

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

**Foster City Community Building – 1000 E. Hillsdale Blvd., Foster City
Wind Room
(Directions on Page 2)**

**Thursday, January 17, 2013
7:00 P.M.**

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page</u>
1. Call to Order/Roll Call/Salute to Flag	(Pierce)	
2. Special Order of Business – Election of Officers for Calendar year 2013 (Attachment)	(Pierce)	<i>Pg 5</i>
<ul style="list-style-type: none"> • Election of Chair • Election of Vice Chair <i>(The terms of the new Chair and Vice-Chair commence at the end of the meeting at which they are elected)</i>		
3. Break of San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting	(Pierce)	
4. Reconvene following San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting	(Pierce)	
5. Comments by the Chair	(Pierce)	
6. Board Policy Committee Report (Attachment)	(Guzzetta)	<i>Pg 7</i>
7. Public Comments	(Pierce)	
<i>Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>		
8. SFPUC Report	(Kelly)	
9. Consent Calendar (Attachments)	(Pierce)	
A. Approve Minutes of the November 15, 2012 Meeting		<i>Pg 21</i>
B. Receive and File Budget Status Report – As of November 30, 2012		<i>Pg 27</i>
C. Receive and File Quarterly Investment Report – as of December 31, 2012		<i>Pg 29</i>
D. Receive and File Directors’ Reimbursement Report – As of December 31, 2012		<i>Pg 31</i>
E. Appointment of BAWSCA Representative and Alternate to ACWA/JPIA		<i>Pg 33</i>
F. Receive and File Annual Audit Reports for BAWSCA and BAWUA for FY 2011-12. (Under Separate Cover)		<i>Pg 37</i>
10. Action Calendar	(Jensen)	
A. Mid-year 2012-13 Work Plan and Budget Review (Attachment)		<i>Pg 39</i>
<u>Recommendation:</u>		
1. That the Board approve the following revisions to the FY 2012-13 work Plan:		
a. Investigate a potential pilot subscription program that would provide customers with water use information designed to promote water		

conservation, with all costs to be borne by participating member agencies.

- b. Pursue agreement with San Francisco or legislation to protect customers outside San Francisco, with costs funded by reallocating funds within the existing budget.
- c. Complete the sale of the bonds to prepay capital debt owed to San Francisco and implement monitoring and reporting measures to ensure proper management of bond proceeds.

- 2. Board review and discuss alternatives for managing the General Reserve balance at the March 2013 Board meeting, and consider taking actions at the May 2013 Board meeting in conjunction with the consideration and adoption of the FY 2013-14 budget.

The Committee voted unanimously to recommend approval of the proposed Board actions.

- 11. Reports (Jensen)
 - A. Status Report on Bond Issuance to Prepay Capital Debt Owed to SFPUC (Attachment) Pg 51
 - B. SFPUC Water Supply Improvement Program – Status Report (Attachment) Pg 53
 - C. Fiscal Year 2013-14 Work Plan and Budget Preparation (Attachment) Pg 57
 - D. Protecting BAWSCA Members’ Interests in a Reliable Water Supply – Update on Progress Pursuing Administrative or Legislative Solutions
 - E. CEO/General Manager’s Letter (Attachment) Pg 61
 - F. Correspondence Packet (Under Separate Cover)
- 12. Adjourn to Closed Session (Pierce)
 - Public Employee Performance Evaluation:
 - Closed Session pursuant to Government Code Section 54957
 - Title: Chief Executive Officer
- 13. Reconvene to Open Session (Pierce)
 - Report on any final action taken in closed session
- 14. Directors’ Discussion: Comments, Questions and Agenda Requests (Pierce)
- 15. Date, Time and Location of Future Meetings (Pierce) Pg 65
(See attached schedule of meetings)
- 16. Adjourn to next meeting scheduled for March 21, 2013 at 7pm (Pierce)

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

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

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

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

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

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Item Title: **Election of Officers for Calendar Year 2013**

Summary:

The State Water Code (Division 31, Section 81401) requires the Board to elect a chair and vice chair each year at the January meeting. The term of officers of the Board commences at the close of the meeting at which they are elected.

Discussion:

The suggested process for electing the chair is as follows:

1. Call for nominations for the position of chairperson.
2. Call for a motion to close nominations once no further names are offered.
3. If there is only one nominee, call for the vote.
4. If there is more than one nominee, then proceeding alphabetically:
 - a. Ask each nominee to give a brief statement on his/her qualifications and interest in the position.
 - b. Ask if other directors would like to comment on behalf of the nominee.
 - c. Call for a vote of those in favor of each nominee, by a show of hands.

Following the election of the chair, proceed to the election of vice chair using the same process.

(This page intentionally left blank.)

BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board Members

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

DATE: January 11, 2013

SUBJECT: Summary of Board Policy Committee meeting held December 12, 2012

Committee Vice Chair Rob Guzzetta called the meeting to order at 1:33 pm. Committee Chair Larry Klein was absent. A list of Committee members present (8) and absent (2), and of other attendees is attached.

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

Comments by Vice Chair: Vice Chair Guzzetta noted that while the agenda is not as robust as the October agenda, the items are just as critical. They include the mid-year budget review, and planning for the Fiscal Year 2013-14 work plan and budget.

Public Comments: Peter Drekmeier of Tuolumne River Trust addressed the Committee about the challenge of climate change and population growth. He encourages BAWSCA to consider steps it can take to educate its member agencies about the issue, and to watch a recent documentary he saw, titled "Chasing Ice."

Consent Calendar:

Director O'Connell made a motion, seconded by Director Anderson, that the items under the Consent Calendar be approved. The items include approval of the Minutes from the October 10, 2012 meeting, and recommending Board approval of an agenda item for the appointment of a BAWSCA Representative and an Alternate to the ACWA/JPIA. The motion carried unanimously.

Director Weed noted that he and Director Anderson are JPIA representatives for their respective agencies.

Reports and Action Items:

A. Mid-Year 2012-13 Work Plan and Budget Review: Mr. Jensen went over the budget actions taken by the board during FY 2012-13. He noted that in September, the original budget

amount of \$2,585,502 increased by \$130,000 after the board authorized a transfer from the General Reserve to fund the development of a Pilot Water Transfer Program.

Mr. Jensen presented proposed changes to the current fiscal year's work plan and recommended budget reallocations for the mid-year budget review. He referred to the table in the staff memo, which highlights the proposed changes.

The first area of change in the current work plan is a modification to the work plan item related to developing a consistent and defensible basis for regional planning. The item in the approved FY 2012-13 work plan and operating budget was to select a consultant to prepare a uniform method to project water demands and water conservation savings throughout the service area. The products of this work can help satisfy requirements from the California Environmental Quality Act (CEQA) if BAWSCA were to pursue water supply projects, and provide information to be used in the Federal Energy Regulatory Commission (FERC) relicensing process for New Don Pedro.

Mr. Jensen reported that Request for Proposals (RFP) went out in October, and the selection process will be concluded in January. Mr. Jensen reported that staff members from ACWD and Mountain View are on the selection panel. Following selection of a consultant, the Board would be asked to authorize funding and execution of a professional services contract.

Mr. Jensen explained that the funding needed for this work was not included in the operating budget because the amount was unknown and to avoid receiving consultant proposals tailored to a rough estimate.

Mr. Jensen provided a sense of the potential costs by citing how much San Francisco spent developing regional water demand projections back in 2005. He reported that San Francisco's cost was close to \$700K for just the BAWSCA agencies. Mr. Jensen noted that while this appears to be a large number in aggregate, it is equivalent to an average cost of about \$20K per agency. The proposals received to date have a range between \$215K and \$600K.

Beginning the work this fiscal year provides the advantage of being able to use the demand and water conservation projections sooner.

Mr. Jensen explained that because this work would be a one-time project, the Board would be asked to consider funding the work with a portion of the General Reserve balance rather than implement a short-term increase in the annual assessments for this purpose. Mr. Jensen noted that the General Reserve, which would be discussed later under this item, is projected to have a balance that could be used in this manner.

He reiterated that there is no recommendation for action at this time. In February, following the selection process and when reliable budgeting information is available, the Committee will be presented with recommendations for the consultant, schedule and funding.

With respect to managing the General Reserve, Director Pierce asked whether a portion of the reserve should be allocated among a list of potential tasks that are seen as valuable to achieving results, as opposed to leaving all of the money in the General Reserve. The Board could allocate money for potential tasks each year.

Director Pierce stated her suggestion was intended to avoid the appearance of having an excessive balance in the Reserve and the mis-perception that the Board was simply trying to find ways to spend it. Director Pierce was curious about other Committee members' perspective.

Director O'Connell said that San Bruno has a similar process where a portion of the budget is set aside for some tasks to avoid having a large reserve.

To clarify his understanding of the idea, Mr. Jensen stated that the General Reserve would continue to be maintained for issues that are unforeseen and unexpected.

The Committee discussed the idea Director Pierce suggested, and presented questions as well as input.

Director Piccolotti asked if the reserve covers BAWSCA's liabilities, and if not, those liabilities should be earmarked and included in the list of potential expenses.

Director Abrica stated that the issue, if any, on allocating money for a list of potential projects, would come from prioritizing the list of tasks. A process would have to be developed by, and followed by, the Board when it is time to select which task from the list should be done first.

Director Weed noted that ACWD's Other Post-Employment Benefits (OPEB) continue to grow and asked if BAWSCA has OPEB established in its accounting. He encourages the Board to consider having that liability identified and funded.

Mr. Jensen stated that the Auditor is required to estimate the financial liabilities associated with BAWSCA's retirees. That figure can be generated, and is expected to be small. BAWSCA has only two retirees at the present time.

Director Guzzetta suggested that the liability might be something the auditors can include in the annual audit report. Mr. Jensen responded that the report addresses this requirement.

Legal Counsel, Allison Schutte added that it is also laid out in BAWSCA's preliminary statement as part of its disclosure for the bond issuance.

BAWSCA's Senior Administrative Analyst, Christina Tang, reported that due to BAWSCA's size, BAWSCA is not required to set aside any liability for OPEB.

Director Weed stated that it would be good practice if the agency did.

Director Guzzetta suggested to put the issue on the next committee agenda for further discussion.

Mr. Jensen stated that the discussion on unfunded liability and OPEB will be reflected in the BPC Summary Report and Minutes, and the issue will be included as an item for discussion on the agenda for the meeting in February.

Director Guzzetta offered a contrary opinion on the allocation of funds and commented that BAWSCA should do the best job it can of planning, to be as efficient as it can be. He noted that the reason we have money this year is because we had a surplus in the budget. He encourages the CEO and the Board to do the best job of planning as possible for the upcoming fiscal year.

BAWSCA should look for the critical things it has to do, and fund those efforts in the budget, rather than having a separate fund for a wish list. He suggests the wish list be created, but prefers to have each specific tasks included and funded each year in the annual operating budget.

Director Weed suggested consulting with the rating agencies who are working on BAWSCA's bond rating about what elements they look for in a budget.

Mr. Jensen reported that those discussions took place and went very well for BAWSCA. No concerns on BAWSCA's financing have been flagged. He noted that BAWSCA's situation regarding OPEB may be different than others because BAWSCA does not have operating liabilities such as crews and equipment.

Mr. Jensen noted that historically BAWSCA's budget development is built around the activities and results that must be achieved during the fiscal year. The budget has not included a wish list of items. Because the budget is relatively small, variations in external schedules and the levels of activity needed to achieve results creates uncertainty, and that budget needs cannot be predicted precisely.

Mr. Jensen stated the uncertainty is managed formally through the mid-year work plan and budget review process. As Director Guzzetta pointed out, the budget is typically underspent between 8% -14%. The excess is deposited in the General Reserve annually so that the funds can continue to be programmed to benefit the rate payers.

Mr. Jensen referred to the staff memo's section which stated, if the budget continues to be at or about 2.5 Million a year, and in the absence of any special projects, then the assessment levels should be decreased, consistent with the analysis presented to the Board when the budget was approved last May.

Director Weed asked when and how will BAWSCA address transfers of Individual Water Supply Guarantees among BAWSCA members.

Mr. Jensen stated that it is not a part of the current work plan. He said previous discussions of this issue revealed that BAWSCA's potential role is unclear. BAWSCA could elect to take a role, however, it should avoid actions, or the appearance of actions that would benefit a buyer or a seller to the disadvantage of the other.

In the past, some have suggested that BAWSCA could serve as a broker for willing buyers and sellers, but there has been no interest to date. He also noted that some agencies have taken advantage of the provisions included in the Water Supply Agreement and have sought willing sellers for such transfers. However, to date no agencies have responded positively.

Mr. Jensen stated that he is open to looking at the issue of what role BAWSCA play if there is interest among the agencies for BAWSCA to do so.

Mr. Jensen continued his presentation and reported that a second proposed change to the work plan is the investigation of a pilot subscription conservation program that would provide residential customers with water-use information designed to promote water conservation. Customers would be able to access their water use information through the internet and direct mail.

There are various companies that provide this service. The reported water savings in other areas are up to 5%. Some BAWSCA agencies are already pursuing this kind of service independently.

Several BAWSCA agencies have expressed interest in a pilot program coordinated by BAWSCA and funded by agencies that choose to participate.

BAWSCA would issue an RFP for a professional services contract for a consultant to provide the desired services. The effort would change the work plan as it will involve time from staff to coordinate this effort, but would not change the operating budget.

Further comments and questions on this element of the work plan were raised later in the meeting.

The third proposed change to the work plan involves the effort to protect the reliable water supply for water customers outside San Francisco from potential adverse impacts associated with the efforts to drain Hetch Hetchy Reservoir.

While San Francisco voters rejected Measure F in November, proponents continue their effort to drain Hetch Hetchy. Therefore, consistent with its historical position on the issue, BAWSCA will pursue administrative and legislative actions to protect the customers outside San Francisco. Mr. Jensen reported that significant discussions have begun.

While more effort may need to be devoted to this part of the work plan, no budget modification is required at this time. Should the effort become significant and resource-intensive, Mr. Jensen will come back to the Board to request additional resources.

In response to Director Weed's question about the need to modify the professional services contract for Strategic Counsel for the legislative efforts, Mr. Jensen stated that any modifications could be done within his spending authority. Should the efforts become more aggressive, he would come back to the Board to request necessary authorization.

Director Weed asked at what point will the BAWSCA Board have a discussion on the issues relating to the vote member agencies might have on the efforts to drain Hetch Hetchy. He commented that while San Francisco has a strong sense of ownership to voting down Measure F on a vote of 77 to 23 in November, he stated that voting in other jurisdictions might or might not show a similar result. Director Weed noted that an active member of Sierra Club's San Francisco Bay Chapter Executive Committee has just been elected to Fremont's City Council, and that he is not prepared to support BAWSCA's legislative initiative. Mr. Jensen said he would be pleased to speak to Director Weed about his concerns.

Director O'Connell asked if BAWSCA's effort should be limited to the impacts of draining Hetch Hetchy, or should the effort include any potential adverse effects to the water supply.

Mr. Jensen stated that in the pursuit of either the administrative or legislative actions, vague objectives are difficult or impossible to achieve. Specific, limited objectives, while difficult, can be achieved.

There were no further comments or questions on this element of the work plan.

Mr. Jensen continued his presentation on the work plan. Ongoing Administration of the 2009 Water Supply Agreement currently includes a resolution of outstanding cost-allocation issues from prior years. BAWSCA is working closely with San Francisco to reach an agreement. Resources required for this work are available within the existing budget and there are no work plan or budget changes proposed at this time.

However, Mr. Jensen noted that if no agreement is reached with San Francisco, BAWSCA would consider resolution through arbitration, as provided in the Agreement. If so, additional resources in the current and subsequent year may be needed since arbitration is not included in the current work plan and budget. If arbitration must be pursued, BAWSCA's prior arbitration costs would be used as a basis for estimated associated costs, and all information would be presented to the Board with a request for any needed authority and funding..

Mr. Jensen stated that legal actions and arbitration were included in the initial purpose of setting up the General Reserve, and if arbitration were needed, it could be funded by the General Reserve.

Managing and administering the activities related to the Bond issuance will change the work plan, but have no change in the operating budget.

The Bond issuance is anticipated in January. Preparations for proper accounting, recording and reporting requirements have been initiated by staff with assistance from BAWSCA's auditor. BAWSCA will be monitoring the movement of revenues collected by the SFPUC as well as transfers to the Trustee, the SFPUC's expenditure of the proceeds, and the purposes or projects financed using such expenditures.

In addition, Mr. Jensen reported that Christina Tang is in the process of developing a manual for administering the bonds during their 21 year duration that can be used by future staff.

Mr. Jensen went over activities in the current work plan that he proposes be postponed.

The first is the development of the Wholesale Customers' interests and objectives if the SFPUC were to consider future changes to the wholesale water rate structure. Mr. Jensen reported that while the SFPUC is expected to adjust wholesale water rates this coming spring, the SFPUC has agreed not to change the rate *structure* at this time. Mr. Jensen hopes to address this task in the current fiscal year, if possible.

In response to Director Weed's question, Mr. Jensen explained that changes to the SFPUC's wholesale water rate setting structure do not require an amendment to the WSA. BAWSCA has no authority over the wholesale rate setting structure.

He further explained that the WSA provides SFPUC the authority over changes to the wholesale rate structure, and also contains procedures that the SFPUC must follow to inform and obtain input from the Wholesale Customers.

BAWSCA anticipated heavier involvement in the FERC relicensing process of New Don Pedro this year, but Mr. Jensen reported that the anticipated activities has not yet come to pass. This change in timing was fortunate, as it allowed legal counsel and staff to focus on other critical matters, and provided savings that can be reallocated toward more critical activities.

BAWSCA's work plan also included protecting the interests of the Wholesale Customers in the proposed water transfer between the Modesto Irrigation District and the SFPUC, but those parties have suspended that effort. Mr. Jensen reported there have been discussions of a possible water transfer between the Oakdale Irrigation District and the SFPUC. This activity will be monitored.

Finally, the table of activities not budgeted for this year included researching alternative *retail* rate structures that might stabilize retail water rates and water revenues. In keeping with the budget priorities, no significant effort has been directed to that issue. However, BAWSCA has worked in conjunction with other groups to sponsor a workshop on water rate setting that is scheduled for January 15th in Redwood City. A notice was sent to all member agencies.

Mr. Jensen reported that the projected year-end balance for the General Reserve is \$1,264,840 as of July 1, 2013. This amount exceeds BAWSCA's general reserve guideline, 35% of its fiscal year operating budget, by \$360,000. This number is based on BAWSCA's operating budget of \$2,585,504 adopted in May 2012.

Potential activities that might affect the balance were discussed. One-time projects that could be funded using a portion of the General Reserve balance include the development of a consistent and defensible water demand projections, potential arbitration of cost-allocation issues, and major legislative efforts.

Potential ways to manage the General Reserve balance include reimbursing the excess to member agencies and reducing the level of assessments. Because more will be known this spring about the likelihood and cost of the one-time activities, Mr. Jensen recommended postponing any decision of refunding the excess until February, when that information will be available.

Mr. Jensen stated that more information will be available in February on the water demand projection methodology, and the cost-allocation issues with San Francisco. The preliminary work plan activities and budget proposal for Fiscal Year 2013-14 will also be available. These pieces of information will be vital to the consideration of alternatives for managing the General Reserve balance and whether to reduce assessments. Mr. Jensen said he believes a reduction in the level of assessments would be necessary if the operating budget remains at the current level.

Director Pierce asked whether the adjustments to the General Reserve typically take place at year end.

Mr. Jensen explained that deposits to the General Reserve are made after the end of each fiscal year. Uses of the General Reserve generally occur when the Board adopts the annual budget and funding plan, or when the Board authorizes a specific use of the reserve, as it did this last September. An exception to this process was when the Board, in September of 2011, acted to refund a portion of the General Reserve balance to the agencies.

Director Breault commented on Director Pierce's previous note on how funds in excess of BAWSCA's 35% guideline are viewed. The question is whether the funds are reserved or associated with specific potential tasks that add value, as opposed to including those appropriating funds in the operating budget for the same tasks. He said it may depend on how the information is presented and how it is interpreted by others.

Director Weed asked whether BAWSCA knows the amount of liability associated with OPEB. Mr. Jensen stated that the amount can be provided to the Board at its January meeting.

Director Piccolotti stated a concern about the cost for the pilot conservation program. His understanding is that real-time water-use data would require installation of expensive meters. He was curious to know what agencies have those capabilities.

Mr. Jensen stated that the program would be offered on a subscription basis, with costs paid for by those agencies that wish to participate.

Ms. Dutton explained that BAWSCA is talking to service providers who use technologies besides automated meter reading. She reported that one company in particular, receives billing data from the utility, and uses that information to interface with the customers through the web or direct mail. Other companies attach devices to existing meters and those devices communicate with the existing cell phone network to deliver data.

Ms. Dutton explained that doing a single contract with a selected service provider on behalf of the participating agencies can reduce the upfront set up cost and make the program more cost-effective for agencies to participate.

In response to a question from Director Breault, Ms. Dutton stated BAWSCA's RFP will ask proposers to demonstrate the results they achieved for previous clients. Several agencies such as East Bay MUD, Sonoma County Water Agency, and City of Palo Alto have been piloting these technologies, and there are documented results that BAWSCA can review.

Director Pierce suggested that since not every member of the BAWSCA Board is from a water district, it would be helpful to have more information on what BAWSCA is looking for in this program, and what it would look like to the customers and to the water agencies.

Mr. Jensen agreed to provide more information.

Director Guzzetta stated that he had been skeptical with these types of services until he tested some of the technology in his home. He reported that there are lots of benefits to this program, and that providing customers with information about their water usage is powerful because it impacts their behavior.

For example, there is value in leak detection notification that alerts customers when their water usage goes above a given threshold. He noted that a hose was left dripping at his home and he never would have known this for weeks if it weren't for these alerts. It was close to the foundation of the house, and could have caused some real damage if left undetected.

He said this type of information provided to the customers can change their habits because it becomes their responsibility to monitor activities themselves.

Director Pierce added that offering the program on a subscription basis offers a lot of flexibility and advantages for the member agencies.

In response to Director Piccolotti's question, Mr. Jensen stated that there is no cost to the agencies for doing the RFP and for administering the pilot program. The work will be completed under staff time, and as a subscription program, agencies will fund their participation.

Director Weed asked for more information about the work plan item for pursuing an agreement with San Francisco or legislation to protect customers outside San Francisco, with costs funded by reallocating funds within the existing budget. Mr. Jensen offered to discuss the item in detail separately.

Director O'Connell made a motion, seconded by Director Breault, that:

The Committee recommend:

- 1. Board approval of the following revisions to the FY2012-13 Work Plan:**
 - a. Investigate a potential pilot subscription program that would provide customers with water use information designed to promote water conservation, with all costs to be borne by participating member agencies.**
 - b. Pursue agreement with San Francisco or legislation to protect customers outside SF, with costs funded by reallocating funds within the existing budget.**
 - c. Complete the sale of bonds to prepay capital debt owed to San Francisco and implement monitoring and reporting measures to ensure proper management of bond proceeds.**
- 2. Board review and discuss alternatives for managing the General Reserve balance at the March 2013 Board meeting, and consider taking actions at the May 2013**

Board meeting in conjunction with the consideration and adoption of the FY 2013-14 budget.

The motion carried unanimously.

B. Fiscal Year 2013-14 Work Plan and Budget Preparation:

Mr. Jensen reported that, as in prior years, the preparation of the work plan and budget for FY 2013-14 begins by looking at matters the agency must address between now and the year 2035, and then working backwards to identify what results must be achieved during the coming year.

The resources needed to achieve those results can then be estimated. The scope of activities, budget and funding alternatives are then examined prior to presenting a preliminary work plan and budget to the Committee in February.

Examples of long-term issues include: a) the timing for when additional normal year water supply would be required; b) issues that should be investigated before 2018 when San Francisco makes decisions about whether to supply more water to its wholesale customers and whether it will continue to service San Jose and Santa Clara; c) the need for member agencies to agree on how to allocate SFPUC water during droughts before the current drought allocation agreement expires in 2018; d) on-going oversight of the WSIP through its completion; and other matters vital to the members and the water customers, such as negotiation of the extension of the Water Supply Agreement before the current one expires in 2034.

Mr. Jensen stated that BAWSCA adds value by achieving results that agencies cannot by working independently, or that agencies can obtain more cost-effectively or efficiently through BAWSCA. He noted that Board members may have additional ideas that should be considered during preparation of the preliminary work plan. Those items can be discussed at the January meeting

Mr. Jensen reported that the funding of the budget for FY 2013-14 will be structured differently. The Operating budget, which includes consultant expenses, staff salaries and benefits, and the office lease, will appear at the top of the traditional table. The budgets for special projects, such as the Long-Term Reliable Water Supply Strategy, will appear separately and below the Operating budget. This way, the normal operating budget can be compared from one year to the next on an apples-to-apples basis, and the total budget will be transparent as well.

The management of employee salaries and benefits will be consistent with previous years. Mr. Jensen reported that the last compensation survey was conducted two years ago, and that it would be time to budget that activity in next fiscal year.

Mr. Jensen noted that BAWSCA employees make no contributions to Social Security, which can affect their long-term retirement. Employees that made contributions when working for prior employers have their Social Security benefits reduced dramatically the longer they work for employers that do not have a system for Social Security contributions.

BAWSCA employees pay into the CalPERS retirement plan in lieu of Social Security withholding. Some agencies do both CalPERS and Social Security. He suggested he could

begin by working with legal counsel to examine the applicable regulations and then examine the costs and other issues associated with participation in Social Security.

Mr. Jensen said the importance to BAWSCA is that the ability to contribute to Social Security could become an important factor in attracting and retaining high quality staff. He noted that a change would not benefit BAWSCA employees who have already retired. He also noted he would derive no personal benefit from such a change because it would take a very long time for such a change to make an appreciable impact on his personal Social Security benefits.

He asked for comments from members of the Committee.

Director Weed stated that a critical consideration is that 40 quarters of participation in Social Security are needed to qualify for Medicare.

Director Pierce was supportive of looking into how BAWSCA could provide its employees a way to better plan for their retirement, and asked to see further information for the Board's consideration.

Director Guzzetta was also supportive of looking into how it can be included in BAWSCA's total compensation to make it a competitive and fair package.

Director Pierce asked if BAWSCA provides health benefits to its retired employees. Mr. Jensen replied yes, and offered to provide further information to the Committee at its meeting in February.

Brief Reports:

- A. Bond Issuance to Prepay Capital Debt Owed to SFPUC – Status Report: Mr. Jensen reported that negotiations of the agreement with San Francisco on the bond issuance have been completed. The agreement is scheduled to go before the San Francisco Board of Supervisors for approval on January 15th.

Adoption of the agreement by the City and County of San Francisco is the final step for the bonds to go to market. Mr. Jensen reported that he has been advised by the underwriters to meet personally with the bond buyers. He alerted the Committee that he may be called to go to New York for the sale of the bonds which could possibly be as early as the day of the Board meeting on January 17th.

The Board will be notified by email of the developing information with the credit ratings and the sale of the Bonds.

The resolution for participation has been adopted by eighteen agencies, and is scheduled for action by six agencies. Documentation for participation by Stanford and Cal Water are scheduled to be received by the deadline of December 23rd.

- B. SFPUC Water Supply Improvement Program – Status Report: As reported to the Board at its November meeting by SFPUC Program Manager, Julie Labonte, the current estimate for additional work on the Calaveras Dam is \$130 million. As stated, 85 percent of that \$130 million would have been needed even if the SFPUC had been able to foresee the issues that were encountered at the dam site.

Mr. Jensen reported that the SFPUC is still waiting for cost proposals and to conduct negotiations with the contractors before a final cost can be determined. The SFPUC is taking a strategic approach to avoid further delays to the project. They will go to the Commission in January for additional funding based upon the engineer's estimate, and will come back to the Commission for additional authority, if necessary, once a cost is negotiated with the contractor.

Funding the \$130 million requires using the entire Calaveras Dam project contingency and all of the Project Management Reserve. The Project Management Reserve was originally suggested by BAWSCA. It was used to hold the money saved from other projects and was managed by the Program Manager.

BAWSCA has asked the SFPUC to demonstrate if and how it will be able to complete the regional WSIP within budget. BAWSCA's concerns include the need to establish a contingency budget for the balance of the Calaveras Dam project, which is only 25% completed.

BAWSCA is working with the SFPUC to identify how much contingency is needed for this project, to consider whether a portion of the Program Management Reserve should be restored, and whether projects nearing completion could relinquish a portion of their contingencies to provide the necessary funds. BAWSCA has stated to the SFPUC that while the public can understand unexpected delays, the public will less likely tolerate cost increases.

The SFPUC has started examining these issues.

Director Weed asked whether a smaller dam might be more cost-effective than incurring the increased cost of this additional work. Mr. Jensen explained that in 2005 this particular project was found to be a far more cost-effective way to provide drought reliability than several alternatives examined by the SFPUC. He said the storage capacity of the reservoir will not be reduced by the new work and that the geological issues are now better known and better managed.

Mr. Jensen noted that while the budget for the entire WSIP is \$4.6 billion, about \$1 billion is for projects within San Francisco. Those projects did not require all \$1 billion, and one way the SFPUC will be able to cover some of the added costs is to use unspent money budgeted for projects inside San Francisco. Mr. Jensen stated that using those funds would increase the prior projections of wholesale water rates.

BAWSCA continues to meet with the SFPUC staff and Ms. Labonte has committed to addressing BAWSCA's concerns and providing written documentation of the budget impacts and of actions being taken to keep the program within budget. BAWSCA will continue its reviews and analyses and respond as necessary to protect the interest of its member agencies.

- C. Board Policy Calendar: Mr. Jensen reported that at the Board meeting in January, the Board will receive further information on the bond issuance, the mid-year budget review, FY 2013-14 budget preparations, and protecting customers from adverse impacts of draining Hetch Hetchy reservoir.

A preliminary FY 2013-14 work plan and budget, and a recommendation for consultant selection for the water demand projection will be presented to the Board in March. Finally, adoption of the work plan and budget for FY 2013-14 and approval of annual professional services contracts will be presented to the Board at its meeting in May.

Comments by Committee Members:

Director Pierce asked to be informed of whether Mr. Jensen will be in New York for the sale of the Bonds instead of at the Board meeting on January 17th.

Director Weed reported that Oro Loma Sanitary District is getting a grant to develop an Upland Ecotone levy project. This project would store discharges from wastewater treatment or the desalination, and create a transitional habitat for sea level rise. Director Weed noted that adaptation for sea level rise was one of the issues addressed at the recent ACWA conference. He passed around information for other Committee members to see.

Adjournment: The meeting was adjourned at 3:00pm. The next meeting is February 13, 2012.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – October 10, 2012

Roster of Attendees:

Committee Members Present

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
Irene O’Connell, City of San Bruno (BAWSCA Vice-Chair)
Tom Piccolotti, North Coast County Water District
Barbara Pierce, Redwood City (BAWSCA Chair), by teleconference
John Weed, Alameda County Water District

Committee Members Absent

Larry Klein, City of Palo Alto (Chair)
Jamie McLeod, City of Santa Clara

BAWSCA Staff:

Art Jensen	CEO/General Manager
Anona Dutton	Water Resources Planner
Christina Tang	Sr. Administrative Analyst
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
Bud Wendell	Management Communications

Public Attendees:

Marilyn Mosher	City of Hayward
Nico Procos	City of Palo Alto
Peter Drekmeier	Tuolumne River Trust

(This page intentionally left blank.)

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
November 15, 2012 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:04 pm

BAWSCA Chair, Barbara Pierce, called the meeting to order. Art Jensen called the roll. Four members of the Board arrived after roll call. Twenty-three (23) members of the Board were present, constituting a quorum. A list of Directors present (23) and absent (3) is attached.

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

3. Board Policy Committee Report: Committee Chair Larry Klein provided a report on the discussions and actions that took place at the BPC meeting held October 8, 2012.

4. Public Comments: Public comments were received from Wynn Grich and Michael Francois.

5. SFPUC Report: SFPUC General Manager Harlan Kelley addressed the Board. Julie Labonte, Water System Improvement Program Director, provided a report on the progress of the overall WSIP and the Calaveras Dam Project.

6. Consent Calendar:

Director O’Mahony made a motion, seconded by Director Fergusson, to approve the Minutes of the September 20th 2012 Board Meeting, receive and file the Budget Status, Quarterly Investment, and Directors’ Reimbursement Reports as of September 30, 2012, and authorize the CEO/General Manager to negotiate and execute a contract amendment with PG&E for the Washing Machine Rebate Program. The motion carried unanimously.

7. Action Calendar:

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

Director Klein made a motion, seconded by Director Laporte, that the Board:

- 1. Authorize the CEO/General Manager to include a fixed volumetric surcharge setting methodology in the bond structure; and,**
- 2. Authorize the CEO/General Manager to use a blended interest rate on the allocation of debt service.**

The motion carried unanimously.

B. Potential Bond Issuance to Prepay Capital Debt Owed to SFPUC – Actions Needed to Proceed.

Director Griffith made a motion, seconded by Director Richardson, that the Board:

1. **Authorize the CEO/General Manager to amend the contract with KNN for their financial advisory services until the completion of the financing.**
2. **Authorize the CEO/General Manager to appoint a bank to be selected through an RFP process as the Trustee for the bonds.**
3. **Authorize the CEO/General Manager to appoint Morgan Stanley and Citigroup Global Markets as underwriter Co-Managers for the bond issuance and increase the maximum underwriters' discount.**
4. **Authorize a maximum underwriters' discount of 0.0375% (\$3.75 per \$1,000 in par amount or "per bond").**

The motion carried unanimously.

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

Director Kasten made a motion, seconded by Director Vella, that the Board adopt a resolution authorizing the following Board actions:

1. **Approve the issuance and structure of the Bay Area Water Supply and Conservation Agency Revenue Bonds Series 2013A and Series 2013B (Taxable) in an amount not-to-exceed \$385 million with a term ending no later than December 31, 2034.**
2. **Approve the substantially final forms of financing documents provided in the staff report, including the Revenue Bond Indenture, First Supplemental Indenture, the Continuing Disclosure Certificate, the Preliminary Official Statement, a Prepayment and Collection Agreement with the SFPUC, and the Bond Purchase Agreement.**
3. **Authorize the CEO/General Manager to execute these financing documents at the appropriate time conditioned upon satisfaction of specified criteria.**
 - a. **The bond interest rates and final financing structure will need to result in a net present value savings of not less than 4% (or approximately \$14.2 million) over the term of the bonds.**
 - b. **San Francisco must provide, in advance of receiving any funds, a written pledge to use bond proceeds in a manner consistent with federal laws and regulations. This is memorialized in the Prepayment and Collection Agreement.**

The motion passed unanimously by a roll call vote.

8. Review of BAWSCA's Statement of Investment Policy and Proposed Modifications

Director Klein made a motion, seconded by Director Coverdell, that the Board approve the revised language modifications to the Investment Policy. The motion passed unanimously.

9. Date, Time and Location of Next Meeting: The next meeting is scheduled on January 17, 20, 2013, in the Wind Room, Foster City Community Center.

10. Adjournment: The meeting adjourned at 9:00pm.

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer/General Manager

ARJ/le

Attachments: 1) Attendance Roster

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
July 19, 2012

Attendance Roster

Present:

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

Absent:

Mike Kasperzak	City of Mountain View
Dan Quigg	City of Millbrae
Chuck Reed	City of San Jose

(This page intentionally left blank.)

BAWSCA

Bay Area Water Supply & Conservation Agency

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

TO: Arthur R. Jensen, CEO/General Manager

FROM: Deborah Grimes

DATE: January 9, 2013

SUBJECT: Budget Status Report as of November 30, 2012

This memorandum shows fiscal year budget status for FY 2012-13. It includes major areas of spending, provides an assessment of the overall budget, and summarizes reserve fund balances. This report covers the budget and expenses for BAWSCA. The BAWSCA budget includes necessary resources for the RFA and BAWUA.

Operating Budget Summary:

For the five month period ending November 30, 2012, at 42 percent into the fiscal year, total expenditures were \$1,006,921 or 37 percent of the total budget of \$2,715,504. A transfer of \$130,000 from the General Reserve was approved by the Board at the September board meeting for work related to the Pilot Water Transfer with EBMUD. Those funds were added to the operating budget for consultant expenses associated with water supply reliability

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

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	965,162	197,706	20%
Fair Pricing	210,000	171,816	82%
Administration	91,000	51,414	56%
Subtotal	1,266,162	420,936	33%
Administration and General			
Salary & Benefits	1,099,742	501,693	46%
Other Expenses			
BAWSCA	280,600	84,293	30%
BAWUA	1,100	0	0%
Subtotal	2,647,604	1,006,922	38%
Capital Expenses	4,000	0	0%
Budgeted Contingency	62,500	0	0%
Regional Financing Authority	1,400	0	0%
Grand Total	2,715,504	1,006,922	37%

Overview:

Overall expenditures are tracking within budget.

Consultants

The \$140,000 budget for technical review and tracking of the SFPUC’s Water System Improvement Program was 31 percent expended. The Operating Budget allocation of \$150,000 for strategic counsel was 57 percent expended. The Operating Budget allocation of \$509,000 budget for legal counsel was 40 percent expended. The \$225,162 budget for water management and conservation-related activities was 17 percent expended.

Administration and Other Expenses

Budgets for salaries and other expenses were 46 and 30 percent expended, respectively.

Use of CEO’s Discretionary Spending Authority:

None.

Use of Reserve Fund Balance:

At the September 2012 board meeting, the board authorized a transfer of \$130,000 from the General Reserve for work associated with the development of a plan for a Pilot Water Transfer with EBMUD. Those funds were added to the operating budget for consultant expenses associated with water supply reliability and are reflected as a decrease in the General Reserve balance shown below.

Unspent funds at the end of FY 2011-12 were \$264,000. The BAWSCA reserve balance as of November 30, 2012, shown below, does not yet reflect this deposit. Once the audited financial report has been accepted by the Board of Directors, the unspent balance from FY 2011-12 will be transferred to the General Reserve bringing the balance to \$1,050,897.

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 09/30/12)	Account Balance (As of 11/30/12)
General Reserve	\$786,897	\$786,897

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

Phase 2 of the Long-Term Reliable Supply Strategy (Strategy) began FY 2010-11. Funding is provided through the Water Management Charge, approved by the Board in July 2010. All Water Management Charge revenue, totaling \$2,321,998 has been collected by the SFPUC and received by BAWSCA. Expenditures for strategic and legal support of the Long-Term Reliable Water Supply Strategy are within their respective budgets. Consultant invoices received and paid through November 30, 2012 total \$1,288,655.

BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
FROM: Arthur R. Jensen, Chief Executive Officer
DATE: January 9, 2013
SUBJECT: Investment Report – As of December 31, 2012

In February 2004, the Board originally adopted an investment policy consistent with the Government Code that requires a quarterly report on the Agency’s investments be provided to the Board. The Board most recently reviewed and revised the investment policy at the November 15, 2012 Board meeting. This report presents fund management in compliance with the current investment policy.

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

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

<u>09/30/12</u>	<u>12/31/12</u>
\$2,978,173	\$2,930,886

Of the total in the BAWSCA LAIF account as of December 31, 2012, \$786,897 represents BAWSCA’s General Reserve Fund, equivalent to approximately 29 percent of FY 2012-13 Operating Budget. The remaining amount consists of Subscription Conservation Program funds, Water Management funds and unrestricted funds.

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

<u>06/30/12</u>	<u>09/30/12</u>
0.48%	0.35%

(This page intentionally left blank.)

BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors

FROM: Arthur R. Jensen, Chief Executive Officer

DATE: January 11, 2013

**SUBJECT: Directors' Reimbursement Quarterly Report for the Period Ending
December 31, 2012**

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

There were no director expenses reimbursed for the quarter ending December 31, 2012.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Appointment of BAWSCA Representative and Alternate to ACWA/JPIA Board**

Summary:

On July 1, 2012, the Association of California Water Agencies (ACWA) Health Benefits Authority (HBA) transitioned its Employee Benefits program to the ACWA Joint Powers Insurance Authority (JPIA). The ACWA JPIA issued a directive instructing organizations who previously received benefits through ACWA HBA, and now the ACWA JPIA, including BAWSCA, to appoint a Director Representative and an Alternate Representative to the ACWA/JPIA Board.

Fiscal Impact:

Expenses, per diem, and fees incurred by the appointed Director to attend the Board meetings and the ACWA conferences are the responsibility of their respective districts. In the event the Board's appointed Director Representative, or the Alternate, attends JPIA Board meetings at the ACWA conference, expenses, per diem and fees incurred would be BAWSCA's responsibility.

Board Policy Committee Action:

The committee voted unanimously to recommend the proposed Board action.

Recommendation:

That the Board appoint the BAWSCA Chair as the Director Representative to the ACWA/JPIA Board, and the CEO as the Alternate Representative.

Discussion:

ACWA JPIA member agencies are entitled to be represented on its Board of Directors. The representative must be a member of the agency's elected board. Each member agency also has the right to appoint one alternate who may be an officer, a member of the governing board or an employee of the member agency. The Directors and Alternates serve until a successor is appointed and at the pleasure of the Member by which he or she has been appointed. Each Director representing a Member, or his or her Alternate, shall have one vote.

Appointing the representative and alternate by position, rather than by name would eliminate the possibility of frequent reappointments. The recommendation is to appoint the BAWSCA Board Chair as the Director Representative and the BAWSCA CEO as the Alternate Representative.

The JPIA Board of Directors' meetings are held twice a year, during the Spring and Fall ACWA conferences. While the Directors and/or their Alternates are encouraged to attend these Board meetings, the JPIA understands that it is not always possible.

Attachment:

1. ACWA/JPIA Board of Directors powers and functions.

(This page intentionally left blank.)

The Board of Directors of the ACWA/JPIA shall have the following powers and functions:

- (a) The Board shall elect from its voting members pursuant to Article 10 of this Agreement an Executive Committee.
- (b) The Board may review all acts of the Executive Committee, and shall have the power to modify and/or reverse any decision or action of the Executive Committee upon a majority vote of the voting Directors present at any Duly Constituted Board Meeting.
- (c) The Board shall review, modify if necessary, and approve the annual operating budget of the Authority, prepared by the Executive Committee pursuant to Article 11 (d).
- (d) The Board shall receive and review periodic accountings of all funds under Articles 17 and 18 of this Agreement.
- (e) The Board shall have the power to conduct on behalf of the Authority all business of the Authority, including that assigned to the Executive Committee, which the Authority may conduct under the provisions hereof and pursuant to law.
- (f) The Board shall have such other powers and functions as are provided for in this Agreement or in the Bylaws.
- (g) Meetings – The Board shall provide for at least one annual regular meeting. It may also provide for the adjourned regular meetings, special meetings, or meetings upon call of the President of the Board.

Additional information about ACWA/JPIA may be obtained at their website:
<http://www.acwajpia.com>.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Item Title: **Audit Reports for BAWSCA and BAWUA for FY 2011-12**

Summary:

An independent auditor's report has been completed for both BAWSCA and BAWUA for the year ending June 30, 2012. The audit of BAWSCA accounts is required by Division 31, Section 81426 of the Water Code. The audit of BAWUA is prepared in accordance with its bylaws. The audit reports are enclosed, under separate cover, for your review. A financial audit of the Regional Finance Authority is not required at this time.

Fiscal Impact: None

Board Policy Committee Action:

None. The audit became available on January 8th for staff review, allowing its inclusion in the BAWSCA board meeting agenda.

Recommendation:

That the Board receive and file the independent auditor's report for both BAWSCA and BAWUA for the year ending June 30, 2012.

Discussion:

BAWSCA's and BAWUA's financial statements have been audited by the independent auditing firm of Chavan & Associates, LLP. The goal of an independent audit is to provide reasonable assurance that the financial statements are free from material misstatement. Based on their review of the financial statements, the auditors concluded that the financial statements are in conformance with generally accepted accounting principles, and fairly presents, in all material respects, the financial position of both BAWSCA and BAWUA and the changes in financial position and cash flows for FY 2010-2011. As demonstrated by the statements, schedules and notes included in the auditor's reports, BAWSCA and BAWUA are meeting its responsibility for sound financial management.

Enclosed under separate cover:

1. BAWSCA FY 2011-2012 Audit Report
2. BAWUA FY 2011-2012 Audit Report

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Mid-Year 2012-13 Work Plan and Budget Review**

Summary:

To ensure continued access to reliable supplies of high quality water at a fair price, four issues require serious attention during the second half of this fiscal year. The resources to address these issues and produce necessary results can be provided within the currently approved Operating Budget for FY 2012-13 of \$2,715,504.

This memorandum presents: 1) the proposed changes to the annual Work Plan, 2) proposed reallocation of funds within the existing Operating Budget, and 3) the projected balance of the General Reserve.

Fiscal Impact:

As a result of the mid-year Work Plan and Budget review, no changes are requested to the currently approved budget at this time. Minor budget reallocations are needed to complete work through the remainder of FY 2012-13 within the currently approved Operating Budget. None of the modifications require Board action.

Board Policy Committee Action:

The Committee voted unanimously to recommend the proposed Board actions. This memo responds to Committee requests for additional information. Information about BAWSCA's liability for Other Post-Employment Benefits (OPEB) will be provided at the February Committee meeting.

Recommendation:

That the Board:

- 1. Approve the following revisions to the FY2012-13 Work Plan:**
 - a. Investigate a potential pilot subscription program that would provide customers with water use information designed to promote water conservation, with all costs to be borne by participating member agencies.**
 - b. Pursue agreement with San Francisco or legislation to protect customers outside SF, with costs funded by reallocating funds within the existing budget.**
 - c. Complete the sale of bonds to prepay capital debt owed to San Francisco and implement monitoring and reporting measures to ensure proper management of bond proceeds.**
- 2. Review and discuss alternatives for managing the General Reserve balance at the March 2013 Board meeting, and consider taking actions at the May 2013 Board meeting in conjunction with the consideration and adoption of the FY 2013-14 budget.**

Prior Board Approved Budget Actions for FY 2012-13

Board authorized budget actions to date are as follows:

- A. On May 15, 2012 the Board approved the FY 2012-13 Operating Budget of \$2,585,504.**
- B. On July 19, 2012, the Board approved an increase to the Orrick contract of \$15,000, the funding for which was taken from the budgeted contingency, resulting in no change to the Operating Budget.**

- C. On September 20, 2012, the Board authorized the following budget actions which increased the Operating Budget by \$130,000, for a total Operating Budget of \$2,715,504:
1. Transfer \$130,000 from General Reserve to the Operating Budget to develop a Pilot Water Transfer Program:
 - a. CDM \$72,000 for technical support
 - b. Hanson Bridgett \$58,000 for legal support
 2. Transfer \$120,000 from General Reserve to pay Moody's and S&P to pay the costs of a preliminary credit assessment, provided the cost would be paid from bond proceeds if bonds were issued. The issuance of bonds now appears very likely, and this transfer is not expected to be needed. If bonds are issued, the money will remain in the General Reserve and the Operating Budget will not be increased by \$120,000.
 3. Amend Contract with Hanson Bridgett to add \$65,000 from the unspent balance of the Water Management Charge to complete re-programmed work on the Long-Term Reliable Water Supply Strategy. This transaction does not affect the Operating Budget or General Reserve Balance.

The existing budget for the Long-Term Reliable Water Supply Strategy remains sufficient to complete that study. The subscription water conservation programs are funded with revenues from participating member agencies.

Discussion:

The mid-year review included examining progress toward completing the Work Plan as adopted, and considering anticipated work that should be performed during the balance of this fiscal year. The relatively minor Work Plan modifications are presented in Table 1 (attached), which shows the progress on selected items and new results to be achieved this year.

Following Work Plan review, the budget review included estimating spending on ongoing programs through the end of this fiscal year, savings that are expected to result from completed or delayed activities and the resources needed to achieve any results not already reflected in the approved budget. Possible budget adjustments were then considered, as well as potential sources of funds: the Operating, the Long-Term Reliable Water Supply Strategy, subscription conservation programs, and the General Reserve.

This review provided an informed assessment of resources needed to complete the work envisioned for the balance of the year.

Overall Status of Results to be Achieved During FY 2012-13. The major items in the approved Work Plan are on schedule as of December 6, 2012. The priorities for several efforts have shifted during the summer and fall of 2012. The investigation of issuing bonds to save customers money led to Board approval for an expected issuance in January 2013. Resources were also devoted to protecting water customers against possible negative impacts of draining Hetch Hetchy.

These major efforts diverted time and resources from other efforts, such as initiating negotiation of amendments to the Water Supply Agreement (See items 5 a and b in Table 1, "Results to be Achieved in FY 2012-13"), and preliminary examination of Wholesale Customer interest and issues related to changes to wholesale water rate structures (See item 9 in Table 2, "Activities Not Included in Proposed Operating Budget for FY 2012-13").

In addition, the status or pace of work by outside entities, such as FERC, results in some activities needing fewer resources than originally estimated, at least in this year.

Work Plan Modifications and Proposed Budget Revisions. Table 1 presents the Board-approved Work Plan of results to be achieved during FY 2012-13, and highlights recommended revisions to the Work Plan. Explanations for the changes and budget reallocations appear below.

1. Consistent and defensible water supply planning. The Board-approved Work Plan for this fiscal year included selection of a consultant to prepare consistent and defensible water demand projections throughout the BAWSCA area (See item 1.c in Table 1). An RFP was released in October, and proposals have now been received. Once a consultant has been selected, work could begin this fiscal year, but would require Board authorization of the consultant contract and Board allocation of additional funding. This cost for this effort is expected to be large, and using a portion of the General Reserve balance may prove to be the best alternative for funding this one-time effort. No funds are requested at this time. A recommended schedule and possible actions will be brought to the Board Policy Committee in February 2013.
2. Potential additional subscription-based water conservation program. At the request of member agencies, BAWSCA is considering whether to pilot a new subscription water conservation program that would provide information to water customers, including their water use, how it compares to their neighbors' use, and options for reducing their use (See item 2.b in Table 1). Specifically, BAWSCA is examining companies that provide a turnkey service to develop and implement home water use reports. The program would be designed to increase water conservation with visually compelling, dynamically generated reports, or other similar behavior modification tools, for residential customers. The goal is to increase customer awareness of their individual and family water use, how it compares to peers, and to inform them of ways they can reduce water consumption and save money. Based on programs in other areas, reports for customers can be available in print, by email, and by online inquiry. The choice of format used could be at the discretion of the participating member agency. Such systems have demonstrated water savings of up to 5%. An RFP issued in January 2013 would permit selection of a vendor in February/March and initiation of a pilot program in July. Attachment A provides additional information on such programs.
3. Protect members' interests in a reliable water supply. Proponents of draining Hetch Hetchy Reservoir state they plan to continue their campaign to drain Hetch Hetchy Reservoir and reclaim Hetch Hetchy Valley even though San Francisco voters failed to pass their ballot measure this November. If successful, the resulting changes to the water system could affect the reliability, quality and cost of water. Even if not successful, the ongoing efforts create uncertainty for communities that would be affected but currently have no role in the decision making and no other means of protection.

BAWSCA intends to pursue its goal of protecting the water customers' interests by pursuing administrative or legislative protections (See item 4.a in Table 1 and item 4 in Table 2). Additional legal support can be provided within the existing contract for legal services; the lower than expected level of activity in the FERC process permits budget to be reallocated within the contract limit. Additional strategic counsel services may be needed, the level of which would depend on which approach needs to be taken. Additional support for an administrative solution can be funded within the CEO's discretionary spending limit of \$25,000 using funds from the contingency budget. If a larger effort is needed, a request for additional authorization could be brought to the Board in March.
4. Ongoing administration of the 2009 Water Supply Agreement. Work continues to resolve outstanding issues related to San Francisco's allocation of costs to Wholesale Customers. As usual, efforts are directed toward resolving issues within contractual deadlines. In the event that issues cannot be resolved, the Agreement provides for arbitration of disputes. If arbitration is pursued, resources beyond those available in the budget may need to be allocated to this effort (See item 7 in Table 1 and 11 in Table 2). The Board will be informed if and when this need arises.
5. Manage activities related to revenue bonds series 2013 A&B to prepay capital debt owed to San Francisco. None of the related activities this fall were included in the original Work Plan, and funding was authorized by the Board in September and November. Additions to the Work Plan include final preparations to issue bonds in January and pricing bonds at appropriate time to ensure the greatest savings to BAWSCA's member agencies. In addition, staff is making necessary administrative changes to maintain proper accounting transactions, records and reports; ensure timely continuing disclosure filing; monitor revenues collected by SFPUC and expenditures spent through the Trustee;

monitor San Francisco's expenditures of proceeds and the purposes or projects financed with such expenditures; and initiate other administrative actions needed to ensure smooth operation over the duration of the bond term (See item 8 in Table 1). These activities can be accommodated within the existing budget.

6. Postpone developing alternative wholesale rate structures that the SFPUC might consider. The original Work Plan did not budget resources for investigating alternative Wholesale Water Rates, or responding to changes in water rate structure that might be proposed by San Francisco (See Item 9 in Table 2). The Work Plan limited this activity to "developing goals and objectives relevant to Wholesale Customers, and facilitating communications with the SFPUC." Given the significant effort directed to preparing for issuance of bonds, no activity has taken place in this area, and none is expected for the balance of this fiscal year. In order to avoid being entirely reactive to ideas put forth by the SFPUC, it would be prudent to budget this work for next fiscal year and begin as soon as possible following July 2013.

Capacity to accommodate potential or unanticipated issues. As always, if potential or unanticipated issues arise during the Spring, they will be brought to the attention of the Committee and the Board with recommendations to further reallocate and/or augment existing resources, if necessary. Potential issues might include the following:

- a. Major legislative effort.
- b. Arbitration to address unresolved cost allocation issues.
- c. Allocation of resources if it is possible to begin work on the water demand projections this fiscal year.

If it were necessary to undertake any of these issues, work during FY 2012-13 would represent only the beginning of the effort. Each of these examples would involve continued work in FY 2013-14.

Budget modifications needed to complete work expected during FY 2012-13:

Minor budget reallocations are needed to complete work through the remainder of FY 2012-13 within the currently approved Operating Budget. None of the modifications require Board action. These modifications are as follows:

1. Reprogram a portion of the budget for legal services to cover the additional costs for preparing to issue bonds and the cost of developing an agreement with San Francisco or legislation to protect customers outside San Francisco from potential impacts of efforts to drain Hetch Hetchy Reservoir. A portion of the budget originally provided for participation in FERC relicensing can be reallocated for this purpose due to the slower than anticipated progress of those federal proceedings.
2. If necessary, increase the not-to-exceed contract limit for strategic counsel services to support developing an agreement with San Francisco or legislation to protect customers outside San Francisco from potential impacts of efforts to drain Hetch Hetchy Reservoir. The CEO has authority to amend the contract by up to \$25,000. If a greater effort and more resources are needed, the CEO would return to the Board in March with a request for Board consideration and action.

The balance of the General Reserve is sufficient to address all three of the potential issues listed at the end of the prior section. It does not make sense to budget for and commit portions of the General Reserve for those activities at this time. However, it does make sense to leave the General Reserve balance intact until Spring, when a more accurate assessment can be made of the agency's activities and resource needs.

Work Plan and Funding Alternatives Considered:

Last year's mid-year review identified significant activities and large expenditures to provide necessary resources. As a result, several Work Plan and funding alternatives were examined.

Given the items already anticipated in this year's work plan, the Work Plan and budget actions approved by the Board in September and November, and ability to perform the recommended work by reallocating portions of the existing budget, no alternatives were examined.

Projected Year-End Spending and General Reserve Balance as of July 1, 2013

With the proposed reallocation of funds, the current estimate of year-end spending at this time is that approximately 92% of the Operating Budget will be used by the end of the fiscal year.

This estimate is subject to inherent uncertainties. The “mid-year” assessment necessarily relies on accounting information from July through September plus partial information for October. In addition, there are inherent uncertainties in much of the work being undertaken or proposed, particularly in the areas of protecting water supply reliability.

Using the current estimate, the unspent funds at year-end would be approximately \$200,000. The following table shows approved and estimated adjustments to the General Reserve balance, and an estimate of the balance as of June 30, 2013.

\$917,000	General Reserve balance as of June 30, 2012
<u>+264,000</u>	<u>Unspent budget from FY 2011-12 to be deposited in General Reserve</u>
\$1,181,000	General Reserve balance following deposit
<u>-130,000</u>	<u>Approved use of General Reserve for Water Transfer Plan, Sept 2012</u>
\$1,051,000	General Reserve balance as of December 6, 2012
<u>\$200,000</u>	<u>Estimated unspent budget as of June 30, 2013</u>
\$1,251,000	Estimated General Reserve balance as of July 1, 2013

If next fiscal year’s Operating Budget were identical to this year’s original Operating Budget, \$2,585,000, the estimated General Reserve as of July 2013 would be equivalent to 48% of the FY 2013-14 Operating Budget, and would exceed the 35% guideline adopted by the Board in September 2011 by approximately \$346,000.

Alternatives that should be considered for managing the General Reserve balance include:

- a. Reducing assessments
- b. Refunding a portion of the excess
- c. Retaining sufficient funds to meet anticipated and highly likely one-time expenses that provide value for water customers.

Estimated costs of the potential activities listed in this memorandum are large enough to consume the entire excess of the General Reserve balance. At this time it would be prudent to postpone taking any action until it is clear how much funding these activities might require. It is recommended that further analysis and discussion of the General Reserve balance take place in the Spring of 2013 during development of the FY 2013-14 Work Plan and budget.

Regardless of whether the Board authorizes uses for the excess balance, a refund to member agencies, or a combination of the two, if the ongoing Operating Budget remains at current levels, the annual assessments should be reduced.

Attachments:

- 1. Table 1. Results to be Achieved in FY 2012-13: Changes and Progress
- 2. Table 2. Activities Not Included in Proposed Operating Budget for FY 2012-13

(This page intentionally left blank.)

Table 1. Results to be Achieved in FY 2012-13

Changes are **highlighted**, progress underlined and in brackets

RELIABLE SUPPLY -- WATER SUPPLY MANAGEMENT PROGRAM

1. Long-Term Supply Solutions: Ensure a reliable, high quality supply of water is available where and when needed.

- a. Reliable Water Supply Strategy – Complete Phase II A of the Long-Term Reliable Water Supply Strategy to ensure supply reliability through the year 2035, including evaluation of projects to pursue, present policy-decisions for board consideration, review and compilation of projected population and water demands from member agency UWMP. [Phase IIA of Strategy completed July 2012. Strategy on schedule to be completed by December 2014 with Board actions from Sept. 2012.]
- b. Drought Reliability – Pursue projects that would enhance near-term drought reliability for all agencies. [Initiated development of Plan for Pilot Water Transfer.]
- c. Consistent and Defendable Regional Planning – Select a uniform method for projecting future water needs of agencies for development in FY 2013-14. Application of the selected method would be included in the Work Plan for the following year. [RFP released in Oct. 2012. Consultant selection scheduled for January 2013. Work could begin as early as April 2013, which would require Board authorization of contract and additional funding.]

2. Near-term Supply Solutions: Water Conservation

- a. Implement Core Water Conservation Programs - Programs that benefit all customers. [Implementing all planned core programs]
- b. Implement Subscription Water Conservation Programs - Rebate and other programs that benefit, and are paid for by, agencies that subscribe for these services. [Implementing all planned subscription programs. Investigating potential pilot subscription program that would provide customers with water use information designed to promote water conservation. May issue RFP in January 2013.]

3. Facility Reliability: Monitor the SFPUC's Water System Improvement Program

- a. Monitor WSIP scope, cost, and schedule as San Francisco continues an aggressive construction schedule through 2015. Press the SFPUC and the city's political leadership to meet the city's adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. Focus resources from technical review to monitoring project and program performance during construction.

4. Protect Members' Interests in a Reliable Water Supply

- a. Proponents of draining Hetch Hetchy Reservoir – Assess risks associated with efforts to drain the reservoir and take actions needed to protect water supply reliability for water customers. Pursue agreement with San Francisco or legislation to protect customers outside SF. This will require additional resources available from within the existing budget.
- b. FERC – Ensure resources for legal and technical monitoring and intervention in the FERC Re-licensing of New Don Pedro Reservoir are sufficient to protect the customers' long-term interests in Tuolumne River water supplies. [Delayed. Less than expected activity this year.]
- c. MID/SFPUC water transfer – Protect members' water supply and financial interests. [Suspended. MID transfer terminated by MID.]

5. Take Actions to Protect Members' Water Supply Interests in the Administration of the 2009 Water Supply Agreement

- a. Pursue amendment of the Tier 1 drought allocation formula with SFPUC. [Work to be initiated late spring.]
- b. Amend the Water Supply agreement with San Francisco to revise the completion date for the WSIP. [Work to be initiated spring.]

6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts

- a. Implement use of Proposition 84 (Round 1) grant funds awarded for water conservation programs. [Grant funds were available for programs beginning July 1, 2012. BAWSCA working with grant administrator to secure grant reimbursements over the next three years.]
- b. NEW work plan item: Prepare new grant application for conservation funds through Prop 84 IRWMP Round 2. This grant application is due in early 2013. The potential grant request for BAWSCA is roughly \$590,000 for continuation of grant support.

FAIR PRICE

7. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement

Administer the Water Supply Agreement with San Francisco to protect interests of members and their customers in a fair price for water purchased from San Francisco. **Resolve conflicts with SF over cost allocation without arbitration if possible.**

8. Manage Activities Related to Revenue Bonds Series 2013 A&B to Prepay Capital Debt Owed to San Francisco

- a. **Price the bonds at appropriate time to ensure the greatest savings to BAWSCA's member agencies, maintain proper records and accounts, and ensure timely continuing disclosure filing.**
- b. **Monitor revenues collected by SFPUC and expenditures spent through the Trustee, and monitor San Francisco's expenditures of proceeds and the purposes or projects financed with such expenditures.**

HIGH QUALITY WATER

9. Support Member Agencies in Receiving Reliable Communication of Water Quality Events

Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs.

AGENCY EFFECTIVENESS

10. Maintain Community Allies and Contacts with Environmental Interests

- a. Maintain close relationships with BAWSCA's powerful allies (state legislators, business, labor, local government, water customers, and the media) and activate them if necessary to safeguard the health, safety and economic well-being of residents and communities. Respond to requests from local legislators. Maintain a dialogue with responsible environmental and other groups, who will participate in the project permitting and approval process for rebuilding the system.
- b. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants.

11. Manage the activities of the agency professionally and efficiently

Table 2: Activities Not Included in Proposed Operating Budget for FY 2012-13
[Highlighted activities have been or may be pursued to some degree in FY 2012-13]

Reliable Supply

1. Acquiring and wheeling water to respond to lesson drought reductions in FY 21012-13.
2. Conducting independent analysis of why water use has declined in recent years.
3. Engaging in extended or complex applications for grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council or other agencies.
4. Introducing new legislation or supporting/opposing legislation initiated by others. If needed, the agency could support major legislative efforts by redistributing resources, using the contingency budget or accessing the general reserve, subject to prior Board approval.
5. Evaluating how sub-metering of mobile home parks or multi-family dwellings could be implemented to encourage conservation.
6. Supporting agencies in forming alliances to comply with Senate Bill 7X (20% by 2020).
7. Estimating the volume of water savings that result from BAWSCA and local agency water conservation activities.

Fair Price

8. Evaluating potential economic or water supply impacts of State efforts to fix the Delta and other State water management projects.
9. Developing alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to development of goals and objectives relevant to Wholesale Customers, and facilitating communication with SFPUC.
10. Researching alternative retail rate structures that member agencies might consider to stabilize water rates and water revenues.
11. Arbitrating issues related to the 2009 Water Supply Agreement.

High Water Quality

12. Performing technical work related to water quality and San Francisco's treatment of the water it delivers to the BAWSCA agencies.
13. Advocating changes to water quality regulations or the manner in which San Francisco treats water for drinking and other purposes.

Agency Efficiency

14. Adding resources to support additional Board, Board committee or technical committee meetings.
15. Conducting tours of the Regional Water System. The Preliminary Operating Budget does not include funds to co-sponsor a tour by the California Water Education Foundation.
16. Conducting tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions.

(This page intentionally left blank.)

BAWSCA's Home Water Use Report Program

Question: What is BAWSCA looking for from the service provider?

At the request of member agencies, BAWSCA is proposing to pilot a new water conservation subscription program – the Home Water Use Report Program.

Specifically, BAWSCA would issue a Request for Proposals (RFP) to hire a contractor to provide a turnkey service to develop and implement a Home Water Use Report Program. The Program would offer a visually compelling, dynamically generated report or other similar behavior modification tool for residential customers. The contractor providing this service would be expected to employ expertise in behavioral science, direct marketing, data mining and dynamic reporting to implement the program. The reports, or similar behavioral tool or program, would make customized recommendations as measures selected and individualized for residents based on home characteristics, past conservation activity, season of the year and customer usage type. The Program and any proposed elements will be designed to increase water conservation.

The reports would be available in three potential formats: print, email, and for customer review in an on-line format. The choice of format used would be at the discretion of the participating BAWSCA member agency.

Based on discussions with member agencies and potential contractors, implementing this Program on a regional basis is expected to be more cost effective than implementing at the local agency level. BAWSCA is proposing to do an 18 month pilot of this program to confirm the costs, benefits, and cost-effectiveness. The RFP would be written such that the contractor selected for the pilot would be eligible to secure the contract for the full-scale program at BAWSCA's discretion.

Question: What will the agencies get or work with?

Agencies interested in participating in the Home Water Use Report Program would have access to a turnkey program that would allow them to offer customized water use reports to their residential water customers. Participating agencies would have the ability to specify the level of funding, the information provided to their customers, and the method of contact to their customers. Offering Home Water Use Reports to residential customers is a new way to expanding residential participation in available water conservation programs and achieving water conservation savings targets. For example, other agencies that have implemented similar types of programs have seen an additional 5% decrease on water demand that is attributed to such programs.

Question: What will the customers get or work with?

Through this program, targeted customers would receive customized Home Water Use Reports through one of several delivery methods (e.g. mail, email, online). These reports can include several things including: water consumption data; neighbor comparisons; personalized conservation recommendations related to available rebates and programs; and customized messaging and program promotion from water supplier. The goal is to increase customer awareness of their individual and family water use, in particular when compared to peers, and to motivate them in reducing water consumption and saving money.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Status Report on Bond Issuance to Prepay Capital Debt Owed to San Francisco**

Summary:

The objective of the potential bond issuance to prepay a capital debt the agencies owe San Francisco is to save BAWSCA's member agencies money. On November 15, 2012, the Board approved the issuance of the Bay Area Water Supply and Conservation Agency (BAWSCA) Revenue Bonds Series 2013A and Series 2013B (Taxable) in an amount not to exceed \$385 million with a term ending no later than December 31, 2034 on November 15, 2012. This report updates the Board on the status of the bond issuance to date.

Fiscal Impact:

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

Recommendation:

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

Discussion:

Full Participation by All BAWSCA Member Agencies. Each of the 26 BAWSCA member agencies documented that the agency elected to participate in the prepayment financing and authorized/designated one or more officials to make certifications and sign documents on behalf of the agency in connection with the closing of the bonds.

Prepayment and Collection Agreement with San Francisco (Agreement). The SFPUC approved the Agreement on December 11, 2012. San Francisco's Board of Supervisors (SFBOS) will consider the approval of the Agreement on January 29, 2013. The Agreement will become effective as soon as the Mayor signs within 10 days from the date of the SFBOS' approval, or become effective without the Mayor's concurrence 10 days after the SFBOS approves it. The Agreement documents San Francisco's collection of the surcharge as part of its water billing and sets forth other obligations of San Francisco in connection with the expenditure of bond proceeds and the administration of the surcharge.

Credit Ratings from Standard & Poor's and Moody's. BAWSCA's Revenue Bond Series 2013A and Series 2013B (Taxable) received a rating of AA- from S&P on January 8, 2013 and a rating of Aa3 from Moody's on January 10. They are the same ratings that San Francisco carries on its water revenue bonds. The BAWSCA Financing Team considers them high ratings for a new credit.

Bonds Pricing Schedule. Based on the current financing schedule, the pricing is anticipated to be completed on January 31, 2013, at which point BAWSCA and the underwriters will enter into a bond purchase contract. The pricing was originally scheduled for January 24. Because consideration of the Agreement by the San Francisco Finance Committee was delayed from January 9 to January 16, and the SFBOS' meeting of January 22 was canceled, the earliest the SFBOS can act on the Agreement is January 29. We currently plan to enter the market immediately thereafter. The municipal bond market is being closely monitored relative to expected supply and demand of municipal bonds and the impact of various federal activities involving deficit reduction and the federal debt limit. The final pricing schedule will depend on the market condition towards the end of January. If any indicators suggest the market will be better after January 31, the bonds may be priced in the first or the second week of February 2013. BAWSCA will report the final results to the Board as soon as possible following the sale.

Preparation of a Manual to Ensure Proper Accounting and Reporting in Progress. BAWSCA Staff met with the auditor and is currently in the process of developing a manual for surcharge rate-setting and debt administration during the term of the bonds. BAWSCA will monitor the revenues collected by the SFPUC as well as transfers to the Trustee, monitor SFPUC's expenditures of the proceeds and the purposes of projects financed with such expenditures, maintain proper records and accounts, ensure timely continuing disclosure filing, and comply with all applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt status of the bonds.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: SFPUC Water System Improvement Program (WSIP) – Status Report

Summary:

In 2003, the San Francisco Public Utilities Commission (SFPUC) initiated the Water System Improvement Program (WSIP). This \$4.6B program includes projects to improve water facilities inside San Francisco (\$1.3B) and 46 projects to improve the reliability of the Regional Water System (\$3.3B). A summary of the SFPUC’s progress in implementing the WSIP to date is presented below.

On December 21, 2012, the San Francisco Public Utilities Commission (SFPUC) issued a public notice for consideration of revisions to the WSIP as required by California Water Code. The revisions under consideration would: (1) increase the approved budget for the Calaveras Dam Replacement Project (CDRP) by \$117M from \$415.6M to \$532.6M, and (2) extend the completion date 25 months to August 31, 2018. BAWSCA is reviewing the proposed changes and will present findings at the January Board meeting. BAWSCA will submit comments to the Commission for its consideration on January 22nd.

Discussion:

The SFPUC began implementation of the WSIP in 2003. On behalf of the customers outside of San Francisco who will be paying for two-thirds of the regional program’s cost, BAWSCA has closely monitored the SFPUC’s implementation of the WSIP to ensure that the final program will meet the level of service goals and will be completed on time and within budget.

The current approved WSIP has a total budget of \$4,585.6M. The most recent WSIP Regional Projects Quarterly Report (SFPUC, Nov. 7, 2012) presents a forecast cost of completion of \$4,585.7M, or \$0.1M over budget. These numbers will change as a result of the recent Notice of Change as this cost includes an earlier forecast of costs associated with the CDRP.

Included in the WSIP are 46 regional projects with an approved budget of \$3,310.5M. These projects are in various stages of implementation: pre-construction; construction; close-out; and completed. Tables 1 and 2 below present the budget and schedule status for those projects in Pre-Construction and Construction respectively.

Table1: WSIP Regional Projects in Pre-Construction

Regional Projects (Project Value \$M)	Status	Forecast Budget Overrun		Forecast Schedule Overrun (days)
	(% complete)	(1000 \$)	(% of Budget)	
Projects in Pre-Construction (\$318M)				
1. Upper Alameda Creek Filter Gallery	10.8	-		-
2. San Antonio Backup Pipeline	20.7	1,486	3%	186
3. Peninsula Pipelines Seismic Upgrades	20.5	10,386	34%	-
4. Regional Groundwater Storage	22.3	-		42
5. Bioregional Habitat Restoration	42.2	8,164	9%	-

Table 2: WSIP Regional Projects in Construction

Regional Projects (Project Value \$M)	Status	Forecast Budget Overrun		Forecast Schedule Overrun (days)
	(% complete)	(1000 \$)	(% of Budget)	
Projects In Construction (\$2,470M)				
1. San Joaquin Pipeline System	88.5	6,457	3%	-
2. Tesla Treatment Facility	97.3	2,217	2%	334
3. New Irvington Tunnel	65	6,277	2%	5
4. Calaveras Dam Replacement	32.3	132,932	32%	761
5. SVWTP Expansion & TW Reservoir	84.7	6,595	5%	-
6. Seismic Upgrade of BDPL Nos. 3 & 4	21.7	-		63
7. BDPL Reliability – Tunnel	63.6	192	0.1%	-
8. BDPL Reliability – Pipeline	93.3	2,597	1%	-
9. BDPL Nos. 3 & 4 Crossovers	89.9	-		-
10. Pulgas – Dechloramination Mods	94.7	12	0.2%	-
11. HTWTP – Long Term Improvements	33.3	-		-
12. CS/SA Transmission Upgrade	63.4	-		28
13. CS Pipeline No. 2 Replacement	87.5	1,711	3%	-
14. System Security Upgrades	43.8	35	0.2%	-
15. Watershed Environmental Imp.	28.7	-		-

Table 3 identifies which regional WSIP projects are in close-out. As of the last WSIP Quarterly Report, 17 WSIP regional projects have been completed.

Table 3: WSIP Regional Projects in Close-Out

Regional Projects (Project Value \$M)	Status	Forecast Budget Overrun		Forecast Schedule Overrun (days)
	(% complete)	(1000 \$)	(% of Budget)	
Projects in Close-Out (\$250M)				
1. Lawrence Livermore Water Quality	99.8	-		467
2. Rehabilitation of Existing SJ Pipelines	97.7	-		-
3. Alameda Siphon #4	99.9	-		225
4. SCADA – Phase II	96.1	-		370
5. SFPUC/EBMUD Intertie	90.1	742	8%	334
6. Lower CS Dam Improvements	99.8	-		64
7. Pulgas – Structural & Roof	99.7	-		245
8. Baden & San Pedro Valve Lots	100	-		152
9. University Mound Res – North Basin	99.7	-		321

Background:

In 2002, Assembly Bill AB 1823 “The Wholesale Regional Water System Security and Reliability Act” was signed by the Governor requiring San Francisco to adopt a capital improvement program to ensure delivery of water following a major seismic event in the region, and to report changes to the program and progress implementation to the State.

On March 1, 2003, the San Francisco Public Utilities Commission adopted the WSIP, a multi-year capital program to upgrade the City of San Francisco’s regional and local drinking water systems. With an original budget of \$3.6B and today with a budget of \$4.6B, the WSIP is designed to cost-effectively meet water quality requirements, improve seismic and delivery reliability, and achieve water supply goals in accordance with adopted Level of Service Goals.

The WSIP consists of 35 local projects located within San Francisco and 46 regional projects spread over seven different counties from the Sierra foothills to San Francisco. Local projects only benefit San Francisco residents (retail customers) whereas regional projects benefit both the retail customers and the 26 wholesale agencies that receive water from the Regional Water System operated by SFPUC.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Fiscal Year 2013-14 Work Plan and Budget Preparation**

Summary:

The preliminary work plan for next fiscal year began by compiling a list of major challenges that BAWSCA, its member agencies, and their water customers will face next fiscal year and between now and 2015, 2020 and 2035. This long-term perspective helps anticipate and identify the results that must be achieved during FY 2013-14.

As in prior years, the preliminary budget will be developed to provide the resources needed to achieve necessary results. Emphasis is placed on the most vital results that need to be achieved in order to provide reliability and high quality water at a fair price. Activities that are secondary to those goals may be noted but are not incorporated into the budget.

A preliminary list of challenges appears in Table 1. Some of the challenges may affect BAWSCA or its members directly. Other challenges will have indirect, but nonetheless important consequences, and require action by BAWSCA to protect the interests of BAWSCA, its member agencies and their customers.

Some of the items listed are not locked to a specific year. While the schedules for those items may be shifted forward or backward, the changes should not be made arbitrarily.

Board Policy Committee Action:

This list of challenges were discussed with the Board Policy Committee to clarify issues and receive their advice prior to presenting it to the Board. The CEO raised the issue that BAWSCA employees do not contribute to Social Security, which can affect their future retirement benefits. The Committee concurred that the issue was worth examining and requested that additional information be provided in February.

Recommendation:

No Board action is required. Comments and questions from the Board would be helpful in preparing next year's budget.

(This page intentionally left blank.)

Table 1. Future Challenges Facing BAWSCA, Member Agencies and Their Customers

Year or Period	Major Challenges or Issues
FY 2013-14	<ul style="list-style-type: none"> • SFPUC relationships: Continue to develop and strengthen relationship with SFPUC General Manager, the Commission, and Mayor • Protect member interests related to the proposal to drain Hetch Hetchy Reservoir • Extension of sunset provision in AB1823, the Wholesale Regional Water System Security and Reliability Act, before December 2015 • Participate in the FERC process • Protect member agency interests in potential SFPUC dry-year water transfer (e.g. transfer with Oakdale Irrigation District) • Complete the development of uniform demand projections to support long-term planning • Pursue amendment of the Tier 1 drought allocation formula with SF
2014 to 2015	<ul style="list-style-type: none"> • Complete development of BAWSCA's Long-Term Reliable Water Supply Strategy • Implement Pilot Water Transfer with EBMUD • Additional drought protection should be brought on line to serve BAWSCA member agencies • New water supplies to meet future needs must be brought on line for agencies requiring additional water • Federal relicensing of New Don Pedro and possible impacts on SFPUC supplies (2015-16) • San Francisco elects Mayor in 2015
2016 to 2020	<ul style="list-style-type: none"> • San Francisco to make decisions on whether or not to make San Jose and Santa Clara permanent Wholesale Customers by 2018 • San Francisco to decide whether to provide more than 184 mgd to Wholesale Customers and whether or not to increase the perpetual Supply Assurance by 2018 • The Tier 2 drought allocation formula among BAWSCA member agencies expires and an extension or replacement must be negotiated by the end of 2018 • WSIP complete (July 2016) for everything but Calaveras Dam Replacement Project (August 2018) • San Francisco elects Mayor in 2019
2021 to 2035	<ul style="list-style-type: none"> • New water supplies to meet future needs must be brought on line for agencies requiring additional water • Water Supply Agreement expires and must be extended or renegotiated • San Francisco elects Mayor (2023, 2027, 2031, 2035)

(This page intentionally left blank.)

BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
DATE: January 11, 2013
FROM: Arthur R. Jensen, Chief Executive Officer
SUBJECT: Chief Executive Office/General Manager's Letter

Long-Term Reliable Water Supply Strategy

Work on completing BAWSCA's Strategy continues on target with a completion date of December 2014.

Recent technical activity includes the development and calibration of a regional groundwater model.

The collaborative work with EBMUD on the development of a Plan for a Short Term Water Transfer continues with a completion of the plan scheduled for this Spring.

Regional Water Demand and Conservation Projections

On October 23rd BAWSCA issued a Request for Proposals for the development of updated water demand and conservation projections for the BAWSCA member agencies. Three proposals were received with two firms invited to interview on January 8th. The current schedule anticipates requesting authority to negotiate and execute a contract with the selected firm at the March Board meeting.

FPPC Form 700

As a member of the Bay Area Water Supply and Conservation Agency (BAWSCA) and the San Francisco Bay Area Regional Water System Financing Authority (RFA) Boards of Directors, you are required to file an annual Statement of Economic Interest (FPPC Form 700).

The 2012-13 FPPC Form 700 are due on April 2, 2013. The forms were emailed to you on January 11, 2013, and can also be accessed at FPPC's website: <http://www.fppc.ca.gov/>.

Form 806: A recently adopted state regulations require cities to complete FPPC Form 806—Agency Report of Public Official Appointments, and post the completed form on the City's website. The Form 806 reports additional compensation (salary or stipend) that public officials receive from appointments to positions on committees, boards or commissions of a public agency; special district; or joint powers agency or authority.

Your City may contact BAWSCA for the information needed to complete this requirement.

Attachment

Board Policy Calendar

(This page intentionally left blank.)

Board of Directors Policy Calendar for FY 2012-13

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

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

(This page intentionally left blank.)

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

Meeting Schedule through December 2013

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

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

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

(This page intentionally left blank.)