgett for \$65,000. Funding for this legal support is available from the unspent balance of the WMC.

Recommendation #2, Develop a Plan for a Pilot Water Transfer with EBMUD would require new contracts and funding. 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.

Recommendation:

It is recommended that the Committee recommend Board approval of the following actions:

1. Complete the Reprogrammed Phase II A Work by December 2014
 - a. Authorize the CEO 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 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 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 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 with eighteen (18) member agencies to discuss the Phase II A results and recommendations. Staff will continue these meetings with a goal of meeting with all of the member agencies by the end of August. To date, the agencies that BAWSCA has met with 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 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 the conduct the following 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.

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.

Additional reasons why the development of a Plan for a Pilot Water Transfer is recommended now include:

- 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. Developing a Plan for a Pilot Water Transfer now would place BAWSCA in the best possible position to enact a water transfer with EBMUD as early as Fall 2013, and to make more informed decisions regarding water transfer options and conveyance capacity rights in the future.

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 in the WMC to fund all of the projected future effort associated with *Recommendation #1: Complete the Reprogrammed Phase II A Work*.

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	Remaining Balance	Additional Funds Needed to Complete Reprogrammed Phase II A Work	Potential Source of Funds
CDM Smith	Technical Support	\$2,100,000	\$1,142,000	\$960,000	None	-
Hanson Bridgett	Legal Counsel	\$76,000	\$66,000	\$10,000	\$65,000	Contingency
Bud Wendell	Strategic Counsel	\$46,000	\$40,000	\$6,000	None	-
Contingency		\$100,000	-	\$100,000	-	-
Total		\$2,322,000	\$1,248,000	\$976,000	\$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	-

Alternatives Related to Recommended Actions:

The following alternatives to the recommended actions have been considered:

- Alternative #1: Support 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: 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 Action only on 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 Action only on 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: 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.

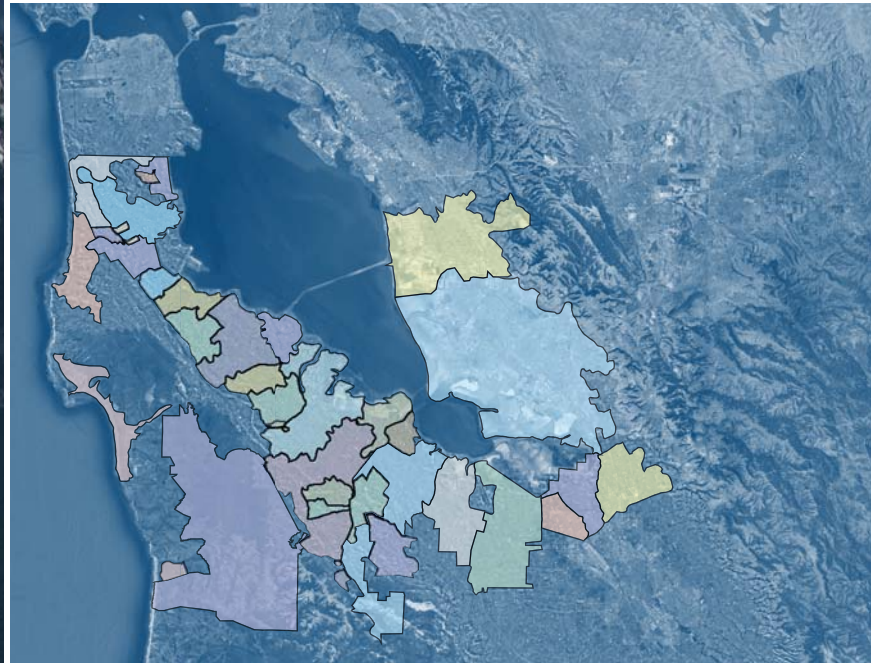
Attachment:

1. Phase II A Executive Summary

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Long-Term Reliable Water Supply Strategy

Phase II A Final Report Executive Summary



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 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.

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.

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).

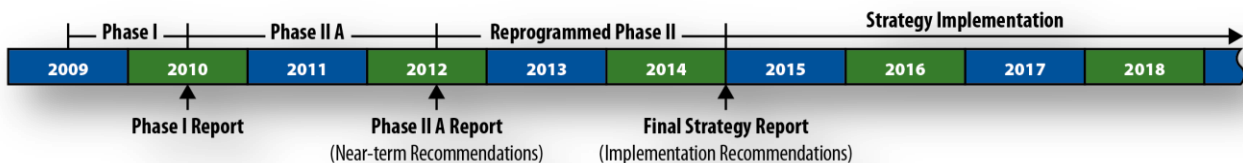


Figure ES-1
Strategy Development Phased to Ensure that the Desired Results will be Achieved

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.

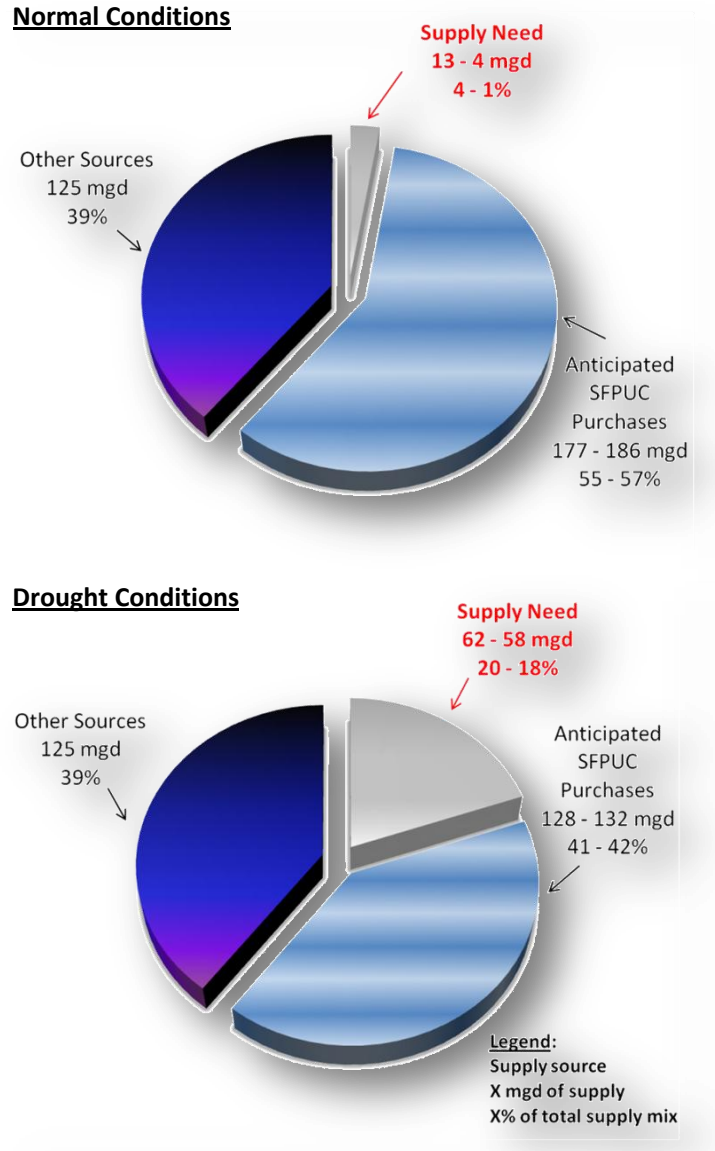


Figure ES-2
More Water Supply is Needed in Normal and Drought Years (2035)

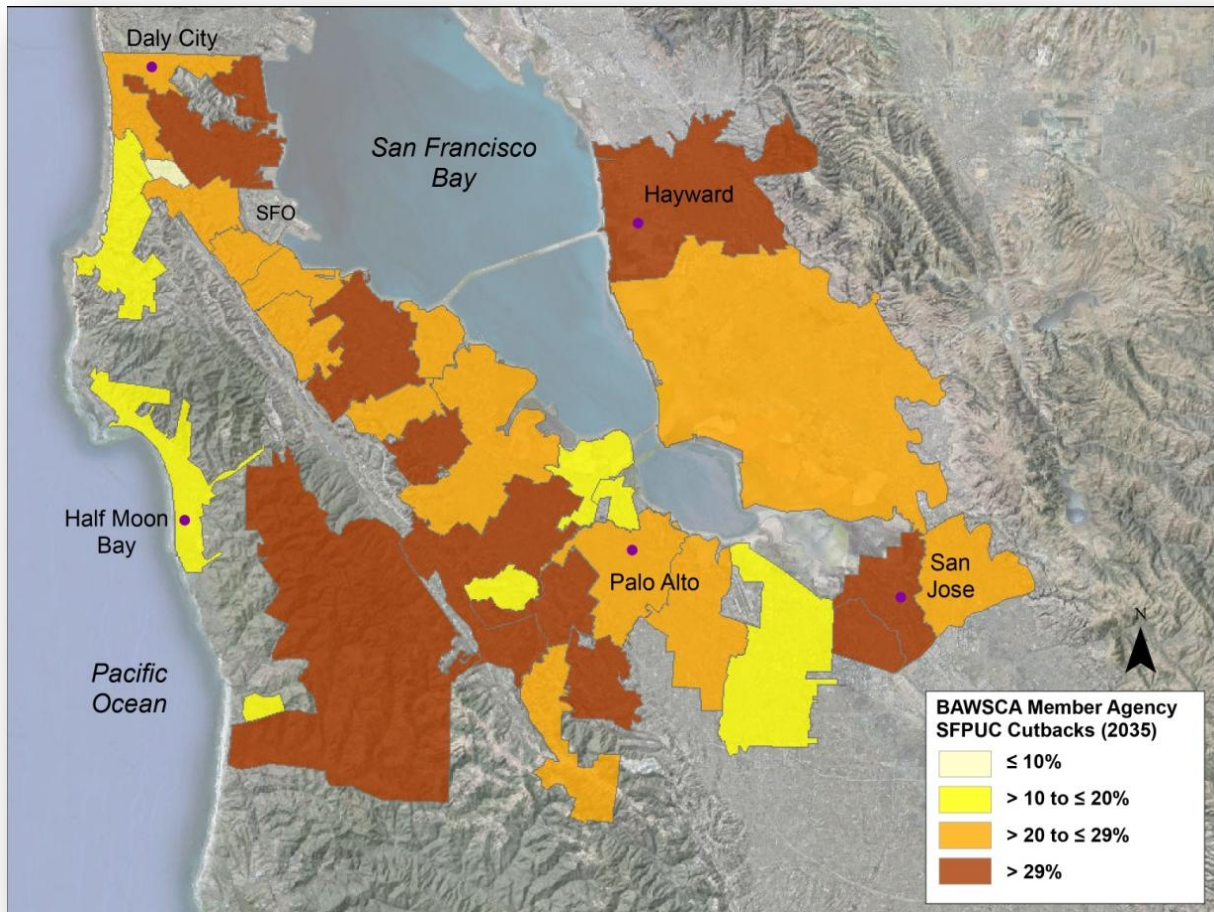


Figure ES-3
20% Supply Shortfalls on the SF RWS Result in an Average Cutback of 29% to the BAWSCA Member Agencies (2035)

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.

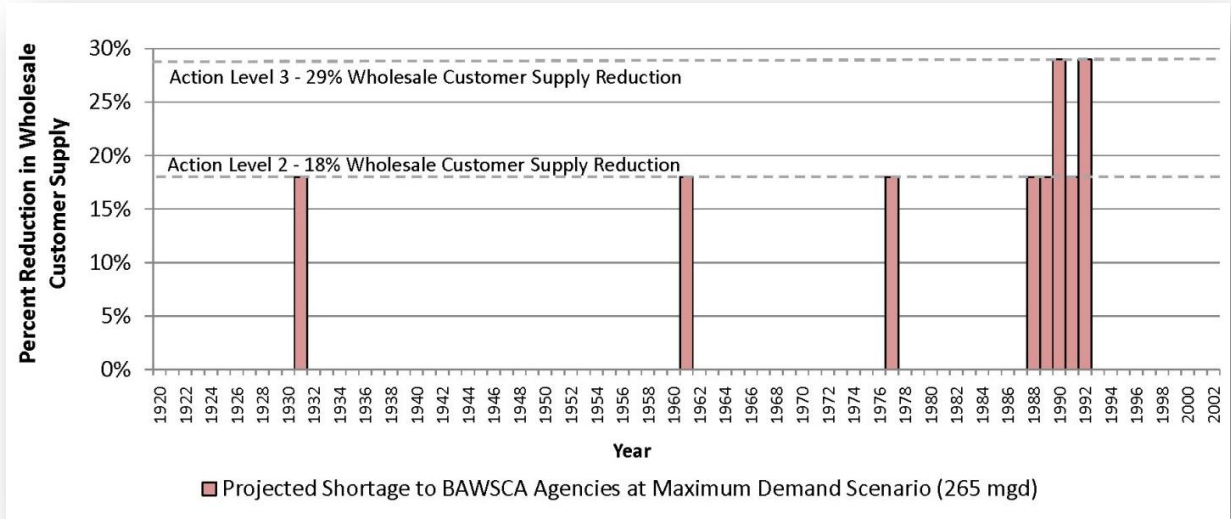


Figure ES-4
Drought Events that Create System-wide Supply Shortfalls of 10% to 20% Are Projected to Occur on Average Every Ten Years on the SF RWS

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.

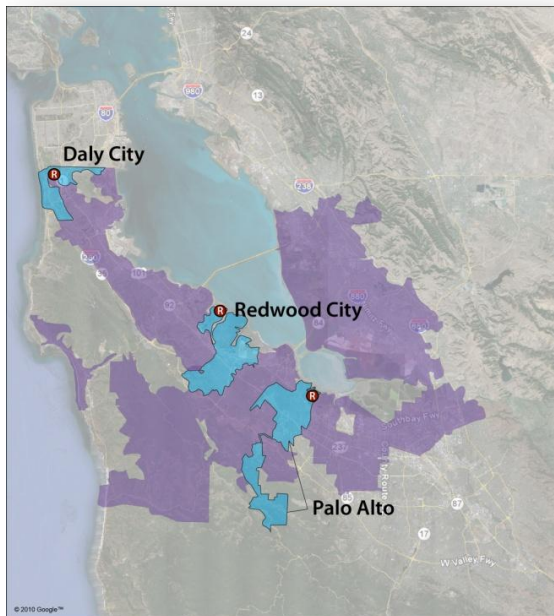
As a regional agency, it will be important for BAWSCA to have the necessary information (e.g., the cost of alternative water supplies and the economic impact of supply reductions) to consider the impacts of drought regionally when weighing the costs and benefits of investing in additional drought reliability.

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

Local Capture & Reuse Projects



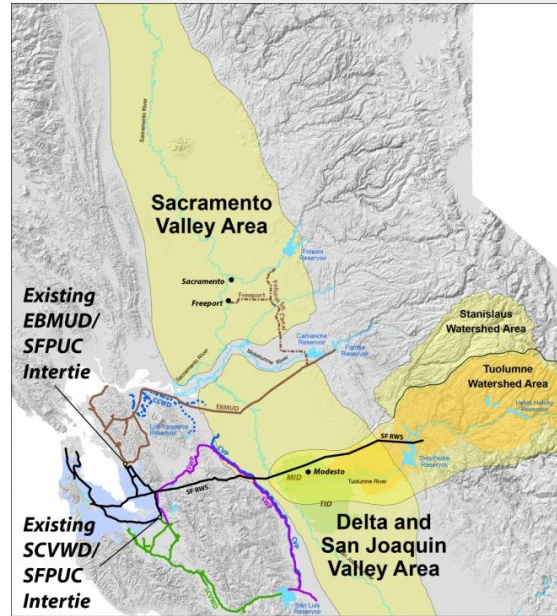
- Three (3) Projects: Rainwater, Stormwater, Greywater
- Yield ~ 200 to 700 AF/Year

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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