



Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

February 13, 2013

1:30 p.m.

BAWSCA 1st Floor Conference Room – 155 Bovet Road, San Mateo, CA 94402

(Directions on page 2)

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page #</u>
1. <u>Call To Order, and Roll Call</u> Roster of Committee members (<i>Attachment</i>)	(Guzzetta)	Pg 3
2. <u>Comments by Chair</u>	(Guzzetta)	
3. <u>Public Comment</u> <i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Guzzetta)	
4. <u>Consent Calendar</u> A. Approval of Minutes from the December 12, 2012 meeting (<i>Attachment</i>)	(Guzzetta)	Pg 5
5. <u>Action Items</u> A. Professional Services Contract with Maddaus Water Management, Inc. to Prepare Regional Water Demand and Conservation Projections (<i>Attachment</i>) <u>Issue:</u> The FY 2012-13 Work Plan included selection of a consultant to prepare consistent and defensible water demand projections throughout the BAWSCA area. A consultant has been selected from an RFP released in October. <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> Recommend Board approval of the proposed Board action.	(Sandkulla/Dutton)	Pg 19
B. Proposed Fiscal Year 2013-14 Bond Surcharges (<i>Attachment</i>) <u>Issue:</u> How much will the surcharges be for FY 2013-14? <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> Recommend Board approval of the proposed Board action.	(Jensen/Tang)	Pg 23
C. Resolution Appointing John Ummel as Temporary Sr. Administrative Analyst Emeritus (<i>Attachment</i>)(<i>To be adopted by roll call vote</i>) <u>Issue:</u> BAWSCA continues to need Mr. Ummel’s services necessary for a smooth transition to his successor without jeopardizing BAWSCA’s ability to review and audit issues relative to the wholesale water purchase agreement with San Francisco. <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> Recommend Board approval of the proposed Board action.	(Jensen)	Pg 27

6. Discussion Items

- A. Preliminary Fiscal Year 2013-14 Work Plan and Budget (*Attachment*) (Jensen/Sandkulla) Pg 31

Issue: What critical results need to be achieved next year and what resources will be required?

Information to Committee: A memo and oral report on results that must be achieved in the FY 2013-14, and Preliminary Work Plan and Operating Budget Alternatives.

Committee Action Requested: Discussion of Preliminary Work Plan and Budget for FY 2013-14.

- B. BAWSCA 10th Year Anniversary (Jensen/Wendell)

Issue: What is the objective for the celebration of BAWSCA's 10-year Anniversary?

Information to Committee: Oral report.

Committee Action Requested: Comments and discussion.

7. Update and Reports (Jensen/Sandkulla)

- A. SFPUC Water Supply Improvement Program – SFPUC Response to BAWSCA Recommendations (*Attachment*) Pg 45
- B. Water Supply Agreement Amendment – Update on Agency Approval (*Attachment*) Pg 47
- C. Board Policy Calendar to January 2014 (*Attachment*) Pg 49

8. Comments by Committee Members (Guzzetta)

9. Adjournment to the next meeting on April 17, 2013 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo. (Guzzetta)

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All public records that relate to an open session item of a meeting of the Board Policy Committee 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 Port Room will be at the top of the stairs on the right, pass 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.



BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Committee Roster:

Rob Guzzetta, California Water Service Company (Chair)

Al Mendall, City of Hayward (Vice-Chair)

Randy Breault, City of Brisbane/GVMID (BAWSCA Vice-Chair)

Charlie Bronitsky, Estero MID

Larry Klein, City of Palo Alto

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

Tom Piccolotti, North Coast County Water District

Barbara Pierce, Redwood City

John Weed, Alameda County Water District

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

December, 2012 – 1:30 p.m.

BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room

MINUTES

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

Committee 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:

- 2. Comments by 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.
- 3. 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.”
- 4. Consent Calendar:** Approval of Minutes from the October 10, 2012 meeting and recommending Board approval to appoint a BAWSCA Representative and an Alternate to the ACWA/JPIA. .

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.

5. 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.

6. 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.

7. 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.

- 8. Adjournment:** The meeting was adjourned at 3:00pm. The next meeting is February 13, 2013.

Respectfully submitted,

Arthur R. Jensen, Chief Executive Officer and Secretary

ARJ/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – August 8, 2012

Roster of Attendees:

Committee Members Present

Larry Klein, City of Palo Alto (Chair)
Rob Guzzetta, California Water Service Company (Vice-Chair)
Robert Anderson, Purissima Hills Water District
Randy Breault, City of Brisbane/GVMID
Jamie McLeod, City of Santa Clara
Irene O’Connell, City of San Bruno (BAWSCA Vice-Chair)
Barbara Pierce, Redwood City (BAWSCA Chair)
John Weed, Alameda County Water District

Committee Members Absent

Ruben Abrica, City of East Palo Alto
Tom Piccolotti, North Coast County Water District

BAWSCA Staff:

Art Jensen	CEO/General Manager
Nicole Sandkulla	Water Resources Planning Manager
Anona Dutton	Water Resources Planner
Christina Tang	Sr. Administrative Analyst
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
David Brodsky	KNN Public Finance (by teleconference)

Public Attendees:

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

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Professional Services Contract with Maddaus Water Management, Inc. to Prepare Regional Water Demand and Conservation Projections**

Summary:

One of the key recommendations in the Strategy Phase IIA Report was that BAWSCA “Update the Water Demand and Conservation Projections for BAWSCA Member Agencies Using a Common Methodology”. This recommendation was adopted by the BAWSCA Board in September 2012 and has the unanimous support of the BAWSCA member agencies.

The adopted FY 2012-13 work plan includes the selection of a consultant to prepare consistent and defensible water demand and conservation projections throughout the BAWSCA area.

BAWSCA initiated a competitive selection process in October 2012 in which all of the BAWSCA member agencies were invited to participate. Through this process, Maddaus Water Management, Inc. (MWM) demonstrated that they were the most qualified and cost-effective firm to complete this Project. In order to complete the Project by July 2014, work will need to begin in April 2013.

Fiscal Impact:

A contract for a not-to-exceed amount of \$365,000 is recommended to complete this Project. While the consultant selection processes for this Project was included in the adopted FY 2012-13 work plan, no budget was included for this work. It was anticipated that a funding request would be brought forward if the work could be initiated in Spring 2013. Proposed funding for this Project is as follows:

- \$65,000 for work done in FY 2012-13 funded from the BAWSCA General Reserve; and
- \$300,000 for work done in FY 2013-14 as part of the FY 2013-14 budget, but with funding from the General Reserve.

BAWSCA has worked very closely with MWM to refine the scope of work and budget for this Project to produce robust and defensible results, while still remaining very cost-effective. The per-model cost for this Project will be approximately \$12,600. By comparison, if an individual agency were to undertake a similar effort to develop a robust water demand and conservation projection model and associated report, it would typically cost \$50,000 to \$150,000, depending on that agency’s size and complexity.

Recommendation:

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

- Authorize the CEO to negotiate and execute a contract with MWM for \$365,000 to provide technical support for the development of Regional Water Demand and Conservation Projections;
- Authorize a transfer of \$65,000 from the BAWSCA General Reserve to fund work performed in FY 2012-13; and
- Include \$300,000 in the proposed work plan for FY 2013-14, with funding from the General Reserve.

Discussion:

In September 2012 the BAWSCA Board unanimously approved the following three recommendations that were presented in the Strategy Phase II A Report:

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

Updating the water demand and conservation projections for the BAWSCA member agencies using a common methodology was supported by the BAWSCA Board because:

- A more robust and consistent water demand and conservation projection methodology for the BAWSCA member agencies as a whole is necessary for effective planning at the regional level to support future local and regional investment decisions.
- Preparing updated water demand and conservation projections in advance of December 2014 will enable the agencies to use these demand estimates for their 2015 Urban Water Management Plans (UWMPs) and 20 by 2020 assessments. This will increase the level of consistency in regional planning among the BAWSCA member agencies and streamline their 2015 UWMP development process.

The Board's adopted FY 2012-13 work plan included the selection of a projection methodology and consultant associated with Recommendation #3, Update the Water Demand and Conservation Projections for BAWSCA Member Agencies Using a Common Methodology. At the time the Board adopted the FY 2012-13 work plan, it was anticipated that a request for the necessary resources to initiate the Project would be brought to the Board for consideration and action in Spring 2013.

Consultant Selection Process

On October 23, 2012 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 and two firms were invited to interview on January 8, 2013. The BAWSCA member agencies were included in the consultant selection process as part of an advisory panel that reviewed a summary of the proposals and observed a presentation by the proposing consultants. In addition, representatives from Alameda County Water District and the City of Mountain View served on the BAWSCA selection panel. Based on the proposals, the consultant presentations and interviews, and considering the input of the participating member agencies, the BAWSCA selection panel unanimously concluded that MWM had demonstrated that they were the most qualified and cost-effective firm to complete this Project, and recommended the selection of MWM for this work.

MWM has worked with BAWSCA and the member agencies on multiple occasions to develop regional water demand and conservation projections (e.g., all of the prior BAWSCA regional demand studies cited below in the Background section of this memo). They have a high degree of institutional knowledge regarding BAWSCA, the member agencies, and the BAWSCA Water Conservation Database. MWM also already has much of the key agency data that will be needed for this Project, which will reduce the coordination and data gathering demands on the agencies and BAWSCA.

Another key to the success of MWM's proposal was the release of their updated model for projecting water demand and conservation potentials. The user-interface of the model has been designed to increase the usability of the model, and new features like the tracking tool have been added that will

give agencies the ability to calculate the actual water savings from the conservation activities they have completed. In its updated form, the model will provide lasting value to the member agencies as a tool they can use for robust future water supply planning and for documentation of actual versus planned conservation efforts and water savings.

Agency staff were particularly impressed with the sample results produced by the model and the much-improved user interface.

Scope of Work and Schedule

The proposed Scope of Work for this Project includes:

- Task 1: Data Collection and Verification
- Task 2: Baseline and Future Water Demand Analysis (Including Econometric Modeling)
- Task 3: Water Conservation Analysis (Measure Selection and Program Design)
- Task 4: Agency Coordination
- Task 5: Deliverables (3 Technical Memoranda, Final Report, 29 Models, and a Model User Guide)
- Task 6: Project Management
- Task 7: Individual Agency Option to Pay for Additional Model Development and Support

Based on the level of effort needed to complete this Project, the work will extend over 15 months. The completion of this Project by July 2014 is critical to the development of the Final Strategy Report by December 2014. As such, work on this Project must be initiated as soon as possible (i.e., April 2013). Initiating the work in 2013 will also ensure that the BAWSCA agencies have updated water demand and conservation data to support the development of their 2015 UWMPs.

Alternatives to the Recommended Action:

The following alternatives to the recommended actions have been considered:

- Alternative #1: Support the Recommended Actions. An expedited start on the Project will ensure that the updated demand and conservation data are available in time to support the development of the Final Strategy and the Agencies' 2015 UWMPs. **This alternative is recommended.**
- Alternative #2: Reduce the Scope of the Project. In order to reduce the cost of the Project, the Board could opt to remove the individual agency calibration step that is currently included as part of econometric modeling in Task 2. The current scope of the econometric modeling includes evaluating each agencies' historical water use data and quantifying the impacts of weather, economy, price, and conservation on historical water use patterns. By quantifying the impacts of these factors, one can better evaluate how changes or trends in these factors will impact future water use. Eliminating this step would save \$75,000, but would greatly increase the uncertainty associated with the baseline water demands and future water demand projections. *This alternative is not recommended.*
- Alternative #3: Do Not Move Forward With the Recommended Project and Schedule. The development of updated demand and conservation projections for the BAWSCA member agencies using a common methodology was recommended by the BAWSCA Board in 2012 to support effective planning at the regional level and future local and regional investment decisions. In order to complete this Project in time to support the Strategy and the Agency 2015 UWMPs, the work would have to start in April 2013. If the Project is not approved, or the Project start is delayed until July 2013, then the Strategy may not be sufficiently robust to support future decision making or environmental scrutiny, and/or the completion of the Strategy would have to be delayed. *This alternative is not recommended.*

Background:

BAWSCA is currently developing the Long-Term Reliable Water Supply Strategy (Strategy) which is designed to quantify the water needs of the BAWSCA region and identify and implement projects to meet that need. In order to effectively quantify the water supply need, BAWSCA needs to have a reliable means to quantify the water demands and conservation potential for each individual BAWSCA member agency and for the BAWSCA region as a whole.

Most of the BAWSCA member agencies recently developed individual 2010 UWMPs, which were submitted to the California Department of Water Resources (DWR) as required by the Urban Water Management Planning Act. The member agencies' UWMPs relied on multiple projection methods with different levels of refinement regarding their demand and conservation estimates and included different basis for land use and population projections, among other differences. The results are not easily combined for regional planning, as there are different forms of input and output. These differences create a large potential for error when compiling the individual UWMP results to represent regional water demand and conservation estimates.

Other efforts have been successfully conducted in the past related to developing regional demand and conservation projections for the BAWSCA region, including:

- San Francisco Public Utilities Commission (SFPUC) Wholesale Customer Water Demand Projections – URS, November 2004
- SFPUC Wholesale Customer Water Conservation Potential - URS, December 2004;
- Projected Water Usage for BAWSCA Agencies – Brown and Caldwell, November 2006; and
- BAWSCA Water Conservation Implementation Plan – Maddaus Water Management, September 2009.

BAWSCA has worked very closely with MWM refine the scope of work and budget to produce robust and defensible results, while still remaining very cost-effective. The per-model cost for this Project will be approximately \$12,600. By comparison, if an individual agency were to undertake a similar effort to develop a robust water demand and conservation projection model and associated report, it would typically cost \$50,000 to \$150,000, depending on that agency's size and complexity. When San Francisco did this work on behalf of the BAWSCA agencies in 2004, the per-agency model cost was roughly \$24,100 (i.e., a total project cost of \$675,000).

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Proposed Fiscal Year 2013-14 Bond Surcharges**

Summary:

This memorandum presents the proposed bond surcharges for each agency for FY 2013-14. The surcharge would go into effect at the beginning July 2013.

BAWSCA's Revenue Bond Series 2013A and Series 2013B (Taxable) were issued to prepay the existing asset payments that the agencies owe San Francisco. The bond transaction and the prepayment program will generate approximately \$62.3 million in net present value savings over the term of the bonds, or about 17% of the \$356.1 million in principal to be prepaid from bond proceeds upon closing at the end of this month. The existing asset payments to San Francisco would stop at the end of June 2013.

From the total proceeds, \$356.1 million will be used to prepay the capital debt, and the rest of proceeds will be used to fund a stabilization reserve, interest on the bonds through October 1, 2013, and the costs of bond issuance.

Recommendation:

That the Committee recommends Board approval of the proposed bond surcharges presented in this memorandum.

Discussion:

The surcharge for each member agency is a fixed amount each year. The annual surcharges for FY 2013-14 are calculated by multiplying the debt service in FY 2013-14 by each agency's percentage of total wholesale customer purchases in FY 2011-12. One-twelfth of the annual surcharge, or the monthly surcharge, will be included in the first water bill from San Francisco sent to the agencies each month. In the following year, when the actual percentage of water purchases in FY 2013-14 is known, there will be a "true up" adjustment to reflect each agency's actual percentage of water purchases. This surcharge setting conforms to BAWSCA's Revenue Bond Indenture.

The proposed FY 2013-14 bond surcharge for each agency is shown in the table on the next page.

In future years, the surcharges may include the costs incurred in connection with the bond administration, which includes the fees to Bank of New York for its Trustee services and the costs of legal and financial analyst support. Pursuant to the Prepayment and Collection Agreement between BAWSCA and San Francisco, future surcharges may also include reimbursement of specific expenses incurred by San Francisco for compliance with tax-exempt regulations. Such costs are estimated to be no more than \$30,000 a year, which represents 0.12% of the average annual debt service of the bonds.

Attachments:

Copy of January 31st email to BAWSCA member agencies

Proposed FY2013-14 Bond Surcharges

Agency	FY 2011-12			FY 2013-14		
	Actual Purchase		% of Total	Debt Service	Annual Surcharge	Monthly Surcharge
	Ccf	MGD	%	Dollars	Dollars	Dollars
Alameda County WD	3,953,054	8.1	5.6%	24,674,815	1,381,008	115,084
Brisbane Water	146,864	0.3	0.2%		51,307	4,276
Burlingame	2,033,598	4.2	2.9%		710,442	59,203
Coastside County WD	805,646	1.7	1.1%		281,454	23,455
CWS - Bear Gulch	5,718,548	11.7	8.1%		1,997,787	166,482
CWS - Mid Peninsula	6,920,917	14.2	9.8%		2,417,837	201,486
CWS - South SF	3,442,422	7.1	4.9%		1,202,618	100,218
Daly City	1,766,549	3.6	2.5%		617,148	51,429
East Palo Alto WD	951,828	2.0	1.3%		332,523	27,710
Estero Municipal ID	1,982,291	4.1	2.8%		692,518	57,710
Guadalupe Valley	134,774	0.3	0.2%		47,084	3,924
Hayward	7,610,980	15.6	10.8%		2,658,912	221,576
Hillsborough	1,580,907	3.2	2.2%		552,293	46,024
Menlo Park	1,571,927	3.2	2.2%		549,156	45,763
Mid Pen WD	1,431,471	2.9	2.0%		500,087	41,674
Millbrae	1,034,254	2.1	1.5%		361,319	30,110
Milpitas	3,027,111	6.2	4.3%		1,057,528	88,127
Mountain View	4,273,100	8.8	6.0%		1,492,817	124,401
North Coast WD	1,437,044	2.9	2.0%		502,034	41,836
Palo Alto	5,561,559	11.4	7.9%		1,942,943	161,912
Purissima Hills WD	899,221	1.8	1.3%		314,145	26,179
Redwood City	4,420,594	9.1	6.3%		1,544,344	128,695
San Bruno	975,233	2.0	1.4%		340,700	28,392
San Jose (North)	2,138,714	4.4	3.0%		747,164	62,264
Santa Clara	913,159	1.9	1.3%		319,014	26,585
Stanford University	1,051,794	2.2	1.5%		367,446	30,621
Sunnyvale	4,406,804	9.0	6.2%		1,539,526	128,294
Westborough WD	<u>439,846</u>	<u>0.9</u>	<u>0.6%</u>		<u>153,661</u>	<u>12,805</u>
Totals	70,630,209	144.7	100%	24,674,815	2,056,235	

TO: BAWSCA Board Members
Agency Appointed Financial Representatives

CC BAWSCA Financing Team, Water Management Representatives

FROM: Art Jensen, CEO/General Manager

DATE: January 31, 2013

SUBJECT: Results of BAWSCA Revenue Bonds Sale

I am extremely pleased to report that the pricing of BAWSCA's Revenue Bond Series 2013A and Series 2013B (Taxable) was completed today as planned.

The bond transaction and the payment program will generate approximately \$ 62.3 million in net present value savings over the term of the bonds, or about 17% of the outstanding debt expected to be prepaid. These savings are significantly larger than our pre-market conservative estimates for a variety of reasons, including structural details, aggressive marketing and favorable market conditions.

The total bonds were issued in par amount of \$335.8 million at a blended interest rate of 3.14%. The blended interest rate reflects the 3.03% average interest rate on the Series 2013A tax-exempt bonds and the 3.46% average interest rate on the Series 2013B taxable bonds.

Among the total proceeds, \$356.1 million will be used to prepay the capital debt that the agencies owe San Francisco, and the rest of proceeds will be used to fund a stabilization reserve, interest on the bonds until surcharges are collected, and the costs of bond issuance.

The final bond structure is shown below: *(if you are unable to see the table, please see the attached PDF)*

		In Millions
Bond Proceeds	Total Par Amount	\$335.8
	Premium	\$42.4
	Total Proceeds	\$378.2
Prepayment Funds	Tax-Exempt Proceeds	\$269.6
	Taxable Proceeds	\$86.5
	Total Proceeds Paid to SFPUC	\$356.1
Capitalized Interest	Interest Funded by Proceeds	\$8.0
Cost of Issuance	Cost of Issuance (From Bond Proceeds)	\$1.8
Reserves	Stabilization Fund (From Bond Proceeds)	\$12.3
Savings	PV Savings for All Members over Bond term	\$62.3
Term	Term of Bonds	Through 2034

This is an important achievement for the agency, its members and their customers. I congratulate the Board for its role in obtaining this result and BAWSCA's member agencies for their unanimous participation. Of course the real beneficiaries will be the water customers, who ultimately benefit from the incremental savings through future water rates.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Item: **Resolution Appointing John Ummel as Temporary Senior Administrative Analyst Emeritus**

Summary:

As required by PERS, Board findings are required before John Ummel, retired from BAWSCA, can be reappointed to the temporary position of Senior Administrative Analyst Emeritus to provide BAWSCA with essential services.

Fiscal Impact:

Funds are available for FY 2012-13. The proposed FY 2013-14 budget will include the expected necessary funding.

Recommendation:

That the Board Policy Committee recommend Board adoption of the attached resolution approving the reappointment of John Ummel to the temporary position of Senior Administrative Analyst Emeritus, and making associated findings in support of such an appointment.

Discussion:

Although John Ummel has retired from BAWSCA, his services continue to be necessary in order to effect a smooth transition to his successor, without jeopardizing BAWSCA's ability to review and audit issues relative to the wholesale water purchase agreement with San Francisco.

The California Government Code allows the temporary employment of a PERS covered retiree only under specified conditions, and only if the person works no more than 960 hours per fiscal year. The attached resolution includes findings that the Board must adopt in order for the CEO to appoint John Ummel to a temporary position for no longer than one year in compliance with all legal requirements.

Attachments:

1. Resolution for the temporary appointment of John Ummel as Senior Administrative Analyst Emeritus.

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RESOLUTION NO. 2013-____
BY THE BOARD OF DIRECTORS OF THE
BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

TEMPORARY APPOINTMENT OF JOHN UMMEL
AS SENIOR ADMINISTRATIVE ANALYST EMERITUS

WHEREAS, the Bay Area Water Supply and Conservation Agency ("BAWSCA") is organized and established pursuant to the Bay Area Water Supply and Conservation Agency Act, Water Code section 81300, et seq. (the "Act"); and

WHEREAS, section 81408 of the Act authorizes the Board of Directors of BAWSCA (the "Board") to (i) employ employees that it determines are necessary or convenient to operate BAWSCA, and (ii) delegate that authority to the Chief Executive Officer and General Manager of BAWSCA (the "Chief Executive Officer") with respect to the employment of additional employees; and

WHEREAS, the Chief Executive Officer wishes to temporarily appoint John Ummel (the "Appointee") to the position of Senior Administrative Analyst Emeritus; and

WHEREAS, the Appointee is a retired annuitant entitled to receive retirement benefit payments under the California Public Employees' Retirement System ("PERS"), which benefits he accrued based on service with one or more PERS-covered agencies; and

WHEREAS, BAWSCA contracts with PERS to provide retirement benefits to its eligible employees; and

WHEREAS, the California Government Code ("Code") generally requires that a retired PERS annuitant be reinstated to active PERS membership upon employment by a PERS-covered agency, unless he is temporarily appointed by the agency's appointing authority under section 21224 of the Code, which exempts a retired PERS annuitant from the reinstatement requirement if (i) he is temporarily appointed because he ". . . has specialized skills needed in performing work of limited duration," (ii) he works no more than 960 hours per fiscal year for all PERS-covered employers, (iii) his rate of pay is neither less than nor more than that paid by the agency to any of its other employees who perform comparable duties, and (iv) he has not received unemployment compensation arising out of any prior employment subject to these requirements with the same employer during the 12-month period preceding his appointment; and

WHEREAS, the Board has determined that the Appointee has the skills needed in performing work as Senior Administrative Analyst Emeritus for a limited term of no more than one year and intends that his appointment to that position for such term meet this and all other applicable requirements of section 21224 of the Code.

NOW THEREFORE BE IT RESOLVED, that subject to BAWSCA's customary employment practices and the specific terms and conditions of any offer of employment by BAWSCA to the Appointee in connection therewith, the Board hereby approves the appointment of the Appointee to the position of Senior Administrative Analyst Emeritus for up to a one-year term, effective upon appropriate action by the Chief Executive Officer; and

RESOLVED FURTHER, that in accordance with section 21224 of the Code:

1. the Board finds and declares that the that the Appointee possesses extensive, highly specialized skills and experience needed to continue to effect a smooth transition to his successor, without jeopardizing BAWSCA's ability to review and audit issues relative to the wholesale water purchase agreement with San Francisco;
2. the Appointee's appointment to the position of Senior Administrative Analyst Emeritus will not exceed 960 hours in any fiscal year for all PERS-covered agencies;
3. the Appointee's rate of pay as Senior Administrative Analyst Emeritus will be neither less than nor more than that of any of BAWSCA's other employees who perform comparable duties;
4. the Appointee has not received any unemployment compensation arising out of his prior employment with BAWSCA during the 12-month period preceding his appointment; and
5. subject to BAWSCA's customary employment practices, including "at-will" employment, the appointment of Appointee as Senior Administrative Analyst Emeritus will continue only until the earlier of: (i) the end of the appointment's one-year term, or (ii) termination of the Appointee's employment by either BAWSCA or the Appointee for any other reason.

FURTHER RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute all documents and take all other actions necessary or advisable to effect the purposes of this resolution.

PASSED AND ADOPTED this ___ day of _____, 2013, by the following vote:

AYES:

NOES:

ABSENT:

Chair, Board of Directors
Bay Area Water Supply and
Conservation Agency

ATTEST:

Secretary

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

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

Summary:

This memorandum presents the preliminary results to be achieved, a preliminary Operating Budget estimate, a preliminary assessment of how the work could be funded, and specific budget issues requiring input from the Committee before the Preliminary Budget can be presented to the Board of Directors. As was done last year, this memorandum summarizes the major conclusions, and places additional detail in appendices at the end.

The preliminary Work Plan remains aligned with BAWSCA's legislated authority and its three goals: a reliable supply of high quality water at a fair price.

This memorandum presents four alternatives for initial consideration, including a recommended alternative. The alternatives differ in terms of which items are included in the Work Plan and what resources are used to achieve results. One alternative results in three positions being allocated a total of 8,871 hours, equivalent to over 4.5 Full Time Equivalents (FTE). A second alternative eliminates elements of the Work Plan to reflect existing staff resources. The remaining two alternatives present ways to provide additional resources to achieve the full Work Plan. The advantages and disadvantages of each alternative are presented.

The recommended alternative (Alternative 3) requires hiring a junior-level staff person and is the lowest cost alternative for completing the full Work Plan. Challenges which the agency must address over at least the next five years or more, demonstrate the position would continue to be fully utilized.

The preliminary estimate for the next year's Operating Budget associated with the recommended Alternative 3 is \$3,118,705. Work of a short-term nature could be funded using the General Reserve. The ongoing level of expenditures could be funded without increasing assessments for the fifth year in a row. A detailed analysis of managing the General Reserve balance will be presented at the Committee meeting.

Recommendation:

That the Board Policy Committee provide:

- 1) Comments and suggestions concerning the results to be achieved, the preliminary Operating Budget estimate, the recommended alternative, and alternatives for funding the budget and managing the General Reserve; and**
- 2) Suggestions concerning presentation of the preliminary budget to the Board of Directors in March.**

Preliminary Work Plan:

Next year's preliminary Work Plan addresses all of the ten forward-looking issues discussed with the Board Policy Committee in December and with the Board in January.

Major efforts included in the Work Plan and that affect the Operating Budget are:

- Ongoing oversight of the San Francisco's WSIP
- Pursuing legislation to extend State oversight of San Francisco's progress implementing the WSIP
- Administering BAWSCA's bonds during the first year of the surcharge and bond payments
- Actively participating in the relicensing of New Don Pedro Reservoir to protect regional water supplies
- Completing the development of updated water demand projections
- Completing the Long-Term Reliable Water Supply Strategy
- Completing initial actions to improve drought reliability.

Table 1 lists all of the major results to be achieved. The activities are grouped according to the agency goals they support.

Table 2 lists the items that are not included in the preliminary budget. Any of these items could be added at a later date, if needed.

Reduced Schedule Flexibility: During the past two years it has been possible to defer action on some work because deadlines were more distant. The flexibility in deadlines no longer exists in the following areas:

- Continued oversight of the WSIP is vital during the completion of projects and activities related to achieving Levels of Service goals.
- Legislation to extend State oversight of the WSIP must be introduced and passed during FY 2013-14 or the existing sunset clause would take effect January 1, 2015.
- The SFPUC has developed an ongoing Capital Improvement Program to follow completion of the WSIP. Review and comment, particularly at the initial stage, is vital to ensure that only value-added projects are pursued and that critical capital investments are not deferred.
- FERC will complete the relicensing of New Don Pedro Reservoir by 2016. Review and production of documents and testimony will begin this calendar year.
- Updated regional water demand projections are needed to complete the Long-Term Reliable Water Supply Strategy on schedule, and for input to agency Urban Water Management Plans in 2015.
- Regional conservation programs provide effective programs at reduced cost to members, and enable agencies to leverage the effectiveness of their existing staff.
- Coordinated support for current and future Integrated Regional Water Management Plan (IRWMP) grant funds enable member agencies to fund conservation and recycling projects that might otherwise be infeasible.

Long-term Budgeting Implications: Many of these activities will extend for five or more years, and others will be replaced with other activities between now and 2018 to 2020.

BAWSCA's oversight of the WSIP will extend to 2016, when most of the projects are completed, and to 2018 when the Calaveras Dam project is completed. BAWSCA's input to, and oversight of the SFPUC's ongoing CIP will continue indefinitely, as it did prior to 1995.

The FERC relicensing work will continue at least through 2016, assuming the deadline is not extended by FERC, and that opponents to the license do not initiate legal action.

In 2018, the SFPUC must make decisions related to future supply of water to all Wholesale Customers, as well as to San Jose and Santa Clara. Also in 2018, the agreement among Wholesale Customers for allocating SFPUC water during drought will expire and will need to be renegotiated. Prior to 2018, significant efforts will need to begin to examine these decisions, evaluate alternatives and represent the interests of member agencies in the decisions made by San Francisco. BAWSCA should also expect to facilitate the development of the drought allocation agreement, as BAWSCA has, twice before.

Budget Assumptions: The list of results to be achieved and the preliminary budget assume the Board authorizes the consultant contract to begin development of updated water demand projections at the March 21, 2013 Board meeting.

One item specifically not included in the preliminary Work Plan or preliminary Operating Budget is any work associated with implementation of a short-term pilot water transfer with East Bay Municipal District (EBMUD) in FY 2013-14 or FY 2014-15. Given current hydrologic conditions and available water supplies, neither SFPUC nor EBMUD anticipate mandatory drought cutbacks. Water supply conditions will be reviewed as part of the FY 2013-14 mid-year budget discussions (December 2013/January 2014) allowing sufficient time to increase resources in Spring 2014 if next winter is so dry that the SFPUC's supplies would be insufficient to meet agency needs.

Other budget details, assumptions associated with COLA adjustments, and historical budget information, are included in the appendices to this memo.

Table 1. Results to be Achieved in FY 2013-14

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 – Continue work to complete Strategy by December 2014. Work will include groundwater supply evaluation, evaluation of project portfolios to meet updated supply needs, and the presentation of policy decisions for board consideration including drought level of service.
 - b. Drought Reliability – Pursue planning for projects that would enhance near-term drought reliability for all agencies. Implementation of a pilot water transfer is not included but would be reviewed in December 2013 as part of mid-year budget review.
 - c. Consistent and Defendable Regional Planning – Develop updated water demand projections, estimates of current conservation savings, and identification of conservation savings potentials for each BAWSCA member agency through 2040 using a uniform method.
- 2. Near-term Supply Solutions: Water Conservation**
 - a. Implement Core Water Conservation Programs - Programs that benefit all customers.
 - b. Implement Subscription Water Conservation Programs - Rebate and other programs that benefit, and are paid for by, agencies that subscribe for these services.
- 3. Facility Reliability: Monitor the SFPUC's Water System Improvement Program/10-Year Capital 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 on monitoring project and program performance during construction.
 - b. Pursue legislation to modify current sunset clause and extend State oversight on WSIP implementation
 - c. Review and monitor SFPUC's Regional 10-Year Capital Improvement Program to ensure that identified projects and programs meet the needs of the BAWSCA member agencies in a cost-effective and appropriate manner. Some of the consultant resources currently being utilized as part of BAWSCA's WSIP review will aid in this effort.
- 4. Protect Members' Interests in a Reliable Water Supply**
 - a. Proponents of draining Hetch Hetchy Reservoir – Continue to assess potential significance and risks associated with “legal and congressional” actions that might be taken by proponents.
 - 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.
 - c. SFPUC water transfer – Protect members' water supply and financial interests as SFPUC continues to pursue securing a water transfer to meet WSIP LOS goals.
- 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.

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

- a. Implement use of Proposition 84 grant funds awarded for water conservation programs.
- b. Secure new Proposition 84 Round 2 grant funds as appropriate for water conservation programs.
- c. Investigate the potential for additional grant funds to support the implementation of the Strategy.

7. Reporting and Tracking of Water Supply and Conservation Activities

- a. BAWSCA Annual Survey
- b. BAWSCA Annual Water Conservation Report
- c. Water Conservation Database

FAIR PRICE

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

- a. 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.
- b. Administer bonds issued by BAWSCA to retire capital debt owed to San Francisco.
- c. Coordinate input to goals and objectives for future examination of alternative wholesale water rate structures and potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues.

HIGH QUALITY WATER

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

- a. Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs.
- b. Review and act on, if necessary, State legislation affecting water quality regulations.

AGENCY EFFECTIVENESS

10. Maintain Community Allies and Contacts with Environmental Interests

- c. 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.
- a. 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 2013-14

Reliable Supply

1. Implementing a pilot water transfer with EBMUD in FY 2013-14 or FY 2014-15.
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 major 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.

Fair Price

5. Evaluating potential economic or water supply impacts of State efforts to fix the Delta and other State water management projects.
6. Developing alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to facilitating communication with SFPUC, development of goals and objectives relevant to Wholesale Customers, and addressing the potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues.
7. Arbitrating issues related to the 2009 Water Supply Agreement.

High Water Quality

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

Agency Efficiency

10. Adding resources to support additional Board, Board committee or technical committee meetings.
11. Conducting tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions, *other than through co-sponsoring tours with San Francisco.*

Work Plan and Budget Alternatives Examined

In developing the preliminary Operating Budget, a level of staff effort (in hours) and consultant effort (in dollars) was developed for each Work Plan item. When completed, the resulting staff loads were examined to evaluate the availability and allocation of staff resources to achieve the Work Plan.

The initial evaluation of the resources necessary to achieve the preliminary Work Plan showed that three staff positions were allocated hours at significantly in excess of a Full Time Equivalent (FTE):

- CEO/General Manager budgeted at 150% of an FTE.
- Water Resources Planning Manager budgeted at 164% of an FTE; and
- Water Resources Planner budgeted at 148% of an FTE.

Combined, this represents budgeted workload of 4.5 FTE for these three existing positions. This level of staff loading is infeasible and is not recommended. Reductions to the Work Plan and alternative resources were examined to resolve this problem.

The following four alternatives were evaluated:

Alternative 1: The Initial Work Plan and Operating Budget (Infeasible staff loading)

Alternative 2: Reduced Work Plan (Balanced staff loading)

Alternative 3: New Junior Level Staff Position (Balanced staff loading) -- RECOMMENDED

Alternative 4: Increased Use of Consultants (Balanced staff loading)

These four alternatives are presented below, with an evaluation of their advantages and disadvantages. A detailed budget is presented for the recommended alternative.

Alternative 1: The Initial Work Plan and Operating Budget (Infeasible Staff Loading)

This alternative retains the entire proposed Work Plan and relies on existing staff resources. In this alternative, additional consultant resources were added to complete discrete tasks as appropriate and achievable, but not to serve as ongoing extensions of staff.

For this alternative, budgeted work effort for the combined CEO/General Manager, Water Resources Planning Manager, and Water Resources Planner positions is in excess of an additional 4.5 FTE for these three positions

The breakdown of the budget for Alternative 1 is shown below:

<u>Alternative 1</u>	
Consultants/Direct Expenses	\$1,475,162
Administration Expenses/Other	\$1,468,043
<u>Contingency</u>	<u>\$ 57,500</u>
Total Operating Expenses	\$3,000,705

This alternative is not recommended, because the results could not be reliably achieved and decreased quality of work would adversely affect the long-term, integrity of the agency.

Alternative 2: Reduced Work Plan (Balanced Staff Loading)

The initial Work Plan was reviewed to determine if some work could be delayed or the effort reduced to achieve balance with available staff resources. As noted above, the ability to defer work to a subsequent fiscal year is extremely limited.

For Alternative 2, the following items have been removed from the preliminary Work Plan:

- All staff effort related to technical aspects of FERC relicensing of New Don Pedro Reservoir. Legal support remains in the budget.
- Staff and consultant review of the SFPUC's 10 Year CIP (current budget=\$497M).
- Core water conservation programs (e.g. regional outreach to support conservation and education, Silicon Valley Water Conservation Awards) except the Landscape Education Program and Water Conservation Database.
- New "Home Water Use Reports" water conservation program.
- Support for and use of current and future Integrated Regional Water Management Plan (IRWMP) grant funds.

Advantages of Alternative 2:

- Would not increase the size of BAWSCA staff
- Least cost preliminary Operating Budget

Disadvantages of Alternative 2:

- Limits input to New Don Pedro FERC relicensing to legal counsel support. Unable to ensure that documents and testimony by the SFPUC, environmental interests and FERC accurately portray the value of the water supply to the member agencies and the financial and other impacts that might result from changes to the supply and decreases in water supply reliability
- No oversight of SFPUC's 10-year CIP, of which BAWSCA agencies will pay two-thirds. This adverse impact would be expected to continue in future years.
- Immediate loss of current IRWMP grant monies available to BAWSCA member agencies (\$400K) and loss of future anticipated grant monies (estimated at \$1M)
- No regional support for BAWSCA's water conservation programs and regional outreach to schools in conjunction with other agencies
- Requires removal of significant work items from future Work Plans unless a future decision were made to add staff or consultant resources (Alternative 3 or 4), because these and other activities are projected to continue for the next 5-10 years.

The breakdown of the budget for Alternative 2 is shown below:

<u>Alternative 2</u>	
Consultants/Direct Expenses	\$1,327,162
Administration Expenses/Other	\$1,468,043
<u>Contingency</u>	<u>\$ 57,500</u>
Total Operating Expenses	\$2,852,705

Alternative 3: New Junior Level Staff Position (Balanced Staff Loading) -- RECOMMENDED

In this alternative, additional junior-level water resources staff person was added to implement portions of the preliminary Work Plan. In adding this new staff person, the work load was re-distributed to get maximum value from persons with high levels of expertise (the CEO/GM, Water Resources Manager, and current Water Resources Planner) and to assign lower-level water resources planning tasks to the junior-level staff person. These assignments decreased the over-allocation of hours to 100 - 135% of an FTE. The level of work assigned to the new staff person is 106% of an FTE.

In looking at the long-range horizon of work identified by BAWSCA to be performed between now and 2020-2022 time period, this alternative provides resources that can continue to be fully utilized.

Advantages of Alternative 3:

- Provides necessary resources to complete full preliminary Work Plan for FY 2013-14
- Provides resources to meet planned needs in upcoming 5-10 years based on long-term planning horizon and known activities: e.g. FERC, increasing drought reliability, monitoring SFPUC's WSIP and CIP, decisions pending between 2016 and 2020
- Takes advantage of current staff capabilities while allowing a junior-level staff person to perform appropriate level work
- Less costly than using consultant to perform similar work
- Provides staff continuity for work anticipated over the next least 5-10 years

Disadvantages of Alternative 3:

- Increases the preliminary Operating Budget by an estimated \$140,000 (for salary and benefits)

The breakdown of the budget for Alternative 3 is shown below:

<u>Alternative 3</u>	
Consultants/Direct Expenses	\$1,453,162
Administration Expenses/Other	\$1,608,043
<u>Contingency</u>	<u>\$ 57,500</u>
Total Operating Expenses	\$3,118,705

Alternative 4: Increased Use of Consultants (Balanced Staff Loading)

This alternative relies on a consultant in the role of extended staff to balance the resource needs to implement the preliminary Work Plan. This arrangement was used during an approved, short-term staff leave two years ago.

Advantages of Alternative 4:

- Provides resources necessary to implement preliminary Work Plan
- Does not increase BAWSCA staff size

Disadvantages of Alternative 4:

- Only addresses the resource imbalance for FY 2013-14
- Requires the largest budget for consultant expenses
- Impossible to guarantee commitment of dedicated individual for BAWSCA use, especially in subsequent years
- Limited role of BAWSCA in assessing and affecting individual performance and productivity

The breakdown of the budget for Alternative 4 is shown below:

<u>Alternative 4</u>	
Consultants/Direct Expenses	\$1,727,362
Administration Expenses/Other	\$1,468,043
<u>Contingency</u>	<u>\$ 57,500</u>
Total Operating Expenses	\$3,252,905

Conclusions: Given the relative advantages and disadvantages noted above, Alternative 3, performing the full Work Plan with the addition of a junior level staff position is recommended. This alternative performs the full Work Plan at the lowest cost.

A detailed budget estimate for this alternative is presented below.

Recommended Preliminary Operating Budget Estimate:

The preliminary Operating Budget estimate presented below reflects Alternative 3 which includes the full Work Plan and the addition of a junior level staff position.

**Table 3. Recommended Preliminary Operating Budget Estimate
by Major Expenditure Category**

Cost Category	Approved FY 2012-13 Budget, dollars*	Preliminary Estimate FY 2013-14 Budget, dollars	Difference, dollars
Consultants/ Direct Expenditures			
Reliability	965,162	1,126,662	161,500
Fair Pricing	210,000	247,500	37,500
Administration	91,000	79,000	(12,000)
<i>Subtotal</i>	1,266,162	1,453,162	187,000
Administration			
Employee Salaries & Benefits	1,099,742	1,311,043	211,301
Operational Expenses	280,600	290,500	9,900
BAWUA	1,100	1,100	0
<i>Subtotal</i>	1,381,442	1,602,643	221,201
Total Operating Expenses	2,647,604	3,055,805	408,201
Capital Expenses	4,000	4,000	0
Budgeted Contingency	62,500	57,500	(5,000)
Regional Financing Authority	1,400	1,400	0
Grand Total	2,715,504	3,118,705	403,201

*As amended by the Board on September 20, 2012.

Funding the Budget:

The funding recommendation includes covering \$300,000 of consultant expenses for the one-time cost for the updated water demand projections using a portion of the General Reserve balance. Doing so reduces the amount of the ongoing level Operating Budget to \$2,818,705, and the increase over last year to \$103,201.

Because assessments are currently \$2,517,000, an additional \$301,705 would need to be transferred from the General Reserve to fully fund the budget without raising assessments.

Prior analyses of the General Reserve concluded that if the Operating Budget remained at a level \$2,500,000, it would be possible to reduce assessments by 7%. If a budget of \$2,818,705 were 90% expended at the end of next fiscal year, no adjustment to the assessments would be needed or advisable.

Appendices

Appendices A through I present additional detail about the Operating Budget.

Appendix A: Funding for Subscription Conservation Programs

As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA's subscription water conservation programs. The staff time to be devoted to those programs during FY 2012-13 is estimated to be 660 hours. The reimbursement for those hours is estimated to be \$23,000. Agencies participating in subscription programs also pay for associated consultant support and direct expenses. A similar level of effort is planned for FY 2013-14. As in prior years, those consultant costs and direct expenses are not included in the Operating Budget.

Appendix B: Funding for the Long-Term Reliable Water Supply Strategy

The Operating Budget does not include the cost of consulting services for developing the Long-Term Reliable Water Supply Strategy, which is being funded through the Water Management Charge authorized by the Board in July 2010. A summary of the current budget status will be included in the preliminary budget report to the Board in March.

Appendix C: Value for the Cost

The formula for BAWSCA assessments results in equivalent cost per gallon throughout BAWSCA's members. All BAWSCA costs are ultimately passed on to water customers through the water rates of the local city, district or private utility. The current cost of assessments to residential customers in the BAWSCA area averages about \$6.00 per household per year.

Appendix D: Historical Assessments

Table 4 displays the history of assessments and year-end reserves.

Table 4. Historical Annual Assessments and Year-End Reserves

Fiscal year	Assessments	Year-End Reserves
2003-04	\$1,668,550	\$276,480
2004-05	\$1,641,995	\$246,882
2005-06	\$1,953,998	\$240,000
2006-07	\$2,117,904	\$654,000
2007-08	\$2,117,904	\$691,474
2008-09	\$2,309,000	\$507,474
2009-10	\$2,517,000	\$407,192
2010-11	\$2,517,000	\$653,763
2011-12	\$2,517,000	\$916,897
2012-13	\$2,517,000	\$1,050,897 (est.)

Appendix E: Preliminary Budget for the Bay Area Water Users Association (BAWUA)

The Board will consider a separate action to approve the proposed FY 2013-14 budget for BAWUA of \$1,100. This amount appears in the BAWSCA budget.

Appendix F: Preliminary Budget for the Regional Financing Authority Budget

The BAWSCA Board of Directors has continued to agree to fund nominal administrative costs for the Regional Financing Authority (RFA), at least until it became more actively involved and required significant resources. Assuming a low level of activity in FY 2013-14, the proposed RFA budget is \$1,400. The RFA will formally consider and adopt this budget in July 2013.

Appendix G: History of Salary and Benefits Adjustments

Salary adjustments were approved in FY 2012-13 following the deferral of salary adjustment for several years:

- FY 2012-13: The Board approved a 3.10 percent increase to the top step of staff salary ranges. Those adjustments were consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.
- FY 2011-12: The Operating Budget included no adjustment to the salary for any employee for COLA, merit or any other reasons.
- FY 2010-11: The Board approved a 3.01 percent increase to the top step of staff salary ranges. Those adjustments were consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.
- FY 2009-10: There was no COLA adjustment. An allowance for merit adjustments was budgeted for employees not yet at top step.

Appendix H: Uses of Professional Services

Outside professional services are used to provide specialized services and augment staff.

1. Professional engineering services for: a) developing a long-term strategy to ensure a reliable supply of water; b) implementing and tracking water conservation efforts; c) evaluating Water System Improvement Program project scopes during design and construction; d) monitoring WSIP project cost estimates, bids and schedules; e) monitoring and assessing San Francisco's performance in implementing the overall WSIP; e) assessing San Francisco's method for cost estimation, application of contingencies and addressing cost inflation during the WSIP; f) providing specific constructive recommendations for keeping the WSIP on or ahead of schedule; and g) analyzing hydraulic records used by San Francisco in setting the wholesale water rates.
2. General legal services for BAWSCA and the RFA; specialized legal services to support administration of the Water Supply Agreement; specialized legal services for addressing matters related to water supply reliability.
3. Strategic counsel for identifying and addressing strategic and political issues associated with maintaining the progress of the Water System Improvement Program, assisting the Board and the CEO in developing and implementing an effective policy making process that supports the development of the Long-Term

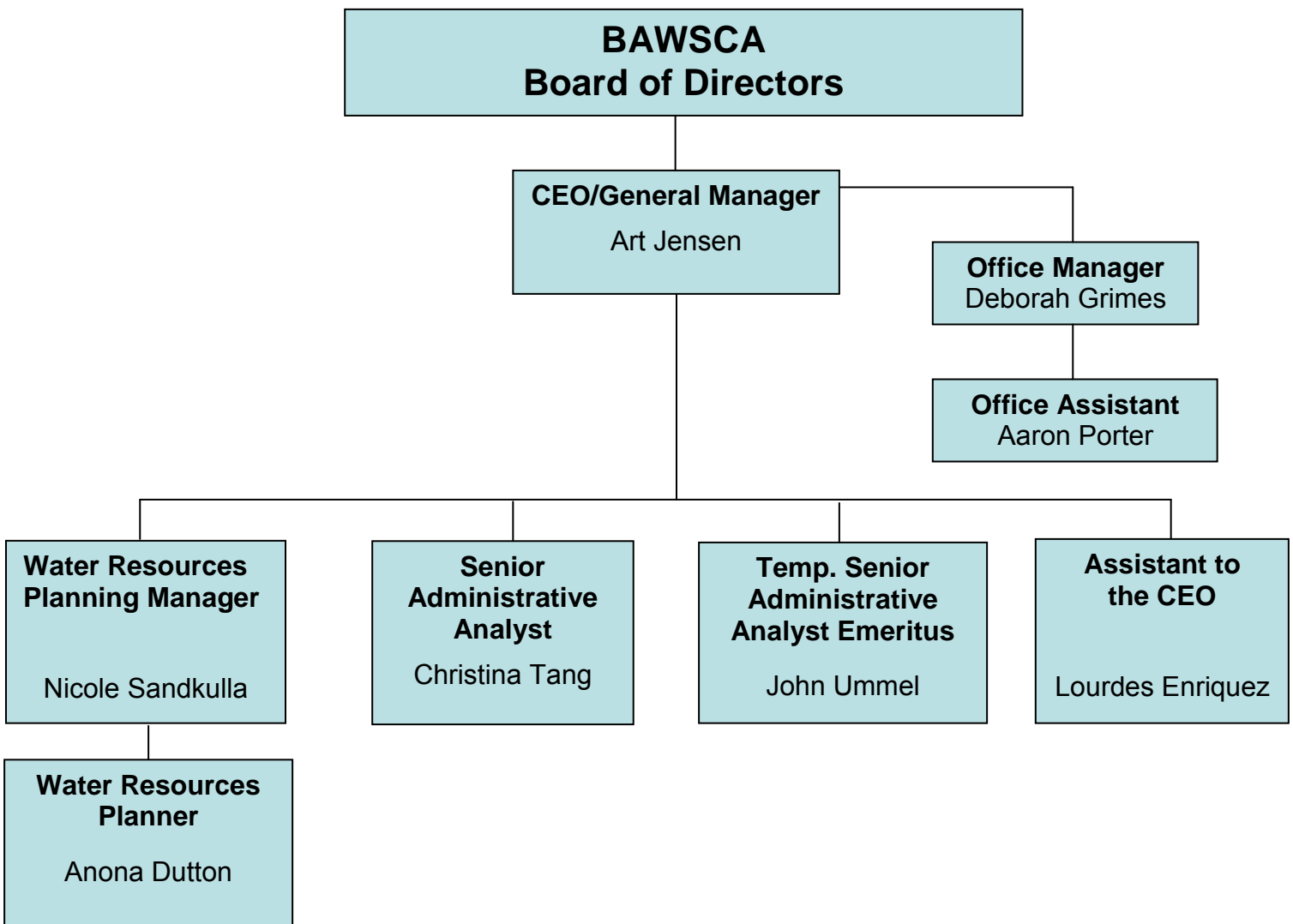
Reliable Water Supply Strategy, providing legislative and political support, and providing advice to the CEO and the Board on other issues significant to the water customers and the effectiveness of the agency.

4. Financial advisory services to conduct specified capital financing and rate impacts analyses on a task order basis.
5. Accounting/auditing expertise to assist with implementing the new water agreement, as well as an independent auditor to prepare and review annual financial statements.

Appendix I: Current Organization and Staffing

Figure 1 represents the current reporting relationships in the organization. The staffing level has not changed in nine years with the exception of the Temporary Sr. Administrative Analyst position.

Figure 1. Current Organization Chart



BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **SFPUC Water Supply Improvement Program – SFPUC Response to BAWSCA Recommendations**

Summary:

BAWSCA provided significant and well-received recommendations to the SFPUC.

At the January 22, 2013 SFPUC meeting, the Commission considered a resolution submitted by SFPUC staff to modify the Calaveras dam Replacement Project and to act on a Notice of Change. The project changes will add at least \$117 million to the cost of the project and delay completion 25 months, to 2018.

The SFPUC must submit the Notice of Change to the California Seismic Safety Commission and the State Department of Public Health, which in turn must determine whether the changes result in an increased risk to public health and safety.

BAWSCA's analysis identified potential problems related to completing the WSIP within budget and without additional delays.

BAWSCA provided the Commission with ten specific recommendations for quantifying cost and schedule impacts, controlling costs, preventing further delays and making additional information available to the public by specific dates.

The letter was well received and the Commission amended its resolution to incorporate all of BAWSCA's ten recommendations.

During discussion, Commissioners and SFPUC staff made the following statements:

"We had some correspondence from BAWSCA and the points were constructive and useful."
(Commissioner Anson Moran)

"It was an excellent letter and brought issues to my attention. I would like to know when we will be receiving the listed items...." (Commissioner Ann Caen)

The "BAWSCA letter outlined some deadlines and I intend to meet those deadlines... [and] brief you every two weeks on the progress being made." (Julie Labonte, Program Manager)

The work of Nicole Sandkulla and the technical consultants which she oversees provide excellent professional support to protect the interests of the Wholesale Customers who pay two-thirds of the costs of this program and who remain at risk until all of the seismic and other improvements are completed.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Water Supply Agreement Amendment – Update on Agency Approval**

Summary:

On behalf of the its member agencies and their water customers, BAWSCA and the SFPUC managers negotiated an amendment to the 2009 Water Supply Agreement that provides the agencies a vote before San Francisco could abandon O’Shaughnessy Dam and drain Hetch Hetchy Reservoir.

As reported immediately following the January 22, 2013 Commission meeting, the Commission unanimously approved the amendment and it is now to be considered by the governing bodies of each of BAWSCA’s 26 member agencies.

During the last two weeks BAWSCA successfully negotiated a modification to the format of the amendment which results in additional clarity without changing the meaning of the amendment.

BAWSCA’s legal counsel has prepared a packet of information that will have been distributed to the member agencies prior to the Board Policy Committee meeting.

This amendment represents a significant step forward in the relationship between BAWSCA, the Wholesale Customers and San Francisco.

At the January 22, 2013 SFPUC Commission meeting, Commissioner Moran stated:

“...by the nature of our system, there are interests that are not fully represented by the elected representatives of San Francisco, and that’s why we have a contract with them and the terms of that contract are important. They define the relationship and the responsibilities”

At last July’s BAWSCA Board meeting, Commissioner Moran stated that BAWSCA’s strength was a benefit to both BAWSCA’s members and to the SFPUC. And last December, he recognized the importance of BAWSCA’s work to develop and complete the bond issuance.

These comments reflect a fundamental change in the way that at least one commissioner regards the water customers outside San Francisco, and reflects a significant change over the last ten years.

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Board of Directors Policy Calendar to January 2014

Board Meeting	Purpose	Issue or Topic
March	D D D&A D&A	Discussion of preliminary Work Plan and budget for FY 2013-14 Status of Amendment to 2009 Water Supply Agreement Water Demand Projections – Consultant Selection Setting of Bond Surcharge
May	D&A D&A D&A	Adoption of Work Plan and Operating Budget for FY 2013-14 Approval of annual contracts for FY 2013-14 10-Year Anniversary of BAWSCA's Formation
July	R R R&D	Status of Pilot Water Transfer Plan Status of Long-Term Reliable Water Supply Strategy Status of SFPUC completing WSIP on schedule and budget
September	R R	Water Supply Agreement – Report on fourth year administration SFPUC Annual Report on WSIP Progress
November	R&D R	Initiation of legislation to extend State oversight of WSIP Status of SFPUC progress in meeting Levels of Service goals
January	D&A D	BAWSCA Mid-Year Review of Progress, Budget and Reserves Budget planning for FY 2014-15

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

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