

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

**August 8, 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 1:30 pm. A list of Committee members present (9) and absent (1), and of other attendees is attached.

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

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

3. Public Comments: There were no public comments.

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

5. Action Items:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In May, the alternatives considered by the Board for managing the General Reserve included refunding a portion of the balance to agencies, and to reduce assessments going into FY2013-14. At that time, Mr. Jensen predicted the need to lower assessments going into FY 2013-14 regardless of whether a portion of the General Reserve balance were spent or refunded. Mr. Jensen stated that his recommendations remain the same.

With no further discussion, Director Anderson made a motion, seconded by Director Pierce, to recommend the Board to:

- a. **Authorize the CEO/General Manager to amend the contract with Orrick, Harrington & Sutcliffe LLP, subject to legal counsel's review, to begin Phase 3 of the Bond Counsel services, to appoint Orrick as Disclosure Counsel and to increase the not-to-exceed amount by \$220,000. Payment would be made from bond proceeds.**
- b. **Engage Moody's and S&P to secure credit ratings for the BAWSCA bonds at a cost of \$200,000. Payment would be paid from bond proceeds upon a successful bond issuance, although a payment of \$120,000 for preliminary ratings would be necessary even if bonds are not issued.**
- c. **Authorize the CEO/General Manager to transfer \$120,000 from the General Reserve for payments to rating agencies, if bonds are not issued.**
- d. **Adopt a resolution encouraging member agencies to seriously consider saving money by participating in BAWSCA's issuance of bonds to prepay the debt owed to San Francisco and for them to schedule the bond participation resolution for consideration and action prior to the deadline.**

The motion carried unanimously.

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

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

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

Ms. Dutton reported that BAWSCA worked closely with member agencies and referenced the 2010 Urban Water Management Plans (UWMP) to project future water demands for the service area out to 2035. The projected total demand in 2035 is 315

mgd. This projection reflects population and employment growth, as well as anticipated impacts of passive conservation.

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

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

Ms. Dutton presented a chart of the member agencies' anticipated water supply use portfolio in 2015 and 2035. It shows the member agencies' projected increase use of supplies beyond the supplies purchased from the SFPUC. Ms. Dutton explained that although member agencies have reduced demands, they continue to invest in additional supply through active conservation, groundwater and recycled water. Despite the agencies' investments in additional supply, there remains an unmet need in the future.

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

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

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

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

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

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

There are nine potential desalination projects that range from coastal desalination, brackish ground water, Bay water, and participation in the Bay Area Regional Desalination Project. Ms. Dutton noted that the yield of these projects has a potential range of 1 – 20 mgd per year, but the actual yield will depend upon the location and source of water. In addition to the yield, issues that remain outstanding and will require further evaluation for desalination include the cost, public acceptance and permitting, and brine disposal.

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

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

ject information that will be included in the next phase of the Strategy. BAWSCA is working closely with these three agencies.

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

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

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

Ms. Dutton explained that the reprogrammed Phase II A work include efforts that were critical to the Strategy, but were deferred because they were not critical to the completion of Phase II A. During the course of Phase II A, BAWSCA needed to recalibrate its efforts in response to some changed conditions resulting from the decrease in current and projected water demands, and availability of information that could be incorporated in the analysis. The budgets associated with the deferred tasks were retained.

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

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

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

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

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

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

He noted that Recommendation #1, completing reprogrammed under Phase II A, is a reconfirmation of what the Board has already authorized. Over a year ago, Phase II A was re-programmed due to changing conditions in water demand and demand projections. The work requires no additional funding for the technical consultant and no extension of time. Although authority has already been granted to complete the Strategy, it seemed appropriate to ask for Board approval because the Strategy is a multi-year project and involves BAWSCA's largest single consulting contract.

Recommendation #2, developing a plan for a pilot water transfer with EBMUD, could be funded by the General Reserve. Mr. Jensen emphasized that the result would be a comprehensive plan that would enable a water transfer to be implemented if the need arose and the agencies acted to proceed. The work to develop the plan is evenly split between legal work by Hanson Bridgett and technical support from CDM-Smith. EB-

MUD is a ready and willing participant, and the opportunity could potentially go away if not explored at this time.

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

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

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

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

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

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

Director Klein asked to hear more about the role, including the financial role, of Santa Clara and San Jose on the proposed 2 mgd water transfer between SFPUC and MID, and their future plans about their interruptible water supply from San Francisco. He wanted the Board to have a better understanding of the 2 agencies' equity on the proposed water transfer compared the rest of the member agencies.

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

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

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

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

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

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

Director Anderson made a motion, seconded by Director Breault, that the committee recommend Board approval to:

- 1. Complete 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.**

The motion carried unanimously.

Brief Reports:

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

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

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

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

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

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

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

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

- C. SFPUC General Manager Replacement - Update:** Mr. Jensen reported that the Mayor is currently meeting with candidates.
- D. Annual Review of Investment Policy:** Mr. Jensen reported that the annual review of the investment policy was delayed so that a revised policy could include any changes needed to accommodate the possible issuance of bonds. The investment policy , and any recommended changes, will be brought back to the committee in October, for Board consideration in November.

- 6. Comments by Committee Members:** Director Pierce noted that she will discuss with Mr. Jensen preparations for CEO's annual evaluation by the Board.
- 7. Adjournment:** The meeting was adjourned at 3:15pm. The next meeting is October 10, 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 – August 8, 2012

Roster of Attendees:

Committee Members Present

Larry Klein, City of Palo Alto (Chair)

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

Ruben Abrica, City of East Palo Alto

Robert Anderson, Purissima Hills Water District

Randy Breault, City of Brisbane/GVMID

Barbara Pierce, Redwood City (BAWSCA Chair), by teleconference

John Weed, Alameda County Water District

Committee Members Absent

Jamie McLeod, City of Santa Clara

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

Tom Piccolotti, North Coast County Water District

BAWSCA Staff:

Anona Dutton

Water Resources Planner

Christina Tang

Sr. Administrative Analyst

Lourdes Enriquez

Assistant to the Chief Executive Officer

Steve Miller

Legal Counsel, Hanson Bridgett, LLP

David Brodsky

KNN Public Finance (by teleconference)

Public Attendees:

Alex Ameri

City of Hayward

Michelle Sargent

San Francisco Public Utilities Commission

Craig Von Bargen

Camp Dresser McKee