

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

**Foster City Community Building – 1000 E. Hillsdale Blvd., Foster City
Wind Room**

(Directions on Page 2)

**Thursday, January 16, 2014
7:00 P.M.**

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page</u>
1. Call to Order/Roll Call/Salute to Flag	(O’Connell)	
2. Special Order of Business – Election of Officers for Calendar year 2014 <i>(Attachment)</i> <ul style="list-style-type: none">• Election of Chair• Election of Vice Chair <i>(The terms of the new Chair and Vice-Chair commence at the end of the meeting at which they are elected)</i>	(O’Connell)	<i>Pg 3</i>
3. Break of San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting	(O’Connell)	
4. Reconvene following San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting	(O’Connell)	
5. Comments by the Chair	(O’Connell)	
6. Board Policy Committee Report <i>(Attachment)</i>	(Guzzetta)	<i>Pg 5</i>
7. Public Comments <i>Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(O’Connell)	
8. Consent Calendar <i>(Attachments)</i> <ul style="list-style-type: none">A. Approve Minutes of the November 21, 2013 MeetingB. Receive and File Budget Status Report – As of November 30, 2013C. Receive and File Investment Report – as of December 31, 2013D. Receive and File Directors’ Reimbursement Report – As of December 31, 2013	(O’Connell)	<i>Pg 19 Pg 23 Pg 25 Pg 27</i>
9. Action Calendar <ul style="list-style-type: none">A. Mid-year 2013-14 Work Plan and Budget Review <i>(Attachment)</i> <u>Recommendation:</u> That the Board approve the following<ul style="list-style-type: none">1. Board approval of the following revisions to the FY2013-14 Work Plan.<ul style="list-style-type: none">a. Additions:<ul style="list-style-type: none">• 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.	(Sandkulla)	<i>Pg 29</i>

- Complete Phase II of the Pilot Water Transfer Plan to develop the agreements necessary to support a potential pilot water transfer.
- b. Deferrals to next fiscal year:
 - Further evaluation of alternatives to current Tier 1 Drought Allocation Plan with San Francisco.
 - Coordinate input to SFPUC examination of alternative wholesale water rate structures.
- 2. Board review and discussion related to managing the General Reserve balance at the March 2013 and May 2013 Board meetings.

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

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|----------------------------------------------------------------------------------------------|--------------------|--------------|
| 10. SFPUC Report | (Kelly) | |
| 11. Reports | (Sandkulla) | |
| A. Association of Water Agencies Statewide Water Action Plan (<i>Attachment</i>) | | <i>Pg 37</i> |
| B. Fiscal Year 2014-15 Work Plan and Budget Preparation (<i>Attachment</i>) | | <i>Pg 39</i> |
| C. CEO/General Manager's Letter (<i>Attachment</i>) | | <i>Pg 41</i> |
| D. Correspondence Packet (<u>Under Separate Cover</u>) | | |
| 12. Directors' Discussion: Comments, Questions and Agenda Requests | (O'Connell) | |
| 13. Date, Time and Location of Future Meetings
(See attached schedule of meetings) | (O'Connell) | <i>Pg 47</i> |
| 14. Adjourn to next meeting scheduled for March 20, 2014 at 7pm | (O'Connell) | |

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

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

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Election of Officers for Calendar Year 2014**

Summary:

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

Discussion:

The suggested process for electing the chair is as follows:

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

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

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BAWSCA

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MEMORANDUM

TO: BAWSCA Board Members

FROM: Nicole Sandkulla, Chief Executive Officer/General Manager

DATE: January 9, 2014

SUBJECT: Summary of Board Policy Committee meeting held December 11, 2013

1. **Call to Order:** Committee Chair Rob Guzzetta called the meeting to order at 1:30 pm. A list of Committee members who were present (8), participated by teleconference (1), and other attendees is attached.

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

2. **Comments by the Chair:** Chair Guzzetta commented that this is the last BPC meeting for 2013. It has been a busy year with many accomplishments, difficult decisions, and a major transition in the organization. He appreciates the hard work and dedication of the Committee in effectively working together to accomplish BAWSCA's regional responsibilities. It has been a pleasure serving as Chair of the Committee as well as working with each Committee members, and he looks forward to the new year.

3. **Public Comments:** There were none.

4. **Consent Calendar:**

Director Pierce made a motion, seconded by Director O'Connell, to approve the minutes of the Board Policy Committee meeting held on October 9, 2013. The motion passed by roll call vote with an abstention by Director Vella.

5. **Action Items:**

- A. **Resolution Adopting Policy Governing Distribution of BAWSCA's Assets Upon Dissolution:** Chair Guzzetta announced that the item is being pulled from the agenda because further preparations are needed for a sound consideration. It will be considered at the March Committee meeting.

B. Mid-Year 2013-14 Work Plan and Budget Review:

Ms. Sandkulla reported that the Mid-Year Budget review is a process that BAWSCA goes through very thoroughly each year, and even more so this year given the major changes the agency went through. The review was a major focus in the first 2 months of Ms. Sandkulla's role as CEO/General Manager, and she is pleased to report that the results that need to be achieved continue to be achievable within the approved operating budget, and that only minor changes are needed in the Work Plan.

The Operating Budget approved by the Board in May 2012 was \$3,214,189. The Board authorized an increase of \$66,000 at its meeting on July 18th, revising the Operating Budget to \$3,280,189.

Ms. Sandkulla explained that each year, the Work Plan is diligently developed to align with BAWSCA's goals of ensuring reliable supply of high quality water at a fair price. The mid-year budget review confirms that the most critical and time sensitive items are on schedule.

The work plan items proposed to be re-scheduled are a result of the pace set by outside agencies and are primarily associated with FERC. Both San Francisco and the irrigation districts have slowed down their process in the pre-environmental impact statement phase. This results in less studies that need to be reviewed this fiscal year as they are not yet complete, and provides some flexibility with legal activities otherwise scheduled for this fiscal year.

Ms. Sandkulla stated that the deadline for renewing the FERC license is 2016. BAWSCA will continue to monitor what resources are needed as activities develop. She explained that the work will require a combination of legal, biological, and water resources expertise. BAWSCA's water resources team has been informed and is kept apprised of all developments.

Ms. Sandkulla reminded the Committee that the implementation of the dry-year pilot water transfer with EBMUD is not included in the current work plan. This was a conscious decision because implementation of the pilot water transfer program would be a decision made as a result of the water supply outlook as early as this Spring.

Ms. Sandkulla presented a summary of the FY 2013-14 Work Plan categorized according to BAWSCA's three goals of reliable supply of high quality water at a fair price, and discussed the status and progress of work that are most critical.

In the area of reliable water supply, Ms. Sandkulla reported that the Strategy is on track and is anticipated to be completed by December 2014. This includes the development of the updated water demand projections which is expected to be completed by the end of June 2014.

BAWSCA continues to closely monitor SFPUC's implementation of the Water System Improvement Program (WSIP) and development of its 10-Year Capital Improvement Program (CIP), particularly with the recent changes to the program and the increased costs of the Calaveras Dam Project. Ms. Sandkulla reported that, to date, the

Commission has indicated a desire to have a net zero change in their projected rates as forecasted for 10-years. For example, the Commission indicated that the \$54M increased cost of the WSIP adopted by the Commission in April 2013 would be funded through a reduction in the then current 10-Year CIP so that projected rate increases remain unchanged. The result of this action is deferral of planned maintenance that was in the SFPUC 10-year CIP.

Ms. Sandkulla stated that she spoke at the Commission meeting on December 10th and emphasized that BAWSCA is concerned about the practice of funding increases in the WSIP through a deferral of planned work in the 10-Year CIP or other maintenance because that is one of the factors that led to the need for the WSIP today. In her address to the Commission, she emphasized that while BAWSCA and the wholesale customers share SFPUC's concerns with the cost of water and increasing rates, it is critically important that the system is maintained and the investments protected to ensure the reliability of supply.

In response to Director Weed's question, Ms. Sandkulla stated that in June 2013, the SFPUC adopted a budget increase on the Regional WSIP of \$77M. The most recent cost changes associated with the Calaveras Dam Replacement Project is not quantified yet.

Ms. Sandkulla explained that the SFPUC's CIP is still in developmental stages and the SFPUC may be able to move things around without impacting overall long-term goals for system maintenance. The concern, however, is with the lack of details in what these potential CIP changes will be. Ms. Sandkulla stated that the CIP includes some major maintenance of the system, but that the amount of routine maintenance included and the breakdown between the water versus power components are not yet known.

BAWSCA will continue to pursue State legislation to extend the State oversight of SFPUC's implementation of the WSIP, as well as monitoring the significance and risks associated with actions taken by proponents of Drain Hetch Hetchy.

In the area of fair price, BAWSCA's goal is highly focused on saving the customers money, and a critical part of it is successfully administering the 2009 Water Supply Agreement. Every year, John Ummel's and Christina Tang's work thoroughly reviews the Suburban Revenue Requirement to ensure customers are billed appropriately for the water supply received. Ms. Sandkulla reported that there is ongoing review and discussions on the FY 2011-12 and FY 2012-13 wholesale revenue requirement and the Board will be updated on further developments. BAWSCA also continues to work for a smooth administration of the bonds.

The work plan also puts focus on the agency's effectiveness, and Ms. Sandkulla is pleased to report that BAWSCA's transition to a new CEO as well as three new staff members has been exceptionally efficient and with no lost momentum.

Ms. Sandkulla reported that the proposed changes to the Work Plan includes development of a new conservation program for implementation next fiscal year, and deferral of work.

The proposed new program is a new subscription based conservation program for residential customers that would be implemented in FY 2014-15. Work in FY 2013-14 would be to prepare the program for implementation after July 1. The program provides a customized water use report that water customers can easily understand. Customer access to the report can be through internet or direct mail. The report informs water customers of their water use and provides comparisons to other customers in their area, as well as conservation measures available to them. Water savings have been reported to be in the range of up to 5%, in addition to the savings associated with the education component.

The program will be subscription based and will be paid for by participating agencies. Member agencies have expressed interest in the program.

Ms. Sandkulla explained that the program was included in the current fiscal year but was deferred due to the staff changes that occurred in May 2013. The program will be prepared in the current fiscal year for implementation in FY 2014-15, which can now take advantage of the \$187K Prop 84 grant funds recently awarded to BAWSCA.

In response to Director Mendall's question, Ms. Sandkulla explained that agencies will retain control over their customers' data through their billing system. The granularity of the data available, including whether data is daily, monthly or bi-monthly, to provide to the customer will depend on each agency's existing metering and billing system. Conservation program information provided to the customers will be customized according to each city or district.

The deferral of work includes the amendment to Tier 1 drought allocation formula. Ms. Sandkulla explained that the Tier 1 Drought Plan, included in the 2009 Water Supply Agreement, allocates available water between the San Francisco retail customers and BAWSCA agencies. An amendment was anticipated for the current fiscal year, however, SFPUC has not indicated a desire to address this matter, and therefore it will be deferred to next fiscal year.

A third item reviewed in the mid-year budget review was the coordination of input to SFPUC's examination of wholesale rate structure. Ms. Sandkulla explained that the 2009 Water Supply Agreement with San Francisco defines how much wholesale customers pay. This is called the Wholesale Revenue Requirement. The rate structure, however, is within San Francisco's authority. SFPUC staff had expressed interest in examining a new wholesale rate structure during FY 2012-13. As a result, BAWSCA anticipated the effort to coordinate input to San Francisco to ensure that the objectives for changing the wholesale rate structure are identified and the wholesale customers' interests are fully represented.

Ms. Sandkulla explained that she initially planned to eliminate the item from the work plan because in talking with SFPUC, they indicated no interest in examining the rate structure. However, in SFPUC's first budget priorities meeting held on December 10th, one Commissioner mentioned the discussion of such a modification. Ms. Sandkulla now anticipates discussions to continue and stated that she will monitor San Francisco's

intentions. It is more appropriate to defer this item than to eliminate it as previously thought based on SFPUC's earlier indications.

Ms. Sandkulla stated that in doing the mid-year budget review, examining the potential unanticipated issues that may come up is important so that issues can be brought to the attention of the Board with a recommended action, as necessary. There are none identified at this time, however Ms. Sandkulla stated that one effort, which the Board already is aware of, is the consideration of implementing the pilot water transfer in Spring 2014.

The mid-year budget review also includes a thorough evaluation of expenses including Salaries and Benefits. This is critically important this fiscal year given all the changes in staffing. Ms. Sandkulla is pleased to report that projected expenditures are on target with the approved Operating Budget. No changes to the General Reserve are recommended. The current General Reserve balance of \$985,897 is 30% of the approved Operating Budget, which is within BAWSCA's adopted guideline. Future Work Plan and Budget discussions for FY 2014-15 will include a full analysis of the projected FY 2013-14 expenditures, a review of the General Reserve, and a review of BAWSCA's assessment level.

Director O'Connell made a motion, seconded by Director Vella, that the Committee recommend:

- 1. Board approval of the following revisions to the FY2013-14 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. Complete Phase II of the Pilot Water Transfer Plan to develop the agreements necessary to support a potential pilot water transfer;**
 - c. Defer further evaluation of alternatives to current Tier 1 Drought Allocation Plan with San Francisco to FY 2014-15; and**
 - d. Defer coordination effort related to SFPUC examination of alternative wholesale water rate structures.**
- 2. Board review and discussion related to managing the General Reserve balance at the March 2013 and May 2013 Board meetings.**

The motion passed unanimously by roll call vote.

C. Fiscal Year 2014-15 Work Plan and Budget Preparation:

Ms. Sandkulla explained that the development of the work plan entails a review of major challenges and a look far ahead into the future to identify the results that need to be achieved. Because BAWSCA's work has very long lead times, a long-term perspective helps identify specific objectives, potential issues, and the necessary resources required to achieve the results and address the challenges.

This process also helps with prioritization. Emphasis is placed on the most vital results that need to be achieved. Ms. Sandkulla took the FERC process as an example. It is one

of the critical matters identified in BAWSCA's work plan, and one that will be in multiple fiscal years. However, as activities slowed down this fiscal year, staff was able to move its focus on matters that became more critical in providing reliability and high quality water at a fair price. While the FERC process remains a critical item, being able to prioritize items in the work plan maximizes BAWSCA's effectiveness. It is anticipated that work associated with the FERC process on New Don Pedro will be a major effort next fiscal year.

In preparing the budget, Ms. Sandkulla reminded the Committee that there were discussions last year about seriously examining BAWSCA's assessment level and the likely need to increase it in FY 2014-15. She noted that the assessments have remained at the same level since FY 2009-10.

Ms. Sandkulla presented a long-term list of major challenges starting with the period of 2021-2035. Challenges include ensuring that new water supplies are on-line to meet future needs that are not met by San Francisco, extending or renegotiating the 2009 Water Supply Agreement before it expires in 2034, and foreseeing mayoral changes in San Francisco every four years.

Ms. Sandkulla noted that anticipating the renegotiation of the contract with San Francisco is important because the 2009 contract is much improved from the 1984 Master Water Sales Contract. The next contract with San Francisco may also be the time to improve the contractual relationship with San Francisco. Additionally, mayoral changes in San Francisco means there will be inconsistencies in San Francisco's governing processes as they are influenced by the Mayor.

In response to Director Mendall's question, SFPUC Liaison Michelle Novotny explained that every mayor who comes into office has the opportunity to appoint new Commission members to the SFPUC. Because this is not a requirement, the current Mayor made no changes to the existing Commission. The appointment by the mayor is a nomination and needs to be approved by 2/3rds of a vote by the Board of Supervisors. While each Commissioner has a term, it is not guaranteed.

The period of 2016-2020 is a critical period because FERC activities will be combined with the decisions San Francisco has to make by 2018 about San Jose and San Clara's water supply and providing additional water supply to the BAWSCA member agencies. BAWSCA's role in these matters is to conduct investigations and advocate appropriate positions to protect the interests of its member agencies.

The matters of SFPUC's decisions by 2018 has been brought up at the Commission level, and Ms. Sandkulla is pleased to report that one of the Commissioners is pushing SFPUC staff to start their planning efforts in FY 2014-15 in order to ensure they have sufficient information to make those critical decisions in a timely manner. BAWSCA has been applying pressure on SFPUC staff to provide the Commission a clear process and schedule on how those decisions will be made.

Director Pierce asked what kind of information BAWSCA will be looking for as part the SFPUC's investigations. Ms. Sandkulla explained that BAWSCA would be interested in

knowing where San Francisco's interests lie, what options will they consider, and how BAWSCA can be of help to San Francisco in pursuing those considerations to ensure certainty to the member agencies. BAWSCA will take advantage of the information obtained and the technical knowledge developed from the Long-Term Reliable Water Supply Strategy (Strategy) to help the member agencies and San Francisco make informed decisions.

Additionally in 2016-2020, ensuring that San Francisco maintains its Tuolumne River water rights, enforcing the Water Supply Agreement (WSA) to ensure San Francisco maintains their water supply, quality, maintenance and reporting commitments, and assisting member agencies in the negotiations of a new Tier 2 drought allocation formula before its 2018 expiration are critical activities.

Ms. Sandkulla explained that the Tier 2 drought allocation plan is the formula that determines the allocation of water supply among the member agencies. The date for this plan to expire is before the expiration of the WSA because it is tied to San Francisco's 2018 decisions. Given the potential impact of San Francisco's 2018 decisions on the drought allocations, there was a lack of comfort in committing to the Tier 2 plan among the member agencies beyond 2018.

Director Mendall asked whether the potential impacts of the Bay Delta plan to the member agencies should be included in the list of challenges. Ms. Sandkulla reported that BAWSCA has been approached by the Executive Director of ACWA, Tim Quinn, to speak to the BAWSCA Board about ACWA's proposal for the Bay Delta, and what it entails. The Chair of the BAWSCA Board has agreed to have him speak at the January Board Meeting.

Ms. Sandkulla explained that because member agencies' primary source of water, for the most part, is San Francisco, the Bay Delta supply is not something BAWSCA and its member agencies deal with directly. She stated that one of the things that BAWSCA expects San Francisco to do about the Bay Delta plan is to protect their wholesale customers' interests with regard to that supply. Ms. Sandkulla will ask San Francisco for a presentation on how it plans to protect its wholesale customers' interests.

Director Mendall asked for background information in advance of the January Board meeting so that members of the Board are more informed in anticipation of Mr. Quinn's presentation.

Director Weed noted that the water bond is tied to the Bay Delta plan and includes a local water resources component that could potentially impact BAWSCA and its member agencies. He suggested that this aspect be included in Tim Quinn's presentation to the Board in January.

Based on the challenges anticipated for the coming years of up to 2035, Ms. Sandkulla presented the challenges that BAWSCA ought to be looking at for FY 2014-15.

Extending the State oversight of the WSIP until its completion through legislation, and monitoring the implementation of the WSIP and taking necessary steps, are critical

activities in fiscal year 2014-15 to continue to protect the interests, health and safety of the water customers. Equally important are the administration of the bonds, completion of BAWSCA's Strategy by December 2014, and the effective representation of the member agencies in the FERC relicensing process of New Don Pedro.

Ms. Sandkulla noted that BAWSCA will have further discussions with San Francisco and the irrigation districts about the FERC process and anticipated schedule for FY 2014-15. Legal counsel is continuing to monitor ongoing activities very closely by attending specific meetings and tracking documents to see what can be expected next year.

Additionally, amending the Tier 1 drought allocation formula with San Francisco and looking at additional drought protection to protect member agencies from economic impacts of drought are activities Ms. Sandkulla expects to pursue next fiscal year.

Finally, completion of the Long-Term Reliable Water Supply Strategy and identification and an implementation plan to ensure that new water supplies or water transfers are brought on line to meet the needs of agencies that require additional water, and continuing to protect the water customers efforts from the efforts to drain Hetch Hetchy are important activities next fiscal year.

In response to Director O'Connell, Ms. Sandkulla reported that proponents are pushing the efforts to drain Hetch Hetchy at the State and Federal Level. An editorial written by former California Congressman Dan Lungren, and former State Attorney General, John Van de Kamp, supports amendments to the Raker Act that would stop the use of the Hetch Hetchy Valley as a municipal reservoir.

Director Weed suggested that BAWSCA look at the current contract with San Francisco and the ability to exchange water among member agencies. This may help address and lead to a resolution for the issue of Santa Clara and San Jose.

Ms. Sandkulla reported that there is some work in this regard by specific member agencies and BAWSCA has been participating in those discussions, however, BAWSCA's role is not clear. There is a fine line between supporting a market and being in the middle of negotiations for a market between two member agencies. The conclusion of the Strategy will be a finite point of identifying available alternative water supplies, and may help make BAWSCA's role in this aspect much clearer in making this idea work for the interests of BAWSCA and its member agencies.

Ms. Sandkulla emphasized that in developing next year's work plan, it is important to keep in mind that some of the critical items on BAWSCA's work plan have limited schedule flexibility because of deadlines driven by outside agencies and work products of others that BAWSCA must act upon. Examples are the FERC activities and the Tier 1 and Tier 2 drought allocation plans. Additionally, Ms. Sandkulla explained that BAWSCA needs to affect San Francisco's 2018 decisions early in the process. BAWSCA must also keep focus on the Strategy and the Pilot Water Transfer plan which are both on its critical phases, as well as the results that must be achieved next fiscal year to meet future deadlines. Most importantly, BAWSCA will continue to achieve results that are most cost effective for its member agencies in all aspects of the work plan.

Ms. Sandkulla explained that BAWSCA's challenges will continue through at least 2020 or until reliable supplies are secured for the service area. As a results driven agency, BAWSCA will continue to look into enforceable documents such as agreements and legislation. While these documents are not guarantees, they are the best things BAWSCA can stand upon. BAWSCA has, and will continue to focus on rigorous technical investigations to support negotiations. The agency will also continue its coordination with outside agencies as appropriate to achieve the best results.

The work plan and budget will be developed in the next five months. Ms. Sandkulla explained that she will present the same information to the full Board in January. Based on the Board's discussions, a preliminary FY 2014-15 Work Plan and Budget, which will include a full analysis of the General Reserve and alternatives for funding the budget, will be presented to the Committee in February, and to the Board in March. A recommended work plan and budget will be presented to the Committee in April, and to the Board in May.

Director Pierce asked who was the driver behind San Francisco's initial decision to defer action on water supply until 2018 and whether there is someone on BAWSCA's side who watches San Francisco's efforts to prepare for its upcoming 2018 decisions related to water supply. Nicole explained that the drivers of the decisions that San Francisco has to make by 2018 are the environmental agencies. BAWSCA maintains successful relationships with many of these entities. Additionally, BAWSCA is applying strong pressure to SFPUC to prepare for the 2018 decisions now, and is closely monitoring all progress being made by the SFPUC in its planning work.

Director Breault asked if there are advantages to having a 2-year budget. Ms. Sandkulla stated that while she is able to list the results that need to be achieved over a long-term period, and the anticipated challenges the agency needs to address, the resources needed to achieve the results and address the challenges are not as easy to identify. She therefore does not think a 2-year budget would be helpful to the agency's effectiveness.

Director Weed suggested expanding the scope and functions of BAWSCA, specifically in two areas: greater role in emergency planning to include, among other things, the potential benefit of increasing the regions ability to access FEMA funds and acquiring a line of credit through the ACWA JPIA that could then be made available to member agencies.

Director Guzzetta commented that ongoing maintenance of the Regional Water System is something BAWSCA should stay on top of because deferred maintenance can be costly and it is critical that this system is maintained for future generations.

This was an informational report and no action was requested from the Committee.

6. Reports:

- A. Pilot Water Transfer Plan – Status Report: Ms. Sandkulla reported that work has begun in preparing the agreements needed between BAWSCA, East Bay Municipal Utility District (EBMUD), Hayward and SFPUC to implement the pilot water transfer.

BAWSCA is taking the lead in drafting the agreements. Ms. Sandkulla is pleased with BAWSCA's record of success in writing agreements alongside Hanson Bridgett. She added that BAWSCA's agreements are well-received by other public agencies and that taking the lead puts BAWSCA in the driver's seat. A recent meeting that was held with EBMUD and a potential seller was successful and confirmed each agency's respective interests in a successful pilot water transfer.

BAWSCA will be closely monitoring the water supply outlook over the next few months. Ms. Sandkulla explained that EBMUD's supply situation is different from the SFPUC's. EBMUD's Sierra supply is from a lower elevation, and therefore they have the potential to be more impacted by the dry spell in the last 2 years than San Francisco. In addition, EBMUD's demand has not experienced as much depression as the water demand on the San Francisco Regional System. Because the initial trigger of the pilot water transfer is that EBMUD is in a drought condition, BAWSCA will be monitoring the developments very closely.

Director Mendall commented that he was pleased with the Committee and Board discussions back in October and November, but noted that the outline to the agreement still does not include acknowledgment of the non-monetary impacts on Hayward's users.

Ms. Sandkulla explained that the agreements are in the initial stage of development and the draft outline talks about what to do to address the concern raised by Hayward, and what options might be available. She anticipates a recital on what the partnership entails, specifically the purpose of the pilot and what the partners are experiencing.

The Committee further discussed the topic of Hayward's concern and the following comments were stated during the discussions:

Director Breault believes the Board agrees that if there are potential negative impacts to Hayward, BAWSCA and its team will work with Hayward to identify the things that ought to be looked at as the transfer is done. "We'd want a decision to be fact-based."

Ms. Sandkulla stated that while the operation will result in differing quality levels, it is unknown to what extent the difference will be in comparison to the changes in water quality when San Francisco delivers water from the local watersheds. Often times, there are different qualities being served from the San Francisco Regional Water System under varying circumstances. Ms. Sandkulla stated that BAWSCA and the team are open to looking at the options to address Hayward's concern. No specifics as to what can and would be done to address Hayward's concern are identified yet as staff of both agencies are actively working on this area. She, however, stated that as a water supplier, Hayward will be delivering water that far exceeds potable quality.

Director O'Connell stated that one of the reasons this is a pilot program is to find out what differences takes place, and suggested that a paragraph be included to state that BAWSCA recognizes that Hayward may experience negative impacts. She noted caution in addressing water quality variations.

Director Mendall noted that when San Francisco uses local water supplies, the impact is equally shared among the member agencies. Director Mendall then noted that while the extent of the impacts of the pilot water transfer are unknown, there will be impacts that are going to be unique to Hayward, meaning they will not be experienced by other member agencies as Hayward will be the sole recipient of the water supply from EBMUD's system. Director Mendall added that there are differences in water quality that are outside of our control. But the impacts to water quality as a result of the water transfer are within our control. These changes would come as a result of a decision that Hayward and BAWSCA make to implement the pilot water transfer. As such, some considerations need to be given for the impacts that Hayward is going to have from the transfer, and there needs to be answers to these and other important questions when Hayward constituents ask.

Ms. Sandkulla and the committee agreed that there should be answers, however, the answers are not yet known. Ms. Sandkulla further explained that just like San Francisco, in a drought situation, chemistry changes, and EBMUD is not entirely sure what their water quality will be during the exact moment of a potential water transfer. BAWSCA and EBMUD are doing an investigation to look at what these differences are so that this information can be more fully understood. In addition, BAWSCA is also working closely with Hayward staff to determine what they are looking for in response. At this time, the answers are not yet known. BAWSCA and the team are gathering as much water quality data as possible to understand the differences, the potential impacts, and how to mitigate those impacts.

Ms. Sandkulla stated that the agreement must satisfy Hayward. As a signatory to the existing 3-way intertie agreement that operates the facilities proposed to be used as part of the pilot water transfer, Hayward has a separate and distinct role in authorizing the pilot water transfer. Therefore, Hayward must be satisfied with the proposed approach to address the stated concerns given that its approval is necessary to move forward with the pilot water transfer.

Committee Chair Guzzetta stated that there is consensus among the Board that any negative impacts to Hayward will be recognized. The direction to staff is to present the facts and a recommendation on how to address the concern.

- B. Water System Improvement Program – Status Report: Ms. Sandkulla reported that BAWSCA meets with SFPUC's WSIP Program Manager and team of project managers following release of the WSIP Quarterly Reports to discuss BAWSCA's questions on the program's progress. The most recent meeting was held on December 3rd.

Ms. Sandkulla reported that she will be meeting with the new Program Manager, Dan Wade, in January. In that meeting she plans to address the schedule and cost increases for the Calaveras Dam Project and other projects that are projected to go beyond their currently adopted schedule. She also plans to follow up on the letter Julie Labonte verbally committed to in response to BAWSCA's recommendations made in September 2013 as she has yet to receive a letter. Finally, she intends to establish BAWSCA's relationship with Mr. Wade, and encourage his focus on the successful direction of the WSIP.

Ms. Sandkulla was pleased to report that the Commission directed SFPUC staff to include specific reporting on water supply projects and water supply Level of Service goals in upcoming Quarterly Reports. She explained that the six water supply projects in the WSIP, including the Calaveras Dam Replacement Project and the Alameda Creek Recovery Project, are struggling and are directly related to water certainty from the San Francisco Regional Water System. For this reason, BAWSCA continues to press the issue of water supply reliability and certainty related to its oversight on the WSIP and the Water Supply Level of Service goal.

Director Weed suggested that BAWSCA review the two reports expected by the SFPUC at the beginning of the year related to the Calaveras Dam Replacement Project: GEI Consultants' independent review of the work done by the URS on Calaveras Dam's geological conditions, and the 4-person peer review of the Calaveras Dam Project progress and issues experienced to date. Ms. Sandkulla confirmed that those reports are included in BAWSCA's list of follow ups.

In response to Director Pierce's question about the monitoring of SFPUC's system maintenance, Ms. Sandkulla explained that BAWSCA is working closely with the SFPUC, specifically its Local and Regional System Manager Dave Briggs, on SFPUC's transition from a WSIP to a CIP, and in developing a system that best works for the SFPUC and the wholesale customers. Ms. Sandkulla explained that Christina will be reviewing what shows up on SFPUC's Annual Operating Budget, as done in previous years.

- C. System Tours: BAWSCA and the SFPUC will work together in arranging a 2-day overnight system tour to Hetch Hetchy for BAWSCA Board members. The 2-day system tour will have limited space and as such, will hopefully be offered twice, in the Spring and Summer of 2014, depending on the interests. The Board will be notified of the details as soon as dates are selected.
- D. Board Policy Calendar: Ms. Sandkulla expects the SFPUC to release in January the draft report being prepared for the FERC process that identifies the economic impacts of water supply shortages in the service area. With that information, the Board can prepare itself to look at a decision on a regional drought level of service goal as part of the Strategy.

7. Comments by Committee Members: Director Vella stated that local newspapers have published the Governor's declaration for drought and for a Federal emergency on the water supply conditions. He also asked if BAWSCA has experienced a LAFCO review, and whether it should be informed about these reviews?

Ms. Sandkulla stated that BAWSCA has been contacted by LAFCO for factual information in the past but only to that extent.

Director Weed announced that ACWD finalized its Integrated Regional Water Management Plan and that it is available online.

He also noted that in ACWD's meeting with the CEO/General Manager, it was suggested that BAWSCA look into expanding its role and mission to include contingency planning and funding. Given its focus on water supply and coordination with Santa Clara, San Mateo and Alameda counties, BAWSCA may be able to play an important role in contingency planning

with the potential to access FEMA monies more effectively for the region. On the financing side, BAWSCA, through the RFA, may have the ability to acquire and work with the Association of California Water Agencies (ACWA) Joint Powers Insurance Authority JPIA, and become a financial institution that can acquire a source of funding, along the lines of a line of credit, at a nominal cost, and that does not have California exposure. This could allow the agencies to leverage its existing reserves significantly.

8. **Adjournment**: The meeting was adjourned at 3:04pm. The next meeting is February 12, 2014.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – December 11, 2013

Roster of Attendees:

Committee Members Present

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, City of Foster City – *Participated by Teleconference*
Irene O’Connell, City of San Bruno (BAWSCA Chair)
Tom Piccolotti, North Coast County Water District
Barbara Pierce, City of Redwood City
Louis Vella, Mid-Peninsula Water District
John Weed, Alameda County Water District

BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Michael Hurley	Water Resources Manager
Adrianne Carr	Sr. Water Resources Specialist
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
Bud Wendell	Strategic Counsel, Management Communications

Public Attendees:

Marilyn Mosher	City of Hayward
Michelle Novotny	San Francisco Public Utilities Commission

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

**November 21 2013 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:00 pm

BAWSCA Vice-Chair, Randy Breault, called the meeting to order. Nicole Sandkulla called the roll. Nineteen (19) members of the Board were present, constituting a quorum. A list of Directors present (19) and absent (7) is attached.

In honor of Veterans Day and the 238th Birthday of the United States Marine Corp, Vice-Chair Breault asked Strategic Counsel and Marine Corp Veteran, Bud Wendell, to lead the Pledge of Allegiance.

- 2. Comments by the Chair:** Vice-Chair Breault noted that the agenda includes an informational report on the Pilot Water Transfer Program which was an output of the Long-Term Reliable Water Supply Strategy initiated nearly 6 years ago. The information expected from the Pilot program is a significant step for BAWSCA to secure a path toward increased water reliability for the member agencies, independent of San Francisco. Completing the Pilot Water Transfer is critical to BAWSCA's mandate to act regionally to protect the health, safety and economic well-being of nearly 2 million people and a robust economy in 3 counties. Staff is working diligently with multiple external agencies as well as with the City of Hayward towards a recommendation requesting Board action in Spring 2014.

Secondly, Vice-Chair Breault encouraged Board members to take the opportunity to schedule time to meet with Nicole Sandkulla with their respective City Manager and Agency Director. The meeting provides a two-way conversation about BAWSCA's Work Plan and Budget and the regional approaches to water supply. The meeting also fosters the strong relationships between the member agencies and BAWSCA.

Lastly, Vice-Chair Breault welcomed the new members of the BAWSCA staff who bring vast knowledge and experiences valuable to achieving BAWSCA's results. He welcomed Dan Wade who will be replacing Julie Labonte as Director of the WSIP, and recognized Julie Labonte for her leadership in directing the WSIP for 7 years. Vice-Chair Breault expressed his sincere appreciation to Ms. Labonte on behalf of BAWSCA, and congratulated Ms. Labonte for being named Government Civil Engineer of the Year by the American Society of Civil Engineers.

- 3. Board Policy Committee Report:** Committee Chair Rob Guzzetta reported the discussions and actions that took place at the BPC meeting held on October 9, 2013. The Committee voted unanimously to recommend approval of the proposed Board actions for the items on the agenda. Committee discussions are reflected in the summary report provided in the packet.

4. **Public Comments:** Public comments were received from Wynn Greich, Flouride Action Network, David Steinberger, and Mike Francois.

5. **Consent Calendar:**

Director Richardson made a motion, seconded by Director Kasperzak, to approve the Consent Calendar. The items included approval of the Minutes of the September 19, 2013 Board Meeting, receipt and filing of the Budget Status Report as of September 30, 2013, Annual Audit Reports for BAWSCA and BAWUA for FY 2012-13, Directors' Reimbursement Reports as of September 30, 2013, and Authorization of the CEO/General Manager to negotiate and execute a contract amendment with PG&E for the Washing Machine Rebate Program.

The motion carried unanimously.

6. **Action Calendar:**

A. Receive and File Financial Reports

Director O'Mahony made a motion, seconded by Director Laporte, that the Board receive and file the Quarterly Investment Report as of September 30, 2013 and the Quarterly Bond Status Surcharge Report as of September 30, 2013.

The motion carried unanimously.

B. Proposed FY 2014-15 Bond Surcharges

Director Kasperzak made a motion, seconded by Director Mendall, that the Board approve the proposed Bond Surcharges for FY 2014-15 as presented.

The motion carried unanimously.

C. Annual Review and Consideration of BAWSCA's Statement of Investment Policy

Director Mendall made a motion, seconded by Director Griffith, that the Board approve the current Statement of Investment Policy.

The motion carried unanimously.

D. Appointment of Agency Secretary

Director Guingona made a motion, seconded by Director Keith, that the Board appoint the BAWSCA CEO/General Manager as Secretary of the Board and that these services be provided without compensation and at the pleasure of the Board.

The motion carried unanimously.

7. **SFPUC Report:** SFPUC General Manager Harlan Kelly addressed the Board and provided an update on the Regional Water System's Water Supply and Demand. Despite the dry Fall, Mr. Kelly stated that the SFPUC is cautiously optimistic. BAWSCA and the wholesale customers will be kept informed.

In response to Director Mendall's question, Assistant General Manager of Water Enterprise, Steve Ritchie, explained that if the Regional Water System's reservoirs are

100% full and there is no precipitation, supplies will last for 8 ½ years under normal usage. It will take 4 years of normal precipitation to fill the reservoirs back up again.

Mr. Ritchie, provided an update on the effects of the Rim Fire. Overall damage to the city-owned structures and watershed are minimal. There were some damage to the grid power, but staff has been working hard to restore power completely to ensure powerhouses and distribution lines are online in terms of operations of the system.

Mr. Ritchie reported that an appeal is in progress for a proposed Federal Emergency Declaration that was denied by FEMA. Governor Brown sent an executive order directing State level recovery assistance.

Julie Labonte addressed the Board and presented an update of the overall progress of the WSIP. Dan Wade provided an update on the Calaveras Dam Project.

Directors Laporte, O'Mahoney, and Guzzetta expressed their appreciation for Ms. Labonte's leadership which was echoed by Nicole Sandkulla's comments, and the Board members' applause.

- 8. Reports:** Staff reports were provided on the Pilot Water Transfer Plan, Mid-Year Budget Review, and the Board Policy Calendar.
- 9. Directors' Discussion:** The members of the Board agreed that a letter of appreciation to Julie Labonte be prepared by staff on behalf of the Board.
- 10. Date, Time and Location of Next Meeting:** The next meeting is scheduled on January 16, 2014 in the Wind Room, Foster City Community Center.
- 11. Adjournment:** The meeting adjourned at 8:51pm.

Respectfully submitted,

Nicole M. Sandkulla
Chief Executive Officer/General Manager

ARJ/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
November 21, 2013

Attendance Roster

Present:

Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
Charlie Bronitsky	City of Foster City
Tom Chambers	Westborough Water District
Jim Griffith	City of Sunnyvale
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Mike Kasperzak	City of Mountain View
Kirsten Keith	City of Menlo Park
Marty Laporte	Stanford
Jerry Marsalli	City of Santa Clara
Al Mendall	City of Hayward
Chris Mickelsen	Coastside County Water District
Rosalie O'Mahony	City of Burlingame
Tom Piccolotti	North Coast County Water District
Dan Quigg	City of Millbrae
Sepi Richardson	City of Brisbane
John Weed	Alameda County Water District

Absent:

Armando Gomez	City of Milpitas
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
Irene O'Connell	City of San Bruno
Barbara Pierce	City of Redwood City
Chuck Reed	City of San Jose
Louis Vella	Mid-Peninsula Water District

BAWSCA

Bay Area Water Supply & Conservation Agency

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

TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes, Office Manager

DATE: January 6, 2014

SUBJECT: Budget Status Report as of November 30, 2013

This memorandum shows fiscal year budget status for FY 2013-14. It includes major areas of spending, provides an assessment of the overall budget, and summarizes reserve fund balances. This report covers the budget and expenses for BAWSCA. The BAWSCA budget includes necessary resources for the RFA and BAWUA.

Operating Budget Summary:

For the three month period ending November 30, 2013, 42 percent into the fiscal year, total expenditures were \$1,243,346 or 38 percent of the total approved Operating Budget of \$3,280,188.

Table 1. Operating Budget Summary as of November 30, 2013

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	1,217,662	390,253	32%
Fair Pricing	227,500	67,783	30%
Administration	74,000	190,394	257%
Subtotal	1,519,162	648,529	43%
Administration and General			
Salary & Benefits	1,406,526	482,163	34%
Other Expenses			
BAWSCA	290,500	112,264	39%
BAWUA	1,100	0	0%
Subtotal	3,217,288	1,242,956	39%
Capital Expenses	4,000	0	0%
Budgeted Contingency	57,500	0	0%
Regional Financing Authority	1,400	390	28%
Grand Total	3,280,188	1,243,346	38%

Overview:

Overall expenditures for FY 2013-14 are tracking within budget. In the consultant cost categories, Administration was over budget due to the personnel transition expenses.

Consultants

The \$125,000 budget for technical review and tracking of the SFPUC's Water System Improvement Program was 39 percent expended. The Operating Budget allocation of \$150,000 for strategic counsel was 45 percent expended. The Operating Budget allocation of \$416,000 budget for legal counsel was 71 percent expended. The \$562,662 budget for water management and conservation-related activities was 38 percent expended.

Administration and Other Expenses

Budgets for salaries and other expenses were 34 and 39 percent expended, respectively.

Use of CEO's Discretionary Spending Authority:

In November, the CEO entered into an agreement with Koff & Associates for \$6,300 to conduct a comprehensive salary and benefits study. Funds for this study were included in the adopted FY 13-14 budget. Expenses will be included in the budget status report period ending January 31, 2014. The CEO also entered into an agreement with EKI in the amount of \$15,000 for technical services related to the EBMUD Pilot Water Transfer.

Use of Reserve and Reserve Fund Balance:

The General Reserve balance remains unchanged as of November 30, 2013. At its July 18, 2013 meeting, the Board approved an increase of \$66,000 to an existing contract with EKI, the funding for which was to be taken from the General Reserve. At this time, this authorized transfer from the General Reserve has not occurred as the cash is not yet needed. It continues to be anticipated that this transfer will occur prior to the end of FY 2013-14.

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 09/30/13)	Account Balance (As of 11/30/13)
General Reserve	\$985,897	\$985,897

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

Phase 2 of the Long-Term Reliable Supply Strategy (Strategy) began FY 2010-11. Funding is provided through the Water Management Charge, approved by the Board in July 2010. All Water Management Charge revenue, totaling \$2,321,998 has been collected by the SFPUC and received by BAWSCA. Expenditures for strategic and legal support of the Long-Term Reliable Water Supply Strategy are within their respective budgets. Consultant invoices received and paid through November 30, 2013 total \$1,560,349.



Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes, Office Manager

DATE: January 6, 2014

SUBJECT: Investment Report – As of December 31, 2013

In February 2004, the Board originally adopted an investment policy consistent with the Government Code that requires a report on the Agency's investments be provided to the Board. The Board most recently reviewed the investment policy at the November 21st 2013 board meeting. No changes were recommended or adopted as part of that review.

This report presents fund management in compliance with BAWSCA's current investment policy.

Funds in excess of \$250,000 are deposited in the BAWSCA Local Agency Investment Fund (LAIF) account throughout the year to ensure compliance with BAWSCA's investment policy.

BAWSCA's prior and current period LAIF account balances are shown below:

<u>09/30/13</u>	<u>12/30/13</u>
\$2,540,975	\$2,327,611

Of the total in the BAWSCA LAIF account as of November 30, 2013, \$985,897 represents BAWSCA's General Reserve Fund, equivalent to approximately 30 percent of FY 2013-14 Operating Budget. The remaining amount consists of Subscription Conservation Program funds, Water Management funds and unrestricted funds.

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

<u>06/30/13</u>	<u>09/30/13</u>
0.24%	0.26%

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BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes, Office Manager

DATE: January 3, 2014

SUBJECT: Directors' Reimbursement Quarterly Report for the Period Ending
December 31, 2013

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

There were no director expenses reimbursed for the quarter ending December 31, 2013.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Mid-Year 2013-14 Work Plan and Budget Review**

Summary:

To ensure continued access to reliable supplies of high quality water at a fair price, four revisions to the adopted FY 2013-14 Work Plan are recommended in response to the level of activities to date this fiscal year, and the BAWSCA staffing resources now available. The resources to address these issues and produce necessary results can be provided within the currently approved Operating Budget for FY 2013-14 of \$3,280,189.

This memorandum presents: 1) the proposed changes to the FY2013-14 Work Plan and reallocation of funds within the existing Operating Budget, and 2) the projected balance of the General Reserve.

Fiscal Impact:

At this time, expenditures including Salaries and Benefits are projected to be on target with the approved budget. No changes to the Operating Budget are necessary or recommended at this time.

Board Policy Committee Action:

The Committee voted unanimously to recommend the proposed Board action.

Recommendation:

1. **Board approval of the following revisions to the FY2013-14 Work Plan.**
 - a. **Additions:**
 - Investigate of 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.
 - Complete Phase II of the Pilot Water Transfer Plan to develop the agreements necessary to support a potential pilot water transfer.
 - b. **Deferrals to next fiscal year:**
 - Further evaluation of alternatives to current Tier 1 Drought Allocation Plan with San Francisco.
 - Coordinate input to SFPUC examination of alternative wholesale water rate structures.
2. **Board review and discussion related to managing the General Reserve balance at the March 2013 and May 2013 Board meetings.**

Prior Board Approved Budget Actions for FY 2013-14

Board authorized budget actions to date are as follows:

1. On May 16, 2013, the Board approved the FY 2013-14 Operating Budget of \$3,214,189.
2. On July 18, 2013, the Board approved an increase of \$66,000 to the EKI contract, the funding for which was taken from the General Reserve, resulting in a revised Operating Budget of \$3,280,189.

3. On September 19, 2013, the Board approved the temporary appointment of Arthur Jensen as Special Counsel to the CEO/GM. No changes to the approved Operating Budget were included at the time. The possible need for an increase in the Operating Budget and use of the General Reserve following a review of the actual expenditures and savings in FY 2013-14 was identified as part of the Board action.

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

Discussion:

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

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

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

Overall Status of Results to be Achieved During FY 2013-14

The most critical time sensitive items in the approved Work Plan are on schedule as of December 2, 2013. In addition, the status or pace of work by outside entities, such as FERC, results in some activities needing fewer resources than originally estimated.

Proposed Work Plan Modifications and Budget Revisions

As part of the new CEO transition and in light of the new staff recently hired by BAWSCA, a thorough review of the adopted FY 2013-14 Work Plan was performed this Fall. Table 1 presents the Board-approved Work Plan of results to be achieved during FY 2013-14, and highlights recommended revisions to the Work Plan. Explanations for the changes and budget reallocations appear below.

Two additions to the FY 2013-14 Work Plan are proposed:

1. Investigate a potential new subscription-based water conservation program for implementation in FY 2014-15. In response to expressed interest from member agencies, BAWSCA is investigating a pilot program for interested member agencies that would provide web-based information to water customers, including their water use, how it compares to their neighbors' use, and options for reducing their use. Such systems have demonstrated water savings of up to 5%. A Request for Proposals (RFP) issued in February 2014 would permit selection of a vendor in March and initiation of a pilot program in July. Development and implementation of this conservation program was considered for last fiscal year, however activity was deferred pending the anticipated staffing changes. Staff resources are now available to support the development and implementation of this program. In addition, BAWSCA is the recipient of grant funding to support a portion of this program's costs beginning as early as next fiscal year. As such, member agencies have expressed support for this program to be developed

by BAWSCA and implemented regionally as early as July 1, 2014. See item 2.b and 6.b in Table 1.

2. Complete Phase II of the Pilot Water Transfer Plan to develop the agreements necessary to support a potential pilot water transfer. Phase I of the Pilot Water Transfer Plan was completed in September 2013 and included recommended actions for Phase II. Phase II, initiated in October 2013, will develop the necessary agreements required for the transfer but that can be completed prior to the determination to execute the pilot water transfer. These agreements include those with and between BAWSCA, EBMUD, City of Hayward, and SFPUC. Work to support Phase II of the Pilot Plan was not included in the adopted FY 2013-14 Work Plan or Budget. Under the CEO's discretionary authority, the following budgetary changes can be made to accommodate the necessary tasks for Phase II: move available funding between tasks within the current contract limit with Hanson Bridgett; and enter into a contract with EKI for \$15,000 to provide specific technical assistance with funds available from budget savings and deferral of work discussed in this memo. See item 1.b in Table 1.

Deferral of two items from the FY 2013-14 Work Plan to FY 2014-15 are proposed:

1. Defer further evaluation of alternatives to current Tier 1 Drought Allocation Plan with San Francisco to FY 2014-15. The original Work Plan included the investigation of alternatives to the existing Tier 1 Drought Allocation Plan with San Francisco which determines how much available water supplies during a drought are shared between San Francisco and the collective BAWSCA member agencies. While an important part of long-term planning, this investigation can be deferred to next fiscal year without significant long-term impacts. This work is anticipated to be proposed for inclusion in the FY 2014-15 Work Plan. See item 5.a in Table 1.
2. Defer coordination effort related to SFPUC examination of alternative wholesale water rate structure to FY 2014-15. This item was included in the FY 2013-14 Work Plan in anticipation of SFPUC investigation of alternative wholesale water rate structures. As this time, SFPUC has indicated that it will not be considering alternative rate structures for the upcoming fiscal year, thereby eliminating the need for BAWSCA activity in this area. See item 8.c in Table 1.

In addition to the four proposed changes to the FY 2013-14, one other work plan item warrants further discussion as part of their mid-year review. The adopted FY 2013-14 Work Plan includes a work item related to ongoing administration of the 2009 Water Supply Agreement. At this time, work continues to resolve outstanding issues related to San Francisco's allocation of costs to Wholesale Customers. As usual, efforts are directed toward resolving issues within contractual deadlines. In the event that issues cannot be resolved, the Agreement provides for arbitration of disputes. If arbitration is pursued, resources beyond those available in the budget may need to be allocated to this effort. The Board will be informed if and when this need arises. See item 8.a in Table 1 and 6 in Table 2.

Capacity to Accommodate Potential or Unanticipated Issues

As always, if potential or unanticipated issues arise during the Spring (e.g. arbitration to address unresolved cost allocation issues), they will be brought to the attention of the Committee and the Board with recommendations to further reallocate and/or augment existing resources, if necessary. In addition, the Board will have the opportunity to consider implementation of a pilot water transfer plan as early as Spring 2014. If it were necessary to undertake any of these issues, work during FY 2013-14 would represent only the beginning of the effort. Each of these examples would involve continued work in FY 2014-15.

Budget Modifications Needed to Complete Work Expected During FY 2013-14:

The budget review resulted in projected expenditures being on target with the approved budget. This review included a thorough evaluation of Salaries and Benefits in light of the multiple changes and adjustments that occurred in this area this fiscal year.

Projected Year-End Spending and General Reserve Balance as of July 1, 2014:

The current estimate of year-end spending at this time is on target with the approved Operating Budget. This estimate is subject to inherent uncertainties. The “mid-year” assessment necessarily relies on accounting information from July through September plus partial information for October. In addition, there are inherent uncertainties in much of the work being undertaken or proposed, particularly in the areas of protecting water supply reliability and fair price.

The projected General Reserve balance at the end of FY 2013-14 is estimated at \$919,897, assuming the need to utilize General Reserve funds as requested and authorized by the Board at its September 13, 2013 meeting:

\$985,897	General Reserve balance as of June 30, 2013
- \$66,000	<u>Transfer authorized by Board on 9/13/13</u>
\$919,897	Estimated General Reserve balance as of June 30, 2014

This level of General Reserve represents 28% of the approved Operating Budget. This is within the 20% to 35% guideline window adopted by the Board in September 2011.

Attachments:

1. Table 1. Results to be Achieved in FY 2013-14: Changes and Progress
2. Table 2. Activities Not Included in Proposed Operating Budget for FY 2013-14

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

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

RELIABLE SUPPLY - WATER SUPPLY MANAGEMENT PROGRAM

1. Long-Term Supply Solutions: Ensure a Reliable, High Quality Supply of Water is Available Where and When Needed.

- a. Reliable Water Supply Strategy – 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. [Strategy on schedule to be completed December 2014.]
- 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. [ADDITION. Begin and complete Phase II to develop necessary agreements. Phase 1 completed September 2013.]
- 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. [Project on schedule for completion in June 2014.]

2. Near-term Supply Solutions: Water Conservation

- a. Implement Core Water Conservation Programs - Programs that benefit all customers. [Implementing all core conservation programs.]
- b. Implement Subscription Water Conservation Programs - Rebate and other programs that benefit, and are paid for by, agencies that subscribe for these services. [ADDITION. Investigating potential pilot subscription program for FY 2014-15 that would provide customers with water use information designed to promote water conservation.]

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. [Ongoing. "BAWSCA's perspective on WSIP implementation at 10-year point" provided to BAWSCA Board and Commission in October 2013.]
- b. Pursue legislation to modify current sunset clause and extend State oversight on WSIP implementation. [Initial discussion with Senator Hill has indicated his desire to author necessary legislation for January 2014 submittal.]
- 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. [DEFER. To be considered in FY 2014-15.]

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. [BAWSCA has been awarded a grant totaling \$187K to be used to support home water reports and water efficient landscape rebates.]
- 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 SF to protect interests of members and their customers in a fair price for water purchased.
- 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. [DEFER. To be considered in FY 2014-15. SFPUC has indicated this will not be pursued this fiscal year.]

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

- a. Maintain close relationships with BAWSCA's powerful allies (state legislators, business, labor, local government, water customers, and the media) and activate them if necessary to safeguard the health, safety, and economic well-being of residents and communities. Respond

to requests from local legislators. Maintain a dialogue with responsible environmental and other groups, who will participate in the project permitting and approval process for rebuilding the system.

- b. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants.

11. Manage the Activities of the Agency Professionally and Efficiently

12. Successful recruitment, hiring, and transition of a new Chief Executive Officer/General Manager

Table 2: Activities Not Included in Proposed Operating Budget for FY 2013-14

Reliable Supply

1. Implement a pilot water transfer with EBMUD in FY 2013-14 or FY 2014-15, following completion of the pilot transfer plan.
2. Engage 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.
3. Introduce 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

4. Evaluate potential economic or water supply impacts of State efforts to fix the Delta and other State water management projects.
5. Develop 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.
6. Arbitrate issues related to the 2009 Water Supply Agreement.

High Water Quality

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

Agency Efficiency

9. Add resources to support additional Board, Board committee, or technical committee meetings.
10. Conduct 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.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Association of California Water Agencies Statewide Water Action Plan**

Summary:

At the January 16th BAWSCA Board meeting, Danielle Blacet, will present the Association of California Water Agencies (ACWA) Statewide Water Action Plan (SWAP) to the BAWSCA Board on behalf of ACWA Executive Director, Tim Quinn. Ms. Blacet is the ACWA Project Manager for the SWAP.

The attached documents and oral report by Ms. Blacet are informational materials for the BAWSCA Board to keep apprised of Statewide planning efforts including the Bay Delta Conservation Plan (BDCP) developments.

Recommendation:

This is an informational item for the Board. There is no recommended action.

Discussion:

At this time, there are several different activities being undertaken by the State and others that relate to the California Bay-Delta:

- The ACWA Statewide Water Action Plan for California (SWAP) was unanimously approved by the AWCA Board of Directors in September 2013 and submitted to Governor Brown on October 2nd as the water community's recommendations for developing the Administration's California Water Action Plan.
- The Draft California Water Action Plan (CWAP) prepared by the California Natural Resources Agency, California Environmental Protection Agency, and California Department of Food and Agriculture was released on October 31, 2013. The comment period has closed and a revised plan will be available in mid-January. The Action Plan identifies "actions that, in the next five years, will move California toward more sustainable water management by providing reliable water supply for our farms and communities, restoring important wildlife habitat and species, and helping the state's water systems and environment become more resilient." (10/31/13 Press Release)
- The Draft Bay Delta Conservation Plan and Draft EIR/EIS (BDCP) prepared by the California Department of Water Resources, the California Natural Resources Agency, and the US Department of Interior was released on December 13, 2013 for review. Public comment will be accepted until April 14, 2014. The Bay Delta Conservation Plan is "a part of California's overall water management portfolio. It is being developed as a 50-year habitat conservation plan with the goals of restoring the Sacramento-San Joaquin Delta ecosystem and securing California water supplies. The BDCP would secure California's water supply by building new water delivery infrastructure and operating the system to improve the ecological health of

the Delta. The BDCP also would restore or protect approximately 145,000 acres of habitat to address the Delta's environmental challenges." (BDCP website).

ACWA convened a broad cross-section of member water interests in spring 2013 to develop a statewide plan addressing the state's overall water supply reliability and ecosystem health. The goal was to craft a specific plan that could be broadly supported by water interests throughout the state and serve as a sustainable path forward for California.

In September 2013, the resulting SWAP was completed and unanimously approved by the ACWA Board of Directors. It was then submitted to California Governor Edmund G Brown Jr. on Oct. 2, 2013, as the water community's recommendations for developing the Administration's California Water Action Plan for the state.

At the January 16th BAWSCA Board meeting, Danielle Blacet, ACWA Project Manager for SWAP, will be addressing the BAWSCA Board on behalf of ACWA Executive Director, Tim Quinn.

BAWSCA's Participation in Statewide Planning Efforts Related to the Bay Delta

The Bay Delta is not the primary source of supply for the BAWSCA service area. While BAWSCA has no position or direct involvement with developments on the BDCP, BAWSCA maintains a close watch on activities to protect the interests of its member agencies.

BAWSCA's adopted FY 2013-14 Work Plan specifically states that evaluating "potential economic or water supply impacts of State efforts to fix the Delta and other State water management projects" is not included in BAWSCA's Operating Budget. BAWSCA and its member agencies rely on the SFPUC and the Santa Clara Valley Water District, as the major wholesale water suppliers in the service area, to participate in the various Bay Delta forums to protect their collective water supply interests.

Attachments:

- Publications regarding the SWAP, the CWAP, and the BDCP are provided in the Correspondence Packet under separate cover.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Fiscal Year 2014-15 Work Plan and Budget Preparation**

Summary:

The development of the preliminary work plan for fiscal year 2014-15 begins by compiling a list of major challenges that BAWSCA, its member agencies, and their water customers will face next fiscal year, and between now and the years 2015, 2020 and 2035. This long-term perspective helps anticipate and identify the results that must be achieved during FY 2014-15.

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

A similar presentation will be provided to the Board of Directors at the January meeting, in preparation for budget discussions later this Spring.

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

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

BAWSCA assessments have been at the same level since FY 2009-10, or the past 5 years. As discussed by the Committee and Board during last year's budget development and approval process, funding the FY 2014-15 will require further analysis of projected expenditures for FY 2013-14 and FY 2014-15, the use of and level of the General Reserve, and the potential need to increase BAWSCA's assessments, which at that time was estimated at 4%. Such an analysis will be included in the Work Plan and budget presentation to the Committee and Board in February and March 2014.

Recommendation:

The CEO/General Manager will discuss the list of challenges with the Board, as done with the Board Policy Committee, to clarify issues and receive their advice prior to Work Plan and budget development.

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

Year or Period	Major Challenges or Issues
2014 to 2015	<ul style="list-style-type: none"> • Protect health and safety through legislation that amends the California Water Code to extend State oversight of the WSIP until completion of the WSIP (FY2013-14). • Monitor WSIP implementation to protect interests of member agencies and take steps necessary to ensure all adopted Level of Service goals are achieved. • Administer repayment and reporting of BAWSCA's 2013 bonds • Complete development of BAWSCA's Long-Term Reliable Water Supply Strategy (December 2014). • Represent member agencies in Federal relicensing of New Don Pedro and to protect SFPUC supplies (2015-16). • Amend Tier 1 drought allocation formula with San Francisco. • Provide additional drought protection to protect BAWSCA member agencies from excessive economic impacts. • Ensure new water supplies or transfers are brought on line to meet the needs of agencies that require additional water. • Protect customers from legal and legislative efforts to draining Hetch Hetchy that disregard their interests in reliability, quality and cost. • SF elects Mayor in 2015.
2016 to 2020	<ul style="list-style-type: none"> • Continue representing members' interests in reliable supplies through FERC issuance of a new license for New Don Pedro in 2016. • Conduct investigations and advocate appropriate positions prior to San Francisco deciding whether or not to make San Jose and Santa Clara permanent Wholesale Customers by 2018. • Conduct investigations and advocate appropriate positions prior to San Francisco deciding whether to provide more than 184 mgd to Wholesale Customers and whether or not to increase the perpetual Supply Assurance by 2018. • Ensure San Francisco maintains its Tuolumne River water rights. • Enforce the Water Supply Agreement to ensure San Francisco meets its water supply, quality, maintenance and reporting commitments. • Assist member agency negotiation of a new Tier 2 drought allocation formula by preparing and analyzing alternatives, facilitating agreement and producing legal documents before the existing one expires at the end of 2018. • SF elects Mayor in 2019.
2021 to 2035	<ul style="list-style-type: none"> • Ensure new water supplies are on line to meet future needs that are not met by San Francisco. • Extend or renegotiate the Water Supply Agreement before it expires in 2034. • SF elects Mayor in 2023, 2027, 2031, and 2035.



Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
DATE: January 10, 2014
FROM: Nicole Sandkulla, CEO/General Manager
SUBJECT: Chief Executive Office/General Manager's Letter

Water Supply Forecast:

BAWSCA and the SFPUC have increased coordination regarding current and forecasted water supply conditions given the continuing dry weather pattern. The SFPUC has been asked to address this issue at the January BAWSCA Board meeting.

To date, the SFPUC has stated that while the start to the water year has been dry, it is still too early to make a determination about the current water year. On average, a little more than half the precipitation in the Hetch Hetchy watershed falls during January, February and March combined, with a few storms often making the difference between a dry year and wet year. In addition, the water system, and the potential need for rationing, is benefitted by the current low water use in the service area and water customers continuing water efficient practices.

Per the 2009 Water Supply Agreement, the SFPUC will issue an initial water supply availability estimate on February 1, with an update on March 1, and a final report around April 15th. If there is a call for rationing, the declaration would be made around April 15th.

BAWSCA will continue its close coordination on this issue with the SFPUC, SCVWD, and its member agencies as the water year continues.

Potential Implementation of Pilot Water Transfer Plan:

Work continues on the Pilot Water Transfer Plan in preparation for potential implementation as early as Fall 2014. Major work areas include preparing the multiple agreements necessary by and between BAWSCA, EBMUD, Hayward, and SFPUC, and finalizing the outstanding technical and cost details.

One major trigger for implementing the Pilot Water Transfer Plan is a decision by EBMUD to implement drought rationing for its customers, and take supplemental water supply from its Freeport facility. At this time, EBMUD is closely monitoring its water supply situation and it is unclear what drought actions, if any, would need to be implemented by EBMUD. If necessary, such a decision by EBMUD is anticipated to occur in mid-April. BAWSCA's current schedule anticipates Board consideration to implement the Pilot Water Transfer Plan at its May 2014 meeting.

SFPUC Water System Improvement Program (WSIP):

BAWSCA continues its close review of overall WSIP implementation. On December 20th, the attached letter was sent to Dan Wade, WSIP Program Director. The letter presents twelve questions as well as requests SFPUC response to the four recommendations presented by

BAWSCA to the Commission on October 22, 2013. A meeting is schedule in late January to review these questions and the SFPUC's responses. The Board will continue to be informed of WSIP implementation and SFPUC's efforts to address the most recent issues at Calaveras Dam Replacement Project.

Protecting BAWSCA Members' Interests in a Reliable Water Supply – Legislation:

BAWSCA continues to pursue introduction of new legislation to extend State oversight of SFPUC's implementation of the WSIP to protect the region's water customers. State Senator Jerry Hill will author and introduce a bill in the Legislature in 2014 to extend State oversight of the WSIP so that it will sunset in 2022.

BAWSCA

Bay Area Water Supply & Conservation Agency

December 20, 2013

Mr. Dan Wade, Program Director
Water System Improvement Program
San Francisco Public Utilities Commission
525 Golden Gate Avenue
San Francisco, CA 94102

SUBJECT: Follow Up Meeting to Review Outstanding WSIP Questions

Dear Mr. Wade,

Thank you for meeting with my team on December 3rd to review the WSIP Q1 Quarterly Report. I understand you had a productive meeting, and that you discussed having a follow up meeting with me in January to go over WSIP issues of interest and concern to BAWSCA. Some of these issues were addressed in an email from Julie Labonte to me on September 3, 2013; however, I would like to get further details than she provided. I also would like to get more specifics on what is being done differently to manage the new schedule and budget, since the current policies and practices have not resulted in on time, and on budget program delivery. BAWSCA appreciates your efforts and the efforts and cooperation of the SFPUC staff, but we feel an added level of attention, analysis, and strategies are needed to keep the program on track.

I presented BAWSCA's concerns and recommendations for improved program delivery to the SFPUC commission in my memorandum dated October 22, 2013. I hope you will use the recommendations, and other strategies as necessary, to ensure the program will be delivered as now approved. As always, BAWSCA is ready and available to support the program as needed for an improved delivery result.

My Questions for our January Meeting:

1. You indicated to our team at the Q1 meeting that it is now forecast that all the WSIP budget contingency will be spent and that it is likely further costs above the approved budget will be incurred, which might be covered by reducing projects and funding from the 10-year CIP. BAWSCA would like further details regarding this most recent forecast. I would appreciate you walking me through the details of this forecast at our upcoming meeting.
2. There are several projects with forecasted completion dates beyond the currently approved completion dates. What is your plan for complying with the AB 1823 notification in a timely manner? Please present me your proposed approach for ensuring compliance with AB1823 at our January meeting.

3. New challenges on the Calaveras Dam are being evaluated which suggest that there could be significant additional costs and schedule impacts on the project. Please walk me through the details of this forecast at our meeting.
4. The SFPUC's Change Order Reason report dated August 30, 2013 indicates that \$175M of the \$240M (73%) in approved change orders (CO) issued is for differing site conditions. While much of this is for the Calaveras Dam, this still appears to be a very high percentage for any construction program. My team reported that at the PM meeting, you agreed the percentage is high. Please discuss the following at our meeting:
 - What is being done to address the escalation and avoidance of these costs?
 - In addition, the same report shows that another \$24M (10%) of all CO's issued are for design errors and omissions. Therefore \$199M, nearly 10% of the entire regional WSIP construction budget is being spent on these two items. What is the SFPUC doing to verify that these are reasonable costs?
 - Why weren't the site conditions more accurately researched and shown in the plans and specifications for the projects? What is being done to evaluate and back charge designers for errors, omissions, and lack of due diligence?
5. Are there schedule recovery plans in each region? What are the details?
6. What are the opportunities and plans to reduce WSIP trend and potential CO costs?
7. I appreciate the SFPUC's efforts to reduce program soft costs to date, however soft costs have continued to increase, some of which are due to the added scope for Calaveras Dam. Ms. Labonte's recent response seems to address managing the soft costs approved in the new budget. However, how can soft costs be reduced to below that shown in the new budget? The Q1 report indicates that nearly \$200M in soft costs are yet to be spent. How can additional soft cost savings be made to help provide a safety factor for increasing hard costs? For example, has the SFPUC staff been asked for proposals to reduce soft costs by 5% or 10%, and to realistically assess any resulting impacts? Can your staff provide a written soft cost transition plan to measure against?
8. Ms. Labonte indicated there is a strong emphasis to transition consultant work to city staff. How will this be more effective? Does the city staff have the appropriate expertise? We understand that city staff costs more than consultants when a city FTE is fully loaded with all related costs. Based on this, will your plan save money? What is the current consultant and city FTE count? What is the planned FTE count for both in 1 year? Do you have a plan to measure your success against?
9. Ms. Labonte indicated that an accelerated phase out of Program CM consultants is underway. What was the original phase out plan? How has it been accelerated? What is

the current plan for phase out? What is the current FTE count? What is the planned FTE count in 1 year?

10. Ms. Labonte indicated that there is ongoing demobilization of Regional CM consultants. What is the schedule for demobilization? What is the current FTE count for these consultants? What is the FTE count planned to be in 6 months and in 1-year?
11. In response to my question about new strategies that might be employed to reduce contingency use of the uncommitted funds in the Director's fund, Ms. Labonte indicated that the current CO procedures will continue to be used. While I appreciate the processes the SFPUC has put in place to manage projects, they have not served in a way that keeps the program on time and within budget. What is SFPUC doing to ensure that the new budget and schedule stay on track?
12. Ms. Labonte mentioned that the SFPUC is implementing some of RBOC's recent recommendations from the Block report. I would appreciate a copy of your response to RBOC detailing your plan for implementation.

We look forward to receiving the Alameda Creek Recapture Project Technical Memorandum as promised by Julie and your staff.

Also, I am pleased to hear that you will be including Phases 2 & 3 of the Peninsula Pipelines Seismic Safety Upgrades into the WSIP Quarterly Reports in the future.

BAWSCA Recommendations to the SFPUC Commission

On October 22, 2013, I presented the recommendations below to your Commission. My understanding is that Ms. Labonte would be providing me a written response to these recommendations prior to her departure from the SFPUC. I have not yet seen this response, so I am requesting a formal response from the SFPUC again to these recommendations.

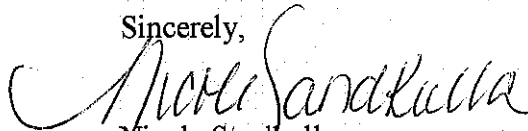
1. Develop and implement new management strategies to ensure that the WSIP is completed on the new schedule and within the new budget including:
 - Incentivize staff and contractors to identify and implement schedule recovery and/or acceleration plans for all active projects.
 - Establish a process to reduce project trend and known risk cost exposures.
 - Establish a procedure to review, at least quarterly, actual and forecasted WSIP soft costs for cost savings opportunities.

- Modify the change order procedure to require owner requested change orders to identify the associated Level of Service (LOS) goal being addressed by the proposed change.
 - Modify the change order reports submitted to the Commission to include an affirmative statement that the changes are essential to meet the LOS goals and, for each proposed change, identify the associated LOS goal being addressed.
2. Ensure that schedule and budget forecasts are, and continue to be, conservative and soundly based so that they can be relied upon with confidence, and that re-baselining every year or two can possibly be avoided.
 3. Develop a written staff transition plan to cost-effectively reduce staff as work nears completion, and present the plan to the Commission by December 2013.
 4. Modify WSIP Quarterly and Annual Reports to include reports on the progress towards incremental attainment of LOS goals.

BAWSCA realizes that the WSIP has been a very challenging program to manage. We have supported the program since its inception. BAWSCA is committed to collaborating with the SFPUC to help complete the WSIP within scope, schedule and budget.

I will be contacting your office directly to arrange a January meeting.

Sincerely,



Nicole Sandkulla
CEO/General Manager

le/NS

cc: Harlan Kelly, Jr., SFPUC General Manager
Allison Schutte, BAWSCA Legal Counsel

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

Meeting Schedule through December 2014

Schedule for BAWSCA Board Meetings (Meetings are held from approx. 7:00 – 9:00 p.m.)	
<u>Date</u>	<u>Location</u>
Thursday – January 16, 2014	Wind Room, Foster City Community Center
Thursday – March 20, 2014	Wind Room, Foster City Community Center
Thursday – May 15, 2014	Wind Room, Foster City Community Center
Thursday – July 17, 2014	Wind Room, Foster City Community Center
Thursday – September 18, 2014	Wind Room, Foster City Community Center
Thursday – November 20, 2014	Wind Room, Foster City Community Center

Schedule for RFA Board Meetings (Meeting time will be announced)	
<u>Date</u>	<u>Location</u>
Thursday – January 16, 2014	Wind Room, Foster City Community Center
Thursday – July 17, 2014	Wind Room, Foster City Community Center

Schedule for BAWSCA Board Policy Committee Meetings (Meetings held from 1:30-4:00 p.m.)	
<u>Date</u>	<u>Location</u>
Wednesday, December 11, 2013	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, February 12, 2014	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, April 9, 2014	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, June 11, 2014	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, August 13, 2014	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, October 8, 2014	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, December 10, 2014	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.

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