

**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, March 20, 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. Comments by the Chair	(O’Connell)	
3. Board Policy Committee Report <i>(Attachment)</i>	(Mendall)	<i>Pg 3</i>
4. 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)	
5. Consent Calendar <i>(Attachments)</i>	(O’Connell)	
A. Approve Minutes of the January 16, 2014 Meeting		<i>Pg 19</i>
B. Receive and File Budget Status Report – As of January 31, 2014		<i>Pg 23</i>
C. Receive and File Bond Status Report – As of December 30, 2013		<i>Pg 25</i>
6. Action Calendar	(Sandkulla)	
A. Resolution Adopting Policy Governing Distribution of BAWSCA’s Assets Upon Dissolution <i>(Attachment)</i> <i>The Committee voted unanimously to recommend approval of the proposed Board action. Adopt by roll call vote.</i>	(Sandkulla)	<i>Pg 29</i>
B. Resolution Adopting San Francisco Bay Area Integrated Regional Water Management Plan (IRWMP) <i>(Attachment)</i> <i>The Committee voted unanimously to recommend approval of the proposed Board action. Adopt by roll call vote.</i>	(Sandkulla)	<i>Pg 33</i>
7. SFPUC Report	(Kelly)	
8. Reports and Discussions	(Sandkulla)	
A. Preliminary Fiscal Year 2014-15 Work Plan and Operating Budget <i>(Attachment)</i>		<i>Pg 37</i>
B. Pilot Water Transfer Progress Report <i>(Attachment)</i>		<i>Pg 53</i>

9. Reports

(Sandkulla)

- A. CEO/General Manager's Letter (*Attachment*)
- B. Board Policy Calendar (*Attachment*)
- C. Correspondence Packet ([*Under Separate Cover*](#))

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10. Directors' Discussion: Comments, Questions and Agenda Requests

(O'Connell)

11. Date, Time and Location of Future Meetings
(See attached schedule of meetings)

(O'Connell)

12. Adjourn to next meeting scheduled for May 15, 2014 at 7pm

(O'Connell)

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

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

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

BAWSCA

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MEMORANDUM

TO: BAWSCA Board Members

FROM: Nicole Sandkulla, Chief Executive Officer/General Manager

DATE: March 14, 2014

SUBJECT: Summary of Board Policy Committee meeting held February 12, 2014

1. **Call to Order:** Committee Chair Al Mendall called the meeting to order at 1:30 pm. A list of Committee members who were present (9), absent (1), and other attendees is attached.

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

2. **Comments by the Chair:** Chair Mendall thanked Director Guzzetta for his leadership as Chair of the Board Policy Committee in 2013. He introduced Director Charlie Bronitsky as Vice Chair, and welcomed Director Kirsten Keith as a new member of the committee.

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

4. **Consent Calendar:**

Ms. Sandkulla noted a correction on page 3 of the December 11, 2013 BPC minutes, so that the sentence of the fourth paragraph reads, "...monitoring the significance and risks associated with actions taken by proponents of draining Hetch Hetchy."

Director O'Connell made a motion, seconded by Director Bronitsky, to approve the minutes of the Board Policy Committee meeting held on December 11, 2013. The motion passed with an abstention by Director Keith.

5. **Action Items:**

- A. **Resolution Adopting Policy Governing Distribution of BAWSCA's Assets Upon Dissolution:** Ms. Sandkulla reminded the Committee that in September of 2013, the Board approved the establishment of an irrevocable trust with California Employers' Retiree Benefit Trust (CERBT). To implement the trust, CERBT requires BAWSCA to adopt a resolution that outlines how BAWSCA's assets would be distributed upon dissolution, and prohibits the distribution of BAWSCA's assets to private persons to avoid

jeopardizing CERBT's tax-exempt status. BAWSCA worked closely with the attorney at CERBT to develop a resolution that fulfills these requirements.

The proposed means for distribution of BAWSCA's assets in the event of its dissolution involves a 2-step process. The first step distributes assets to a successor agency that assumes all of BAWSCA's debts and liabilities. The second step, if no such successor agency exists, involves (a) the distribution of BAWSCA's assets to pay BAWSCA's debts and liabilities, (b) distribution of the remaining assets after payment of debts and liabilities, to the extent attributable to any reversion from CERBT assets in excess of BAWSCA's OPEB liabilities, to public member agencies, (c) distribution of assets remaining [after (a) and (b)] to ratepayers of all agencies as previously charged, and d) distribution of remaining assets after (a), (b), and (c) to eligible public entities.

Ms. Sandkulla explained that any interest gained by the investment in this trust that are not used to pay off OPEB obligations by BAWSCA, must go to member public agencies.

For steps 2b and 2d, the member public agencies will negotiate an agreement to determine the asset distribution.

Committee members mutually expressed the unlikelihood of dissolution happening.

Director Keith noted that it was key to emphasize the language in the resolution that says, "...**but** only if such successor agency or instrumentality has agreed to assume all of BAWSCA's debts..."

Director Weed commented that it may be helpful for the full Board to know what BAWSCA's percent of funding of OPEB requirements are now, and how far we are to catch up to where we need to be.

Director Bronitsky made a motion, seconded by Director Vella, that the Committee recommend Board adoption of Resolution No. 2014-01 which outlines the policy governing the distribution of the agency's assets upon its dissolution.

The motion passed unanimously.

B. Resolution Adopting San Francisco Bay Area Integrated Regional Water Management Plan (IRWMP):

Ms. Sandkulla reported that the Integrated Regional Water Management Plan (IRWMP) is a collective effort among the 9 County Bay Area water, wastewater, stormwater, and flood control agencies to coordinate water management planning actions. Through the California Department of Water Resources (DWR), the Proposition 84 Integrated Regional Water Management (IRWM) grant program has been a focus of the State in the last several years for distribution of state water bond monies.

As a participant in the IRWMP, BAWSCA has been successful in receiving its share of grant funds for water conservation. BAWSCA was awarded \$862,988 in Round 1 of Prop 84 grant to subsidize high-efficiency toilets, washing machine, and lawn replacement rebate programs. Recently, BAWSCA was awarded \$187,312 in Round 2, and those

grant funds will subsidize the Lawn Be Gone and Home Water Use Reports programs. The total estimated savings to BAWSCA from both grants is nearly 650 acre-feet per year.

In order to receive the grant funds, DWR is requiring each grant recipient agency to adopt the most recent updated IRWMP for their region. The Bay Area IRWMP has been updated and is currently in draft form. It is expected to be finalized before the March Board meeting.

Director Bronitsky made a motion, seconded by Director Keith, that the Committee recommend Board adoption of Resolution No. 2014-02 to meet the requirements of California Department of Water Resources.

The motion passed unanimously.

6. Reports and Discussion Items:

- A. Preliminary Fiscal Year 2014-15 Work Plan and Operating Budget: Ms. Sandkulla reported that the development of the operating budget begins with the development of the work plan for the coming fiscal year. She is pleased to report that the preliminary work plan aligns with BAWSCA's legislated authority and its three goals: a reliable supply of high quality water at a fair price. The preliminary work plan also focuses on the results that, as reported to the Board in January, are critical for the next fiscal year, and for preparing for future challenges. The year 2018 is a critical year that brings a number of important issues that need to be addressed in the coming fiscal year. The work plan also includes a small amount of staff time to respond to drought condition and anticipated increased conservation activities.

A list of results that are focused on the agency's effectiveness, reliable supply and delivery, and fair price was presented to the Committee.

Ms. Sandkulla noted that in her new role as BAWSCA's CEO, she will carry on the agency's effectiveness and put focus on continuing to build a strong relationship with the SFPUC, its General Manager and its Commissioners.

The most significant suite of activities in the work plan lies in BAWSCA's goal to ensure water supply reliability.

Critical results include the completion of the Strategy in December 2014, and continuing the work to improve drought reliability for its member agencies, including amending the Tier 1 Plan. The timing for completing the Strategy is ideal because it will provide information for addressing the long term water supply challenges leading up to 2018, and set agencies up for completing their Urban Water Management Plan (UWMP) requirements by 2015. BAWSCA will support its member agencies as they complete their UWMP requirements.

Successful implementation of regional conservation programs will continue, as well as ongoing oversight of SFPUC's Water System Improvement Program (WSIP). While the

WSIP is nearing completion, the projects that remain are some of the most critical to the system.

Extending the State oversight of the WSIP implementation by the SFPUC through legislation is ongoing and will continue through Fall of 2014.

An increasing area of focus in FY 2014-15 is the SFPUC's most recently adopted 10-year CIP, which BAWSCA will follow closely in its development. BAWSCA's review and comment on projects in the CIP will be most effective during the early stages of those projects.

BAWSCA will continue to assess the potential significance and risks associated with actions taken by the proponents of draining Hetch Hetchy. Ms. Sandkulla reported that the proponents of draining Hetch Hetchy continue to pursue state, federal and legislative avenues to achieve their goals.

BAWSCA will maintain its active participation in the FERC relicensing process, which is expected to ramp up as the preliminary application is submitted in April.

Finally, protecting the members' interests in SFPUC actions to meet the water supply Level of Service goals, and addressing the critical decisions SFPUC will make in 2018 is a significant focus of the Preliminary Work Plan.

Ms. Sandkulla reported that the Commission had a full discussion about this topic at its February 11th meeting. Commissioner Moran has been pushing staff to provide information that will help the Commission make policy decisions in 2018 about whether to provide wholesale customers additional supply, increase the supply assurance, and what action to take regarding the contractual status for San Jose and Santa Clara. The SFPUC staff has initiated a new planning effort for next fiscal year that is called the Water Management Action Plan (Water MAP). The Water MAP intends to perform planning evaluation and present information to support the decisions San Francisco needs to make in 2018.

Under fair price, BAWSCA will continue the successful implementation of its 2013 bond issuance, administration of the Water Supply Agreement, and efficient operation of the agency.

Director Mendall expressed his concern on the impacts of the issues with the Mountain Tunnel on the 10-year CIP, and advocated BAWSCA's oversight.

Ms. Sandkulla reported that at the request of the Chair, she has asked SFPUC Asst. General Manager, Steve Ritchie to present the 10-year CIP at the March Board meeting.

Ms. Sandkulla explained that the schedule for achieving the critical results have limited flexibility. Unlike in previous years when workload items were moved from one year to the next to achieve what was possible with the agency's resources, work that must be done in the next fiscal year cannot be put off.

Ms. Sandkulla noted that while there will be no water supply limitation in 2018 since water use will not exceed 184 mgd, a question still remains as to what kind of certainty will San Francisco provide wholesale customers in meeting increased water supply need in the future.

Member agencies continue to project growth and an increase in water need between 2018 and 2040. San Francisco is looking at whether 1) to meet wholesale customers' future needs for additional supply, 2) to take on San Jose and Santa Clara as permanent customers, maintain their standing, or terminate, 3) to meet additional wholesale customer water needs or not, and 4) if so, should it be on a permanent basis with an increase of individual supply guarantees and drought reliability?

In response to Director Weed's question about how San Francisco's 2018 decision affects the 2009 Water Supply Agreement (Agreement), Legal Counsel, Allison Schutte, explained that the decisions that need to be made in 2018 were self-imposed by San Francisco, and is under their management. In the Agreement, the Wholesale Customers did not agree with San Francisco's decisions related with 2018. If San Francisco does not meet its 2018 self-imposed deadline, the agreement will continue as it is. BAWSCA's ongoing monitor will ensure that all aspects of the agreement are respected.

Ms. Sandkulla emphasized that the member agencies have a number of options on actions that can be taken as a group about San Francisco's decision in 2018 that do not relate to the Agreement. The member agencies may want to take a strong position on the resolution, or lack of resolution, by San Francisco. This is a matter that BAWSCA will continue to discuss with the Board and member agencies as it develops.

Ms. Schutte further explained that despite San Francisco's actions in 2018, the perpetual supply assurance for the wholesale customers and the allocation of water rates according to the agreement will continue.

Director Guzzetta asked if there's a chance that FERC may not be done before 2018, even if it's supposed to be done by 2016.

Ms. Schutte stated that while the formal application is not until April 2014, there has been millions of dollars invested in research and studies in preparation for the FERC process. She has not seen indications of possible set-backs in the FERC process, but an extension can be possible.

Ms. Sandkulla reported that the preliminary budget for FY 2014-15 is \$2,939,286, or 10% less than FY 2013-14. The preliminary budget does not include special studies or the implementation of potential pilot water transfer.

In response to Director Weed's question, Ms. Sandkulla explained that the staff report on the Preliminary Work Plan and Budget includes the investigation of a possible water transfer with SCVWD in FY 2014-15. This effort intends to continue ongoing discussions and investigations that began in FY 2013-14 about how BAWSCA and SCVWD might be able to do a water transfer given the interconnections of the system and common customers that utilize the same supplies.

Director Vella asked how the purchase of water and implementation of a water transfer will be funded if the need arises in FY 2014-15.

Ms. Sandkulla stated that there are a couple of options which will be presented to the Board for full consideration. One of the recommendations would include the use of the Water Management Charge, which is a tool that is in the Agreement with San Francisco, and which the Board utilized to fund the Strategy. Back in July 2010, the Board enacted a Water Management Charge of approximately \$2 million to be paid for through San Francisco's water bill over a period of 18 months to fund the Strategy.

The preliminary budget fully funds the OPEB Annual Required Contribution, and includes a budget allowance for COLA and benefit changes.

Ms. Sandkulla explained that, as done in the past, COLA is not an automatic adjustment, but rather, an allocation of a budget allowance to offer merit increases of up to 5%. COLA will be applied to salary ranges for all positions except the CEO/General Manager. The budget includes no increase in CEO compensation.

Benefit changes includes an increase in PERS contribution for a portion of staff, and an increase in health premiums.

Funding the Preliminary FY 2014-15 Operating Budget will require an increase in assessments to reach a General Reserve that is within the Board's budgetary guideline.

Ms. Sandkulla reported that the adopted budget for FY 2013-14 planned for the use of \$762,188 from the General Reserve to fund the budget. It also anticipated a transfer of approximately \$250,000 of unspent funds from FY 2012-13 into the General Reserve. The transfer did not occur because total budget spending in FY 2012-13 was 95% of the approved budget. As a result, the General Reserve balance at the end of FY 2013-14 will be below the budgetary guideline of 20% of the approved operating budget.

Ms. Sandkulla noted that assessments have not increased in 5 years, or since FY 2009-10. Three scenarios for funding the FY 2014-15 budget were presented to the Committee.

Scenario 1 provides no increase in assessments, but results in a declining General Reserve for the next 5 years.

Scenario 2 provides a one-time 4% increase in assessments and the difference withdrawn from the General Reserve. This results to a General Reserve balance that is below the minimum budgetary guideline in FY 2014-15.

Scenario 3 provides a one-time 5% increase in assessments. This achieves the minimum General Reserve target balance in FY 2014-15, and provides an increasing General Reserve balance through FY 2018-19 that remains below the maximum budgetary guideline.

Ms. Sandkulla explained that her goal with the 5% increase in assessment is to apply the least amount of increase while achieving a General Reserve balance that is within the budgetary guideline within one year.

The increase in assessments at 5% will not fully fund the operating budget. To fully fund the budget through the assessments would require a 12% increase and would result in a General Reserve balance at the upper end of the budgetary guideline within 2 years. At this time, Ms. Sandkulla stated that it is appropriate to moderate the increase.

All three scenarios assume 1) full funding of the Preliminary FY 2014-15 Operating Budget through assessments and transfers from the General Reserve, 2) an operating budget of \$2,939,286 for five years, 3) a 90% spending-to-budget ratio for FY 13-14, and a historical spending-to-budget ratio of 88% afterwards, and 4) that unspent funds are deposited back into the General Reserve at year-end.

Director Pierce noted that in FY 2013-14, funds were taken out of the General Reserve to support critical tasks that needed to get done. She asked if the CEO anticipates a development of critical workload continuing in the future.

Ms. Sandkulla stated that critical needs could potentially arise, and it is ideal to have a General Reserve balance that is available at the Board's discretion to fund the agency's operational needs. However, significant projects such as a pilot water transfer could not be supported by the General Reserve, and would have to be financed through other means.

Director Mendall encouraged the Board to observe whether changes to the historical trend of expending 88%-90% of the budget occur overtime, because the Board may not be able to count on having a full 10% cushion at the end of the year. A more aggressive step in raising the assessments can ensure a sufficient budget level.

Ms. Sandkulla reported that current spending for FY 2013-14 is trending at 90% of the approved Operating Budget by the end of the year.

The 5% increase raises the total assessments by \$125,850, which equates to approximately \$0.22 more per household per year, or \$0.07 per person per year.

Ms. Sandkulla reported that the recommended preliminary work plan and budget achieves agency goals without the need to sacrifice critical results, it balances with the agency's human resources, and matches the foreseeable needs in the upcoming five to ten years.

The Committee is asked to comment on the preliminary work plan and budget report and presentation, specifically on the results to be achieved, operating budget, and the alternatives for funding the budget and managing the General Reserve. Input received from the Committee will be incorporated in the report and presentation to the Board at its meeting in March, where the full Board will also have the opportunity to comment and provide suggestions.

Director Pierce suggested to emphasize the adjustments in budget spending that has led to rising general reserves in one year, and a decrease in another. This supports a conservative recommendation that balances the spending trends seen in the past.

Director Mendall suggested a review of how the General Reserve is set.

Director O'Connell asked for an investment cost analysis showing how much of the money invested in BAWSCA is returned to the agencies.

Ms. Sandkulla reported that with the current assessment of \$4.61 per household per year, BAWSCA's oversight activities have captured back \$2.04 per household per year, since FY 2001-02. This is not including the savings from the recent bond issuance.

Director Guzzetta cautioned how the cost analysis is presented because it may suggest a mere \$0.50 savings to a dollar. He noted that there is more benefit than just the dollar value because BAWSCA's oversight has truly been instrumental in preventing costly legal actions, such as arbitrations, from happening.

Director Mendall stated that it should be emphasized that in addition to the tangible benefits, there are long-term financial savings to BAWSCA's oversight.

Director Weed expressed his support for having a higher limit amount for the General Reserve, and noted two issues for consideration. First is the potential for unforeseen issues being added to the work plan, given the drought and innovative discussions taking place about water transfers, exchanges and restrictions. BAWSCA staff can potentially get pulled into these discussions. Second is the consideration of contingency planning as a role of BAWSCA given the issues with the Mountain Tunnel. He noted that BAWSCA has never adopted a contingency plan due to the assumption that the Regional Water System will not be offline for more than 24 hours.

Director Keith agrees with the concerns about the Mountain Tunnel.

Pilot Water Transfer Progress Report: Ms. Sandkulla provided an update on the progress of the Pilot Water Transfer.

The Strategy, which began in FY 2009-10, was authorized by the Board to focus on identifying when, where and how much additional water is needed in normal years and dry years, and what specific water supply solutions and management projects should be implemented.

Through the Phase I development of the Strategy, water transfers were identified as a promising water supply alternative. Transfers can augment both normal and dry year supplies, and was identified as one of four project types that are most promising in addressing water supply needs. Phase IIA of the Strategy led to the recommendation of a Pilot Water Transfer Plan investigation with EBMUD in 2012. The investigation, completed in September 2013, identified potential supply sources and sellers, the required agreements and plans for implementation, and other approval and regulatory requirements.

Ms. Sandkulla emphasized that the most significant benefit of implementing the pilot water transfer is the collective action of the member agencies to secure a reliable water supply independent of the SFPUC. It provides the foundation for further information of how transfers fit, or not, in meeting the agencies' supply needs, therefore identifying action towards a long-term reliable water supply.

The path of the water in the pilot transfer will begin at the Sacramento River. The water will go through EBMUD's Freeport Pumping Plant, through the Folsom South Canal and into EBMUD's Mokelumne aqueducts, through EBMUD's local distribution system into the upper San Leandro Reservoir, into the intertie located in Hayward, and potentially to the Newark turnout where it will connect with the San Francisco Regional Water System.

The elements of the pilot water transfer include a water delivery of 1,000 acre feet, or .89 mgd, over a period of 22 days. The source of supply and type of water right of the transfer water are to be determined, with an initial point of diversion north of the Delta at EBMUD's Freeport Pumping plant located on the Sacramento River. The transfer will likely occur in the October/November window.

Ms. Sandkulla explained that the 1,000 AF was determined as the amount the sellers are most comfortable with. BAWSCA is currently in discussions with Yuba County Water Agency and Placer County Water District as the potential sellers. The type of water rights determines who authorizes the transfer. Ms. Sandkulla explained that California has different water rights that have different rules governed by the State. For example, pre-1914 water rights provide the seller more control of the transfer.

The October/November window is the normal water transfer period for non-delta water users because this is the time when the Delta has less restrictions associated with fisheries and other operational constraints.

Ms. Sandkulla noted that the current water supply conditions raise questions of whether there will be available supplies for a transfer. The current water year is far from being normal, and the situation is constantly changing.

BAWSCA is continuing to work with EBMUD and SFPUC in developing several of the five necessary and key agreements: Water Purchase Agreement, BAWSCA/EBMUD Wheeling Agreement, Hayward Intertie Agreement, BAWSCA/Hayward Agreement, and BAWSCA/SFPUC Agreement. Most of the work is focused on the last four agreements where key decisions points for negotiation among the agencies involved are identified.

Ms. Sandkulla stated that if the Pilot Water Transfer is not implemented in the October/November timeframe, all of the agreements, with the exception of the water transfer purchase agreement, would still be finalized by the end of the current fiscal year.

The estimated total cost for the water transfer is \$700-\$900 per acre feet. The costs include the water purchase, wheeling by EBMUD and USBR, and operational costs of moving the water through Hayward's facilities. Ms. Sandkulla reported that at this time, there are no additional costs with SFPUC identified beyond the full costs recovered by the existing Water Supply Agreement.

Ms. Sandkulla stated that the work on the agreements will help define the issues and the feasibility of partnerships with other agencies to address long-term reliable water supply.

The potential for a water transfer is based on the intertie capacity which is 30-40 mgd on a near term basis. Ms. Sandkulla stated that there is potential for as much as 50,000 acre feet on a long-term basis.

The triggers for the pilot water transfer continue to evolve. First, SFPUC must determine that a water shortage condition exists. The current request for a voluntary 10% water use reduction should be sufficient to meet this trigger.

Second, EBMUD must choose to operate its Freeport facilities to provide additional dry year supplies for its own customers. Operating the Freeport facilities just for the pilot transfer will be significantly expensive.

Ms. Sandkulla reported that EBMUD is required to operate the Freeport facility every two years to comply with their permitting requirements. The facility is scheduled for operation this coming April to move 5,000 acre feet. While April is too early for implementing BAWSCA's pilot water transfer, knowing this testing opportunity is helpful in case conditions in the current water year do not allow for implementation of the pilot transfer.

The schedule for determining the use of the Freeport facility includes EBMUD's notification to the Bureau of Reclamation of its intention to operate the facility on March 1st. Between April 8th and 22nd, EBMUD must consider a drought declaration, and obtain approval to use the Freeport facility. The request to the Bureau of Reclamation to use the facility must be formalized by May 1st.

BAWSCA will continue its efforts to complete the agreements while monitoring the potential for a drought declaration by EBMUD and SFPUC. Consideration for action by the Board to implement the pilot water transfer is scheduled for the May 15th Board meeting. All necessary agreements required will be finalized between May and August.

Director Pierce asked where the transferred water go.

Ms. Sandkulla explained that the intertie is in Hayward and uses Hayward's transmission system. Hayward's system will run pumps to move the water to their connection with SFPUC. A small amount will go into the Regional Water System, but the transferred water will replace Hayward's supply for water consumption for the duration of the pilot transfer. If, in the future, more water is moved, and water supply goes into the San Francisco Regional Water System, the water will mix with the existing SFPUC supply. The intertie can push up to 30 mgd.

7. Reports:

- A. Current Water Supply Conditions: Ms. Sandkulla reported that the total reservoir storage for the Regional Water System is currently at 69% of maximum storage. The precipitation from the weekend of February 7th- 9th was good, but more is needed. The SFPUC will continue to evaluate conditions on a weekly basis.

Hetch Hetchy is at 52% of its capacity. Cherry Reservoir, which is used for power production, is at 74% of its capacity.

Ms. Sandkulla reported that the SFPUC Water Enterprise Department is considering rehabilitating the Lower Cherry Aqueduct, which connects the Cherry Reservoir to Early Intake below Hetch Hetchy Reservoir, to bring water for drinking water purposes in the event of dire situations. The SFPUC is currently investigating the process required to obtain approval and construction for the rehabilitation in time for next winter.

Ms. Sandkulla stated that the Lower Cherry Aqueduct was damaged by the Rim Fire, and that improvements are needed. It was last used for drinking water in 1988. It is currently not an approved source for drinking water, therefore, the SFPUC would have to get approval to use it, and would have to filter the supply at Sunol.

Committee members asked how the costs would be allocated.

Ms. Sandkulla stated that the Lower Cherry Aqueduct is truly a backup supply, and can continue its purpose of generating power while serving as an alternative supply source. Further investigations, including the cost impacts to wholesale customers, will need to be explored.

In response to Director Weed's question, Ms. Sandkulla clarified that San Francisco paid for approximately 50% of the New Don Pedro expansion project to have a share of the space for water banking. This enables San Francisco to pre-deliver water into the irrigation districts to Don Pedro Reservoir, and keep water upstream at Hetch Hetchy reservoir for drinking water purposes.

Until the recent storm, the precipitation at Hetch Hetchy was closely matching the driest water year that occurred in 1977. The recent storm spiked records closer to 2007, however, it is still significantly below 2013 precipitation.

The importance of snowpack for the San Francisco system is that it draws from a watershed that is at a very high elevation which acts as a storage reservoir. The snowmelt trickles down to the system overtime and provides a significant difference to overall water supply.

Ms. Sandkulla stated that the SFPUC's request for a 10% voluntary water use reduction does not trigger the drought plan in the 2009 Water Supply Agreement. There are several more months remaining in the rainy season, and there can be potential need for more, or less, conservation as conditions continue to change through April.

Ms. Sandkulla stated that Appendix H of the 2009 Water Supply Agreement provides a schedule for the SFPUC's drought notification to the Wholesale Customers. The schedule requires the SFPUC to issue a revised estimate of available water supply by March 1st. The letter the SFPUC issued on February 1st was their initial estimate of available water supply. The final estimate of available water supply and the amount of water available to its Wholesale Customers is due by April 15th or sooner. Between April 15th-31st, the SFPUC will, or will not, formally declare a water shortage emergency under Water Code Sections 350, and will, or will not, declare the need for voluntary or

mandatory rationing. SFPUC's declaration for mandatory rationing triggers the wholesale customers' contractual obligation under the Water Supply Agreement.

Ms. Sandkulla explained that the SFPUC's declaration for water shortage emergency, whether or not they require a mandatory or voluntary water use cut back, will result in water allocations. Under a mandatory cutback, agencies can bank their allocations until the drought is over. Agencies can transfer or sell their allocations to each other. The SFPUC has the ability to adopt drought rates, and impose excess use charges.

BAWSCA's role is limited to calculating the cutbacks using the Tier 2 Drought Allocation Plan. Final allocations to agencies will depend upon the available water supply.

Director Weed noted that expanding BAWSCA's role as a broker might be a valuable consideration for the member agencies.

BAWSCA is in discussion with San Francisco and the 9-County Bay Area Group about a regional conservation outreach program. A consideration is to transfer a portion of the recently awarded Prop 84 Round 2 grant to fund the conservation campaign effort and increase public awareness about rebate and conservation programs.

At the recent Bay Area Water Agencies Coalition (BAWAC) meeting, Ms. Sandkulla reported that she got a sense that despite the different target percentages in the different service areas, the agencies are interested in having a coordinated conservation message because the service areas fall into the same media coverage. SFPUC Director of Communications, Tyrone Jue, has stepped up to take the lead on this effort.

- B. Water System Improvement Program and SFPUC 10-Year CIP – Status Report: Ms. Sandkulla reported that San Francisco's plan for capital improvements contains have four areas. It includes the WSIP, Water Enterprise CIP (which has both a regional and local focus) Power Enterprise CIP, and Sewer Enterprise CIP. BAWSCA monitors the WSIP and the Water Enterprise CIP.

The 10-year CIP was adopted by the Commission at its February 11th meeting. The adopted CIP includes a budget for FY 2014-15 of \$445 million.

In responding to the questions asked by members of the committee about overruns and increased costs in the WSIP, Ms. Sandkulla reported that there is \$125.4 million projected overruns in the WSIP that have been moved over to, and funded as a separate line item in the Water Enterprise 10-year CIP. The SFPUC took a few projects out from the Water Enterprise CIP, and included the overruns from WSIP as a way to fund them.

While the majority of the elements removed from the Water Enterprise CIP were mostly local water projects, two were regional projects that include improvements to the Millbrae facility and the Bay Area Regional Desalination Project (BARDP).

Ms. Sandkulla explained that the planning dollars for the BARDP remain in the CIP, and the capital dollars are scheduled beyond the 10-year period. She reported that Commissioner Moran, who is most concerned about SFPUC's decisions in 2018, sees

the BARDP as having the ability to help SFPUC answer the critical 2018 questions. BAWSCA will closely monitor the developments.

Director Bronitsky asked whether the wholesale customers will be billed for the \$125.4. Ms. Sandkulla stated that the wholesale customers' portion is already included in what member agencies have been projecting as their share of the 10-year CIP. The question is whether the agencies want to continue funding the elements removed.

Ms. Sandkulla reported that the \$125.4 million include some allocations for the Calaveras Dam, but the numbers will continue to be developed. A contractor cost and schedule proposal is expected by the end of March, and the change order negotiations are expected to be completed by the end of April 2014.

Updated costs and schedule trends are expected by April, and included in the 3rd Quarter Report. The SFPUC anticipates overruns to exceed the available contingency funds.

Ms. Sandkulla reported that the Commission adopted a Water Enterprise financial plan at its February 11th meeting. The plan funds the Water Enterprise's share of the CIPs and is consistent with the rate projections that the Water Enterprise continues to share with BAWSCA. The plan provides a balanced financial picture.

Ms. Sandkulla explained that because the Mountain Tunnel is a joint facility, the Power Enterprise has to pay 55% of the cost of the project. The Power Enterprise does not have a balanced financial picture, and an issue exists as to whether the Power Enterprise will have the financial resources to pay its share.

Director Weed noted that the Penstocks are another joint facility that could potentially add another \$150 million for the Water Enterprise, if it is not already included in the budget. Ms. Sandkulla will look into the inclusion of the penstocks.

Ms. Sandkulla reported that the SFPUC responded to her letter of February 29th regarding BAWSCA's concerns with the Mountain Tunnel. The letter listed questions asking, 1) does the SFPUC have an emergency restoration plan in the event of system failure, 2) what are the causes of degradation, 3) are both immediate fixes and long-term measures needed, 4) how will the repair be financed, and 5) how will SFPUC address the risks to the Bay Area customers.

The SFPUC's response to BAWSCA's February 29th letter committed to provide an answer by March 1st to the first question. Information about the remaining questions will be provided by June.

In response to the questions asked by members of the committee, Ms. Sandkulla explained that the SFPUC has always been aware of the need to repair Mountain Tunnel. The need for repair is now more urgent and more expensive, because until the recent study, the SFPUC was not aware of the more significant degradation in the tunnel. BAWSCA is working with the SFPUC to identify the causes of the degradation, and the risks of increased degradation. The act of draining and recharging the tunnel are a likely cause for increased risks that could lead to system failure.

Ms. Sandkulla noted that eighty-five percent of the water used in the Bay Area will not be available if the tunnel fails. While local storage supply will evade an instantaneous impact, the recovery time is estimated to be up to nine months. The SFPUC is continuing its investigation to confirm recovery time and emergency restoration plan.

As part of BAWSCA's list of questions to the SFPUC, Ms. Sandkulla will verify with the SFPUC whether supplies are available up to 4 months if the local systems are full.

Given the revelation with what the SFPUC thought they knew about the Mountain Tunnel, and what they know now, Director O'Connell expressed concerns about the credibility of the entire WSIP.

Director Weed commented that he recalls Mr. Kelly saying that he considers the Mountain Tunnel as the single most significant threat to the system at this point. Director Weed hopes that it has the highest priority in the SFPUC's planning and execution.

Strategic Counsel, Bud Wendell, stated that it is important for BAWSCA to get in front of this issue for the best interests of the water customers in the service area. The February 29th letter that lists BAWSCA's questions is one big step in that direction. He commented that it is a significant problem, and encourages the BAWSCA Board to put focus on the concern arising from the public as well as political leaders on this matter.

Director Weed noted that BAWSCA ought to look at the contingency operations and emergency response plans in Alameda, Santa Clara, and San Mateo Counties to see how they work and how they are financed.

Director Pierce stated that it may be worthwhile to share information with the 3 counties and have a coordinated discussion on contingency planning.

Director Guzzetta commented that it is important for BAWSCA to know what SFPUC will do if the system fails, what supply will be used, and how will the regional system be fed.

Ms. Sankdulla will distribute the SFPUC's response to the Board and member agencies as soon as they become available.

- C. Board Policy Calendar: Ms. Sandkulla will provide an updated calendar to the Board at its meeting in March.

8. Comments by Committee Members:

Director Weed commented that the Dumbarton Quarry has been an overlooked opportunity for water storage in the Bay Area. He reported that the East Bay Regional Park District has proposed to make it a dump site, and has recently obtained authorization from the Regional Water Quality Control Board to put toxic soils into the quarry.

Chair Mendall appreciated that comments and discussions by the committee members.

- 9. Adjournment:** The meeting was adjourned at 3:45pm. The next meeting is April 9, 2014.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – February 12, 2014

Roster of Attendees:

Committee Members Present

Al Mendall, City of Hayward (Chair)
Charlie Bronitsky, City of Foster City (Vice Chair)
Randy Breault, City of Brisbane/GVMID (BAWSCA Vice Chair)
Rob Guzzetta, California Water Service Company
Irene O'Connell, City of San Bruno (BAWSCA Chair)
Barbara Pierce, City of Redwood City
Louis Vella, Mid-Peninsula Water District
John Weed, Alameda County Water District

Committee Members Absent

Tom Piccolotti, North Coast County Water District

BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Michael Hurley	Water Resources Manager
Adrienne Carr	Sr. Water Resources Specialist
Andree Johnson	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:

Michelle Novotny	San Francisco Public Utilities Commission
Peter Drekmeier	Tuolumne River Trust

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

**January 16, 2014 – 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. Twenty-one (21) members of the Board were present, constituting a quorum. A list of Directors present (21) and absent (5) is attached.

2. Special Order of Business: Election of Officers for Calendar Year 2014.

Vice-Chair Breault called for nominations for the position of Chair of the BAWSCA Board. Director Pierce nominated Irene O’Connell for Chair. Director Richardson seconded the nomination. There being no other nominations, nominations were closed by consensus.

Director O’Mahony made a motion, seconded by Director Quigg, that Irene O’Connell be elected as Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2014 to commence at the adjournment of the meeting at which she was elected.

Chair O’Connell called for nominations for the position of Vice-Chair. Director Richardson nominated Randy Breault as Vice-Chair of the board, and was seconded by Director Mendall. There being no other nominations, nominations were closed by consensus.

Director O’Mahony made a motion, seconded by Director Richardson, that Randy Breault be elected as Vice-Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2014 to commence at the adjournment of the meeting at which he was elected.

3. The meeting adjourned at 7:03pm to convene the San Francisco Bay Area Regional Water System Financing Authority Board of Directors meeting.

4. The meeting re-convened at 7:06pm

5. Comments by the Chair: Chair O’Connell welcomed Gustav Larsson as a newly appointed member of the Board for City of Sunnyvale. Director Larsson replaces Jim Griffith, who was appointed as Mayor of Sunnyvale. Director O’Connell expressed her appreciation for Director Griffith’s active participation on the Board since 2011, and congratulated him on his appointment as Mayor.

Chair O’Connell reported that an important item on the agenda for Board action is the mid-year review of BAWSCA’s work plan and budget for the current FY 2013-14.

The Board will receive information from the SFPUC on the current water conditions, and a report from Danielle Blacet from ACWA regarding the Statewide Water Action Plan. Chair O’Connell noted that while BAWSCA’s work plan does not include projects related

with the Bay Delta, she stated that statewide planning issues are important to BAWSCA member agencies.

Ms. Sandkulla added that a potentially significant problem with the SFPUC's key facilities, the Mountain Tunnel, is developing. Recent assessment reports indicate the risks of system failure with impacts to public health and safety from an extended shut down of water from Hetch Hetchy. The Mountain Tunnel is one of the original tunnels of the regional water system that conveys 100% of the Hetch Hetchy water supply to the Bay Area.

SFPUC General Manager Harlan Kelly and his executive staff have been asked to speak to the Board on this issue. Ms. Sandkulla reported that BAWSCA was notified of the matter as soon as it was discovered. BAWSCA will aggressively pursue the facts to fully understand the risks posed and the solutions recommended.

6. **Board Policy Committee (BPC) Report:** Committee Chair Rob Guzzetta reported the discussions and actions that took place at the BPC meeting held on December 12, 2013. The Committee voted unanimously to recommend approval of the proposed Board actions for the mid-year review of the Work Plan and Budget. Committee discussions are reflected in the summary report provided in the packet.

7. **Public Comments:** Public comments were received from Wynn Grcich.

8. **Consent Calendar:**

Director Quigg made a motion, seconded by Director Kasperzak, that the Budget Status Report as of November 30, 2013, and the Investment and Directors' Reimbursement Reports as of December 31, 2013 be received and filed, and that the Minutes of the November 21, 2013 meeting be approved, with corrections so that the sentence at the top of the page 3 reads; "...supplies will last for 8 ½ years with additional conservation and rationing."

The motion carried unanimously.

9. **Action Calendar:**

A. Mid-year 2013-14 Work Plan and Budget Review

Director Pierce made a motion, seconded by Director Kasten, that the Board approve:

1. Revisions to the FY 2013-14 Work Plan:

a. Additions:

1. **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;**
2. **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:

1. **Further evaluation of alternatives to current Tier 1 Drought Allocation Plan with San Francisco;**

2. 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 motion carried unanimously.

10. SFPUC Report:

SFPUC General Manager Harlan Kelly, WSIP Director Dan Wade and Assistant General Manager of Water Enterprise, Steve Ritchie provided reports to the Board.

Mr. Wade presented a progress report on the WSIP and the Calaveras Dam Project.

Mr. Ritchie addressed the Board on the SFPUC's 10-year CIP, the Mountain Tunnel, and current water supply conditions.

11. Reports:

Association of Water Agencies (ACWA) Statewide Water Action Plan: Danielle Blacet, ACWA Special Projects Manager, presented ACWA's Statewide Water Action Plan (SWAP), and ACWA's response to the Brown Administration Draft Action Plan.

Fiscal Year 2014-15 Work Plan and Budget Preparation: Ms. Sandkulla reported that the preparation of the Work Plan and Budget for FY 2014-15 has commenced and will remain focused on BAWSCA's three goals of ensuring a reliable supply of high quality water at a fair price. The Work Plan and Budget will be developed with a long-term perspective of major challenges anticipated in future years to prioritize resources that will achieve the critical results needed to meet BAWSCA's goals.

CEO/General Manager's Letter: Ms. Sandkulla briefly spoke on the items in the CEO/General Manager's Letter; the potential implementation of a pilot water transfer plan, the WSIP, legislation to extend the state oversight of the SFPUC's implementation of the WSIP, and a Hetch Hetchy system tour with the SFPUC for members of the Board.

12. Directors' Discussion: There were none.**13. Date, Time and Location of Next Meeting:** The next meeting is scheduled on March 20, 2014 in the Wind Room, Foster City Community Center.**14. Adjournment:** The meeting adjourned at 9:13pm.

Respectfully submitted,

Nicole M. Sandkulla
Chief Executive Officer/General Manager

NMS/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
January 16, 2014

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
Charlie Bronitsky	City of Foster City
Tom Chambers	Westborough Water District
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Mike Kasperzak	City of Mountain View
Tom Kasten	Town of Hillsborough
Kirsten Keith	City of Menlo Park
Marty Laporte	Stanford
Gustav Larsson	City of Sunnyvale
Al Mendall	City of Hayward
Chris Mickelsen	Coastside County Water District
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Sepi Richardson	City of Brisbane
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District

Absent:

Ruben Abrica	City of East Palo Alto
Armando Gomez	City of Milpitas
Larry Klein	City of Palo Alto
Jerry Marsalli	City of Santa Clara
Chuck Reed	City of San Jose

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: March 12, 2014

SUBJECT: Budget Status Report as of January 31, 2014

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 January 31, 2014, 58 percent into the fiscal year, total expenditures were \$1,740,632 or 53 percent of the total approved Operating Budget of \$3,280,188.

Table 1. Operating Budget Summary as of January 31, 2014

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	1,217,662	568,198	47%
Fair Pricing	227,500	124,371	55%
Administration	74,000	214,038	289%
Subtotal	1,519,162	906,606	60%
Administration and General			
Salary & Benefits	1,406,526	684,093	49%
Other Expenses			
BAWSCA	290,500	149,419	51%
BAWUA	1,100	0	0%
Subtotal	3,217,288	1,740,119	54%
Capital Expenses	4,000	0	0%
Budgeted Contingency	57,500	0	0%
Regional Financing Authority	1,400	514	37%
Grand Total	3,280,188	1,740,632	53%

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 from earlier this fiscal year and as reported in the previous budget report.

Consultants

The \$125,000 budget for technical review and tracking of the SFPUC's Water System Improvement Program was 51 percent expended. The Operating Budget allocation of \$150,000 for strategic counsel was 63 percent expended. The Operating Budget allocation of \$496,000 budget for legal counsel was 83 percent expended. The \$562,662 budget for water management and conservation-related activities was 49 percent expended.

Administration and Other Expenses

Budgets for salaries and other expenses were 49 and 51 percent expended, respectively.

Use of CEO's Discretionary Spending Authority:

In November, the CEO entered into an agreement with North Bay Pensions for \$2,000 to conduct GASB 45 Actuarial Services for FY 2013-14. Expenses are included in this budget report.

Use of Reserve and Reserve Fund Balance:

The General Reserve balance remains unchanged as of January 31, 2014. 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 11/30/13)	Account Balance (As of 1/31/14)
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 January 31, 2014 total \$1,593,849.



Bay Area Water Supply & Conservation Agency

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(650) 349-3000 tel. (650) 349-8395 fax

MEMORANDUM

TO: Nicole Sandkulla, CEO/General Manager

FROM: Christina Tang, Senior Administrative Analyst

DATE: March 12, 2014

**SUBJECT: Bond Surcharge Collection, Account Balance and Payment Report
as of December 31, 2013**

BAWSCA's Revenue Bond Series 2013A and Series 2013B (Taxable) were issued to prepay the remaining capital cost recovery payments that the BAWSCA agencies owed San Francisco as of June 30, 2013 when the payments were paid off. The bond transaction and the prepayment program was anticipated to generate approximately \$62.3 million in net present value savings over the term of the bonds, or about 17% of the \$356.1 million in principal prepaid from bond proceeds to San Francisco at the end of February 2013.

Bond Surcharge Collections

In July 2013, BAWSCA began collecting the bond surcharge from member agencies through the SFPUC as a separate item on their monthly water bills to agencies. The bond surcharge payments are used to make debt service payments on BAWSCA's revenue bonds.

All surcharges billed for the months of July to December 2013 have been collected. Table 1 below presents a summary of financial transactions related to BAWSCA's Bond Series 2013A and 2013B for the three months.

Table 1: Summary of Financial Transactions for Quarter Ending 12/31/2013
- BAWSCA Bond Series 2013A and 2013B

<u>Month</u>	<u>Amount Billed</u>	<u>Amount Remitted to Trustee</u>
October 2013	\$2,056,235	\$2,056,235
November 2013	\$2,056,235	\$2,056,235
December 2013	\$2,056,235	\$2,056,235
Total	\$6,168,705	\$6,168,705

Bond Surcharge Account Balances

All surcharge payments are deposited with the Bank of New York, which manages BAWSCA's accounts and administers debt service payments.

BAWSCA's account balances at the Bank of New York and the account activities in the past quarter are shown in Table 2 below.

Table 2: Bank of New York Bond Trustee Account Activity for Quarter Ending 12/31/2013

	\$22,273,027	Account balance as of 9/30/2013
<i>plus:</i>	6,082,502	<i>Surcharge collections</i>
<i>plus:</i>	87	<i>Interest earnings</i>
<i>minus:</i>	1,265	<i>Accrued interest for Treasury coupon bonds purchased in November</i>
<i>minus:</i>	<u>6,727,407</u>	<u><i>Debt service payment to bondholders</i></u>
	\$21,626,944	Account balance as of 12/31/2013

There are two ways interest is earned by BAWSCA on the collected surcharge payments. First, interest is automatically earned on the account balance in the Bank of New York Bond Trustee money market account at a rate of 0.01%. Last quarter, that interest earning was \$87. Second, BAWSCA has the ability to invest the collected surcharge payments by purchasing US Treasury securities, possibly earning a higher rate of return than the money market account. BAWSCA receives semi-annual interest earnings on the purchased U.S. Treasury securities. Total interest earnings of \$135,841 were received on the securities purchased for the stabilization fund in September 2013. The same amount of interest earnings will be received in March 2014. It will be included in the next quarterly account balance report.

To be cost effective and also utilize staff's time efficiently, each month BAWSCA calculates how much more interest earnings BAWSCA could possibly earn by investing the collected surcharge payments in US Treasury securities than leaving them in the money market fund. A threshold amount of \$500 was determined for investment decision making. If investing the collected surcharge payments by purchasing US Treasury securities can possibly bring in \$500 or more interest earnings, BAWSCA will select and purchase the most appropriate securities in accordance to BAWSCA's Investment Policy. Otherwise, the payments will stay invested in the money market fund. The primary objectives of BAWSCA's investment activities are safety, liquidity and investment return.

Based upon an evaluation of the available yields, it was determined that BAWSCA would realize slightly more than a \$500 earnings benefit by purchasing the U.S. Treasury Bill instead of staying invested in the money market fund in November 2013. Accordingly, BAWSCA purchased \$3,611,000 par amount of the U.S. Treasury Note maturing on 03/31/2014 at a total cost of \$3,614,239 with the surcharge payments collected in September and October. The purchase price includes a total accrued interest of \$1,265 because BAWSCA will receive at the maturity date the interest which accrued during the period prior to the time the security was purchased. The estimated interest earnings are about \$1,135 more than the interests we could receive from the money market account.

All investment interest earnings are deposited directly in the Trustee accounts, and will be used to pay for future expenses and debt service of the bonds. Ultimately, all interest earnings are returned to the member agencies through annual savings and through distribution of the Stabilization Fund, including interest, once the bonds are fully paid.

Revenue Bond Series 2013A and Series 2013B Debt Service Payment Status

The recent debt service payment of \$6,727,407 was made on October 1, 2013. It was paid using a set-aside portion of the proceeds from bond issuance, consistent with the initial bond structure. The next debt service payment of \$6,727,407 will be made on April 1, 2014. There are sufficient fund in the Trustee account to make the payment. Debt service payments are made on April 1st and October 1st of each year until 2034.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Resolution Adopting Policy Governing Distribution of BAWSCA's Assets Upon Dissolution**

Summary:

In September 2013, the Board approved the establishment of an irrevocable Internal Revenue Code (IRC) Section 115 Trust through the California Employers' Retiree Benefit Trust (CERBT) as administered by CalPERS to assist in funding the Annual Required Contribution (ARC) for the Other Post-Employment Benefits (OPEB) obligations. The Board delegated authority to the CEO/GM to implement the trust. In order to implement the trust, CERBT requires the Agency to adopt a resolution prohibiting the distribution of Agency assets to private persons to avoid jeopardizing the CERBT's tax-exempt status under IRC Section 115. If adopted, this resolution would address CERBT's concerns and allow the Agency to complete the CERBT application process.

Fiscal Impact:

None.

Board Policy Committee Action:

The Committee voted unanimously to recommend the proposed Board action.

Recommendation:

That the Board adopt Resolution No. 2014 - 01 which outlines the policy governing the distribution of the Agency's assets upon its dissolution.

Background:

In May 2013, the Board approved funding the ARC for the OPEB obligations into an irrevocable trust every year starting FY 2013-14. Staff and BAWSCA's Financial Advisor, KNN, evaluated several irrevocable IRC tax-qualified trust options and concluded that an IRC Section 115 Trust was the best option for the Agency's OPEB trust due to its flexibility, low cost, and minimal administrative burden. Staff evaluated various providers of Section 115 Trusts and concluded that the CalPERS CERBT was the most appropriate trust provider for the Agency's OPEB funds.

At the September 19, 2013 Board meeting, staff recommended, and the Board approved, the establishment of an irrevocable IRC Section 115 Trust through the CERBT trust administered by CalPERS to accommodate the Agency's OPEB funding. The Board also authorized the CEO/GM to execute an agreement with the CalPERS CERBT to establish and administer the Agency's OPEB Trust Fund. Finally, the Board delegated authority to the CEO/GM to request disbursements from the Agency's OPEB Trust Fund and take any other actions needed to implement the trust.

In implementing the trust, CalPERS raised an issue regarding disposition of Agency assets that requires Board action. Neither the Bay Area Water Supply and Conservation Agency Act nor any other applicable law specifically provides how Agency assets will be distributed in the event of its possible dissolution. However, Article 10 of the bylaws of the predecessor agency, the San Francisco Bay Area Water Users Association, included a provision regarding asset distribution upon dissolution that prohibited asset distribution to private individuals.

As a condition of the Agency's participation in the CERBT, CERBT requires the Board to adopt a resolution that provides that upon dissolution, BAWSCA's assets will only be distributed to governmental member agencies. Specifically, CERBT is concerned that the accrual of income from the CERBT to the benefit of any private person through a non-governmental member agency could jeopardize the CERBT's tax-exempt status under IRC Section 115.

Adopting the recommended resolution would address the concern raised by CalPERS by providing that, upon its dissolution, BAWSCA's assets shall first be distributed to any successor agency that has agreed to assume all of BAWSCA's debts and liabilities. If no such successor agency exists, BAWSCA's assets would then be dedicated to payment of BAWSCA's debts and liabilities, with any remaining assets refunded first to the extent attributable to any reversion from the CERBT assets in excess of BAWSCA's OPEB liabilities to member agencies that are eligible public entities, second to member agencies' ratepayers as previously charged and third, to its member public agencies.

Attachment:

1. Resolution No. 2014 - 01

RESOLUTION NO. 2014-01
BY THE BOARD OF DIRECTORS OF THE
BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

ADOPTING POLICY GOVERNING DISTRIBUTION OF
BAWSCA'S ASSETS UPON DISSOLUTION

WHEREAS, the Bay Area Water Supply and Conservation Agency ("BAWSCA") is organized and established by public water suppliers in Alameda, San Mateo, and Santa Clara Counties in accordance with the Bay Area Water Supply and Conservation Agency Act, Water Code section 81300, et seq. (the "Act"); and

WHEREAS, neither the Act nor any other applicable law provides how BAWSCA's assets will be distributed upon its dissolution; and

WHEREAS, the Act authorizes BAWSCA to adopt regulations, hold and dispose of property, and exercise any other express, reasonably implied, or necessary and proper powers to carry out the Act; and

WHEREAS, as a condition of participating in the California Employers' Retiree Benefit Trust (CERBT), as administered by CalPERS to assist in funding the Annual Required Contribution (ARC) for the Other Post-Employment Benefits (OPEB) obligations, CalPERS requires that, in order to ensure that the CERBT continues to meet the requirements for a tax-exempt trust under section 115 of the tax code, BAWSCA adopt a resolution providing that upon its dissolution, its assets will be distributed only to governmental agencies; and

WHEREAS, the Board has determined that, in order to permit it to participate in the CERBT, it is appropriate to establish how BAWSCA's assets will be distributed upon its dissolution.

NOW THEREFORE BE IT RESOLVED, that the Board hereby adopts the following policy governing the distribution of BAWSCA's assets upon its dissolution:

As a public agency, the assets of the Bay Area Water Supply and Conservation Agency ("BAWSCA") are irrevocably dedicated to public purposes as expressly set forth in Section 81300, et seq. of the Water Code for which BAWSCA was established by public water suppliers in Alameda, San Mateo and Santa Clara Counties, including but not limited to, planning for and acquiring supplemental water supplies and encouraging water conservation and use of recycled water on a regional basis. As such, no part of BAWSCA's assets shall ever inure, more than incidentally, to the benefit of any director, officer, or private member of BAWSCA, or to the benefit of any other private person. Upon the dissolution or winding up of BAWSCA, its assets shall be distributed to any successor agency or instrumentality of the State of California or any political subdivision thereof that has been organized and established to carry out the public purposes specific to the San Francisco regional water system, as set forth in Section 81300 et seq. of the Water Code, for which BAWSCA was established, but only if such successor agency or instrumentality has agreed to assume all of BAWSCA's debts and liabilities, including but not limited to any debt service on bonds and Other Post-Employment Benefit ("OPEB") obligations.

Alternatively, if no such a successor agency or instrumentality exists or has so agreed, upon the dissolution or winding up of BAWSCA, its assets shall first be dedicated to the payment, or provision for the payment, of all of its debts and liabilities, including but not limited to any debt service on bonds and OPEB obligations. Any assets remaining after payment, or provision for the payment, of all such debts and liabilities shall be distributed as follows: first, to the extent attributable to any reversion from the California Employers' Retiree Benefit Trust of assets in excess of BAWSCA's OPEB liabilities, to the member agencies that are eligible public entities, as defined in Section 81305 of the Water Code, or agencies or instrumentalities thereof, in such manner as may be provided in agreements between BAWSCA and such member agencies; second, to each entity identified in Section 81460 of the Water Code and any entity that subsequently becomes a member in accordance with Section 81456 of the Water Code in proportion to its costs for purchasing water under the July 2009 Water Supply Agreement Between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County and Santa Clara County, as amended, or successor agreement, to be refunded to such entity's ratepayers that have previously been charged; and, third, to the member agencies that are eligible public entities, as defined in Section 81305 of the Water Code, or agencies or instrumentalities thereof, in such manner as may be provided in agreements between BAWSCA and such member agencies.

FURTHER RESOLVED, that the CEO/General Manager is hereby authorized and directed to execute all documents and take all other actions necessary or advisable to effect the purposes of this resolution.

PASSED AND ADOPTED this 20th day of March, 2014, by the following vote:

AYES:

NOES:

ABSENT:

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

ATTEST:

Secretary

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Resolution Adopting San Francisco Bay Area Integrated Regional Water Management Plan**

Summary:

The Bay Area Integrated Regional Water Management Plan (IRWMP), a collective effort of water agencies in the Bay Area to coordinate water management planning, was updated in September 2013. Through the California Department of Water Resources (DWR) Proposition 84 Integrated Regional Water Management (IRWM) grant program, participants in the IRWMP, including BAWSCA, have received a grant for implementation of specific projects included in the IRWMP. As a condition of the grant agreement, DWR requires that each recipient of the grant funds adopt the updated IRWMP. BAWSCA's share of the grant award is \$862,988 for its water conservation programs. BAWSCA was recently awarded an additional \$187,312 for its water conservation programs. Total estimated savings from both grants is nearly 650 acre-feet per year, or enough water to meet the annual water needs of 1,900 households.

Fiscal Impact:

None. Associated grant funds are made available to BAWSCA member agencies for subscription programs in which participating agencies fund all program implementation costs.

Board Policy Committee Action:

The Committee voted unanimously to recommend the proposed Board action.

Recommendation:

That the Board adopt Resolution No. 2014-02 to meet the requirements of DWR.

Discussion:

The IRWMP is a nine-county effort to coordinate and improve water supply reliability, protect water quality, manage flood protection, maintain public health standards, protect habitat and watershed resources, and enhance the overall health of the bay. The IRWMP was first completed in 2006 and was updated in September 2013.

Through the Proposition 84 IRWM Grant Program, administered by DWR, local public agencies in the Bay Area, including BAWSCA, have been awarded funding for the implementation of water management projects. The grant is administered via an agreement between DWR and the Bay Area Clean Water Agencies (BACWA). The water conservation program portion of the grant is administered by Solano County Water Agency.

BAWSCA, as a sub-participant in the Round 1 Proposition 84 IRWM grant, was awarded a total of \$862,988 in funding for its High Efficiency Toilet Rebate Program, High Efficiency Clothes Washer Rebate Program, and Lawn Be Gone Rebate Program. The funding will be used to partially subsidize the cost of each rebate and will be distributed to the member agencies participating in these programs to reimburse program expenditures. Activities funded by this grant will provide approximately 366 acre-feet of water savings per year. On February 4, 2014, BAWSCA was awarded an additional \$187,312 under Round 2 of the Prop 84 IRWM grant program for the Lawn Be Gone Program and Home Water Use Reports Program, which will provide approximately 282 acre-feet per year in water savings.

As a condition of the Round 1 grant agreement, DWR requires that each recipient of Prop 84 IRWM funding adopt the revised IRWMP. Adoption of the Bay Area IRWMP Update does not entail a direct commitment of resources or implementation of each project, and there is no joint commitment or responsibility by the Bay Area IRWM Plan Update participants to implement any or all of the projects

Attachments:

1. Resolution for the adoption of the San Francisco Bay Area Integrated Regional Water Management Plan

**RESOLUTION NO. 2014-02
BY THE BOARD OF DIRECTORS OF THE
BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**ADOPTING THE UPDATED SAN FRANCISCO BAY AREA
INTEGRATED REGIONAL WATER MANAGEMENT PLAN**

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

WHEREAS, Bay Area Clean Water Agencies (BACWA) is a joint powers authority made up of numerous water agencies in the San Francisco Bay Area region; and

WHEREAS, BACWA is the recipient of a grant from the State of California, Department of Water Resources (DWR Grant) to help fund integrated planning efforts for water resources management, including the implementation and operation of various regional water conservation, water recycling, ecosystem restoration, green infrastructure, and flood management-watershed projects to be carried out by a number of participating agencies, including BAWSCA; and

WHEREAS, the DWR Grant provided BAWSCA with \$862,988 for its water conservation programs; and

WHEREAS, the DWR Grant also provided funds to update the Bay Area Integrated Regional Water Management Plan (IRWMP), a nine-county effort to coordinate and improve water supply reliability, protect water quality, manage flood protection, maintain public health standards, protect habitat and watershed resources, and enhance the overall health of the bay; and

WHEREAS, the IRWMP was posted on the internet for public comment and updated in September, 2013 to incorporate changes based on comments received during the public review period in the areas of environmental justice, technical project data, and other elements of the IRWMP; and

WHEREAS, BAWSCA does not have any responsibility either to implement any projects under the updated IRWMP or commit any resources, and the updated IRWMP does not effect in any way BAWSCA's planning efforts separate from the updated IRWMP; and

WHEREAS, a requirement of the DWR Grant is that participating agencies, including BAWSCA, adopt the IRWMP, as updated.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors hereby adopts the IRWMP as updated.

ADOPTED this ____ day of _____, 2014, by the following votes:

AYES:

NOES:

ABSENT:

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

ATTEST:

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

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

Summary:

This memorandum presents the preliminary Fiscal Year 2014-15 Work Plan and results to be achieved, a preliminary Operating Budget, a preliminary assessment of how the work could be funded, and identifies specific budget issues requiring input from the Committee before the preliminary budget can be presented to the Board of Directors. As was done last year, this memorandum summarizes the major conclusions, and places additional detail in appendices.

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

The preliminary estimate for next year's Operating Budget is \$2,939,286 which is about 10% below the current FY 2013-14 approved budget. Given the projected balance in the General Reserve at the end of FY 2013-14, it will be necessary to increase assessments to fund the preliminary Operating Budget. Preliminary examinations identify a 5% increase in assessments as sufficient to bring the estimated General Reserve within the budgetary guidelines established by the Board.

Board Policy Committee Action:

The Preliminary Work Plan and Budget were presented to the Committee for discussion and comments. No Committee action was requested. Committee members supported the Preliminary Work Plan and the results to be achieved in FY 2014-15. Committee members expressed support for the recommended option to fund the budget with a 5% increase in assessments. Additional information to address clarifying questions raised by the Committee are addressed in this memo.

Recommendation:

That the Board provide comments and suggestions concerning the results to be achieved, the preliminary Operating Budget estimate, alternatives for funding the budget and managing the General Reserve.

Preliminary Work Plan:

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

Major efforts included in the FY 2014-15 Work Plan and that affect the Operating Budget are:

- Ongoing oversight of the San Francisco's WSIP and 10-Year Capital Improvement Program (CIP);
- Pursuing legislation to extend State oversight of San Francisco's progress implementing the WSIP;
- Administering BAWSCA's bonds;
- Actively participating in the relicensing of New Don Pedro Reservoir to protect regional water supplies;
- Completing the Long-Term Reliable Water Supply Strategy; and
- Completing initial actions to improve drought reliability including the examination of a pilot water transfer with Santa Clara Valley Water District.

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

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

In developing the preliminary Work Plan, several activities were identified that could be performed by BAWSCA to the benefit of the agency and its members, but that are not included in the preliminary Work Plan because they are not critical to the agency achieving its state mandated mission and purpose. This information is presented in Appendix K of this memo.

Each year, BAWSCA's work plan development process starts by reviewing and updating the major activities over the next 20 years. These activities require coordinated action by BAWSCA and its member agencies to protect water reliability, quality and fair price. Table 3 lists these activities as they were updated as part of the FY 2014-15 preliminary Work Plan development. In each case, the results identified in Table 3 will take the form of agreements, legislation, or other legally enforceable work products. Development of these documents will result from skilled negotiations based on rigorous investigations of impacts and alternatives, costs, cost allocation, and other matters.

Budget Considerations: One item specifically not included in the preliminary Work Plan or preliminary Operating Budget is any work associated with implementation of a pilot water transfer with East Bay Municipal District (EBMUD) in FY 2014-15. Implementing a pilot water transfer with EBMUD requires two specific triggers:

- EBMUD must declare a water shortage and decide to access additional water supply via its Freeport project; and
- SFPUC must declare a water shortage requesting water use reductions.

At this time, while EBMUD is experiencing similar drought conditions as elsewhere in the State, EBMUD has not made a decision regarding use of its Freeport Facilities outside of the required fish screen test in April 2014. This decision will occur by mid-April. The SFPUC has requested voluntary water use reductions of 10% at this time due to current hydrologic conditions and available water supplies. Water supply conditions will continue to be reviewed in the coming months in anticipation of potential consideration by the BAWSCA Board at its May 2014 meeting to implement a pilot water transfer with EBMUD. Possible options to fund the implementation of the Pilot Water Transfer Plan will be presented as part of any recommended action and will include possible use of the Water Management Charge, a funding tool enabled in the 2009 Water Supply Agreement.

Further budget details and historical budget information is included in the appendices to this memo.

Table 1. Results to be Achieved in FY 2014-15

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. Long Term Reliable Water Supply Strategy – Complete Strategy by Dec. 2014. Work will include evaluation of project portfolios to meet updated supply needs, & presentation of policy decisions for board consideration including drought level of service.
- b. Drought Reliability – Pursue planning for projects that would enhance near-term drought reliability for all agencies including examination of a pilot water transfer with Santa Clara Valley Water District. Implementation of a pilot water transfer is not included but can be added if later authorized by the Board.
- c. Consistent and Defendable Regional Planning – Support members’ efforts to develop required 2015 Urban Water Management Plans.

2. Near-term Supply Solutions: Water Conservation

- a. Implement Core Water Conservation Programs - Programs that benefit all customers.
- b. Implement Subscription Water Conservation Programs - Rebate and other programs that benefit, and are paid for by, agencies that subscribe for these services.

3. Facility Reliability: Monitor the SFPUC’s Water System Improvement Program/10-Year Capital Improvement Program

- a. Monitor WSIP scope, cost, and schedule as San Francisco continues an aggressive construction schedule through 2019 - Press the SFPUC and the city's political leadership to meet the city's adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. Focus resources on monitoring project and program performance during construction.
- b. Pursue legislation to modify current sunset clause and extend State oversight on WSIP implementation to 2022.
- 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 Supply Level of Service Goal – Protect members’ water supply and financial interests as SFPUC addresses actions needed to meet its adopted Water Supply Level of Service Goal

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.
- b. SFPUC Interim Supply Decisions – Protect members’ water supply and financial interests as SFPUC initiates new planning effort (Water Management Action Plan “MAP”) to support Commissions’ upcoming 2018 water supply decisions.

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

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

7. Reporting and Tracking of Water Supply and Conservation Activities

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

FAIR PRICE

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

- a. Administer the Water Supply Agreement with 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.

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

Table 2: Activities Not Included in Preliminary Work Plan and Operating Budget for FY 2014-15

Reliable Supply

1. Implement a pilot water transfer with EBMUD in 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.

Table 3. 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. • 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.

Recommended Preliminary FY 2014-15 Operating Budget:

The preliminary Operating Budget presented in Table 4 reflects the funding necessary to achieve the full Work Plan and includes the net increase to fund the Annual Required Contribution (ARC) for Other Post-Employment Benefits. This is included as a separate line item to highlight its inclusion in this second year of funding.

**Table 4. Preliminary FY 2014-15 Operating Budget
by Major Expenditure Category**

Cost Category	Approved FY 2013-14 Budget, dollars*	Preliminary FY 2014-15 Budget, dollars	Difference, dollars
Consultants/ Direct Expenditures			
Reliability	1,217,662	770,162	(447,500)
Fair Pricing	227,500	287,000	59,500
Administration	74,000	85,300	11,300
<i>Subtotal</i>	1,519,162	1,142,462	(376,700)
Administration			
Employee Salaries & Benefits	1,308,527	1,343,406	34,879
Other Post-Employment Benefits (net)	98,000	95,918	(2,082)
Operational Expenses	290,500	295,000	4,500
BAWUA	1,100	1,100	0
<i>Subtotal</i>	1,698,127	1,735,424	37,297
Total Operating Expenses	3,217,288	2,877,886	(339,403)
Capital Expenses	4,000	2,500	(1,500)
Budgeted Contingency	57,500	57,500	(0)
Regional Financing Authority	1,400	1,400	0
Grand Total	3,280,188	2,939,286	(340,903)

*As amended by the Board on July 18, 2013.

Explanation and Alternatives for Salaries and Benefits:

The increase for salaries and benefits of \$32,797 shown in the preliminary budget is a result of a variety of changes. Many of these changes are associated with the large number of staffing adjustments experienced in FY 2013-14 and also include increases in health benefit costs, reduced retirement benefit costs for new employees due to the Public Employment Pension Reform Act (PERPA), and staffing support associated with the CEO transition. The preliminary Operating Budget also includes the following:

- \$16,518 for a COLA adjustment to top step salaries
- \$11,147 merit allowance separate from COLA adjustment

A Cost of Living Allowance (COLA) adjustment of 2.60% to the top step of salaries has been included in the preliminary Operating Budget and is consistent with the December

value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit. The history of salary and benefit adjustments for BAWSCA is presented in Appendix G to this memo.

The size of the merit allowance would permit awarding salary increases of up to 5%, or to top step for the position, whichever is less. Consistent with past practice, no salary increment is budgeted for the CEO.

Funding the Preliminary Operating Budget:

Four principles were considered when examining how to fund the preliminary budget:

1. Budget sufficient resources to achieve the desired Work Plan results.
2. Spend only what is needed to achieve the results.
3. Do not increase assessments unless absolutely necessary.
4. Maintain a prudent General Reserve balance within Board guidelines.

The preliminary funding plan complies with all four principles. The preliminary Operating Budget achieves the results listed in the Work Plan.

Use of and Status of General Reserve

Each year, unspent funds are moved to the General Reserve to fund special needs and future year's budgets. For example, over the past several years, additions to and planned use of the General Reserve have included:

- \$172,190 assessment refund to the member agencies from the General Reserve in October 2011;
- Approved adjustments to the adopted work plan in FY 2011-12 resulted in \$264,000 in unspent FY 2011-12 funds being transferred into the General Reserve in FY 2012-13;
- \$130,000 from General Reserve in FY 2012-13 to fund EBMUD Pilot Water Transfer Plan,
- \$65,000 from General Reserve in FY 2012-13 to fund Water Demands Projection Project, and
- \$398,000 from the General Reserve in FY 2013-14 to fund the Water Demand Study and the Annual Required Contribution (ARC) for the OPEB obligations.

The funding plan for the adopted FY 2013-14 budget included use of \$762,188 from the General Reserve and assumed a deposit of unspent funds from FY 2012-13 to the General Reserve of approximately \$250,000.

Though expenditures in FY 2012-13 were within the approved FY 2012-13 budget, revenue realized by June 30, 2013 was less than actual expenses. The net result is such that no funds were available to deposit into the General Reserve with the close of FY 2012-13. This information became available upon completion of BAWSCA's audited financials for FY 2012-13 and reported in the BAWSCA Budget Status Report as of September 30, 2013.

At this time, the FY 2013-14 year end General Reserve balance is estimated to be \$551,628, or 18% of the Preliminary FY 2014-15 Operating Budget, which is outside the adopted General Reserve Policy. BAWSCA's General Reserve Policy, last adopted July 2011, identifies a range of 20% to 35% of the budget year's operating expense as a budgetary guideline for the General Reserve balance.

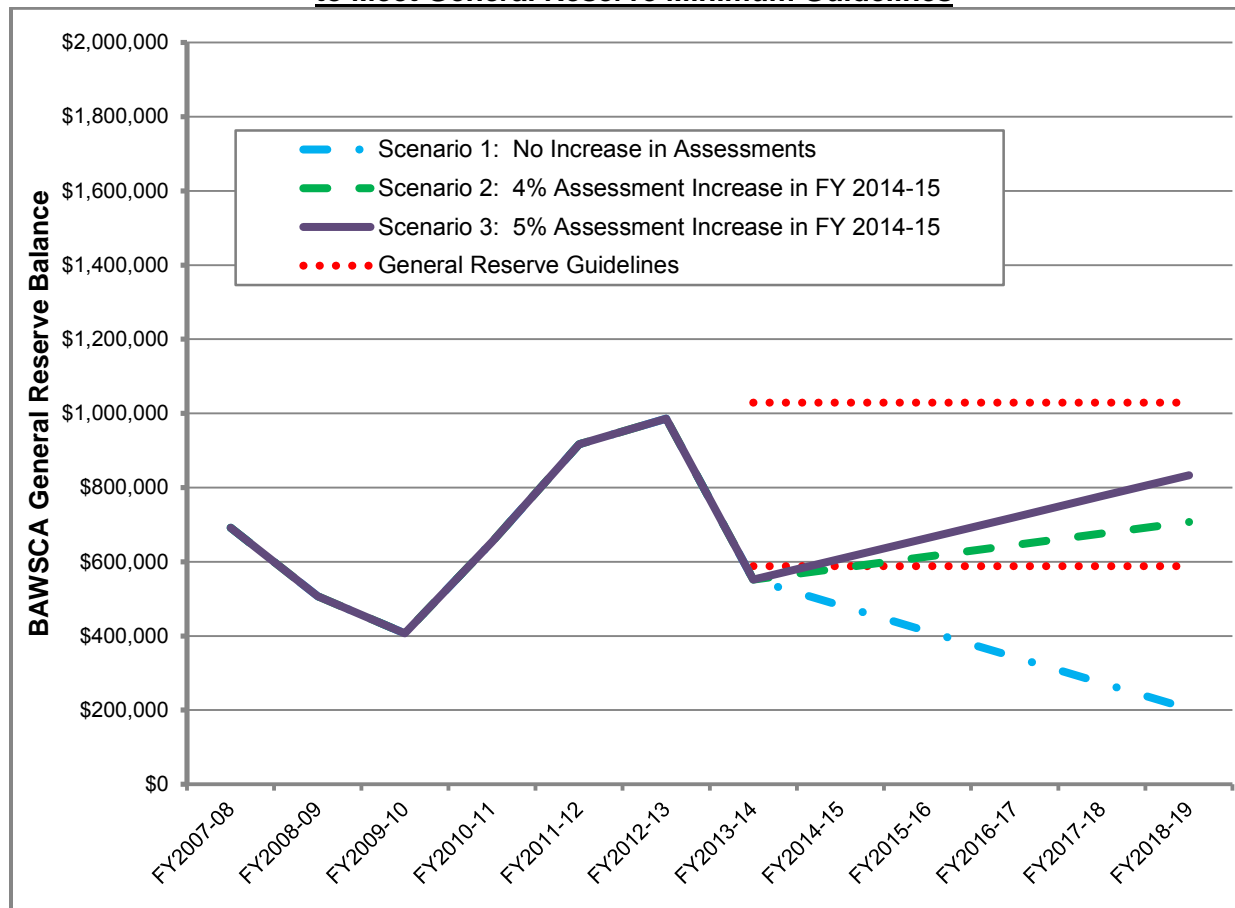
Alternatives Examined for Funding the Preliminary Operating Budget

Several alternatives to funding the Preliminary Operating Budget were examined and are presented below and depicted in Figure 1:

- Scenario 1: Fund the FY 2014-15 Preliminary Operating Budget with no increase in assessments. This scenario results in a decreasing General Reserve balance for the upcoming 5 years.
- Scenario 2: Fund the FY 2014-15 Preliminary Operating Budget with a one-time 4% increase in assessments and difference withdrawn from the General Reserve. This scenario results in a General Reserve balance that is less than the minimum budgetary guideline adopted by the Board.
- Scenario 3: Fund the FY 2014-15 Preliminary Operating Budget with a one-time 5% increase in assessments in FY 2014-15. This scenario results in achieving the minimum General Reserve target in FY 2014-15 and staying below the maximum budgetary guidelines through FY 2018-19.

All three scenarios assume the following: 1) full funding of the budget through assessments and transfers from the General Reserve, 2) an Operating Budget of \$2,939,286 for five years, 3) 90% spending-to-budget ratio for FY 2013-14 and the historical spending-to-budget ratio of 88% afterwards, and 4) that unspent funds are deposited back into the General Reserve at year-end.

Figure 1: Increase in Assessments Needed to Meet General Reserve Minimum Guidelines



In examining alternatives to funding the preliminary Operating Budget, a few key results can be determined:

- Scenario 1 results in an estimated General Reserve balance at the end of FY 2014-15 that is below the minimum budgetary guideline established by the Board, and the balance would continue to decline in subsequent years.
- Scenario 2 results in an estimated General Reserve balance at the end of FY 2014-15 that is slightly below the minimum budgetary guideline established by the Board.
- Scenario 3 results in the estimated General Reserve balance at the end of FY 2014-15 within the established budgetary guidelines, at 21% of the preliminary FY 2014-15 Operating Budget.

Based on these preliminary examinations, a 5% increase in assessments appears sufficient to bring the estimated General Reserve within the budgetary guidelines established by the Board. BAWSCA's assessments have not been increased in 5 years. The history of BAWSCA assessments is provided in Appendix H.

A 5% increase in assessments represents a total increase of \$125,840.60. Table 5 presents the results of a 5% increase in assessments by member agency.

Table 5. Examination of a 5% Increase in BAWSCA Assessments

Members	Adopted FY 2013-14 Annual Assessment	5% Increase	Difference
ACWD	\$169,133	\$177,589.65	\$8,456.65
Mid Peninsula	\$51,560	\$54,138.00	\$2,578.00
Brisbane	\$5,268	\$5,531.40	\$263.40
Burlingame	\$70,011	\$73,511.55	\$3,500.55
Coastside	\$22,289	\$23,403.45	\$1,114.45
Cal Water	\$534,120	\$560,826.00	\$26,706.00
Daly City	\$65,356	\$68,623.80	\$3,267.80
E. Palo Alto	\$30,840	\$32,382.00	\$1,542.00
Estero	\$84,767	\$89,005.35	\$4,238.35
GVMID	\$6,573	\$6,901.65	\$328.65
Hayward	\$264,276	\$277,489.80	\$13,213.80
Hillsborough	\$54,899	\$57,643.95	\$2,744.95
Menlo Park	\$49,702	\$52,187.10	\$2,485.10
Millbrae	\$39,503	\$41,478.15	\$1,975.15
Milpitas	\$101,601	\$106,681.05	\$5,080.05
Mtn. View	\$159,987	\$167,986.35	\$7,999.35
North Coast	\$49,462	\$51,935.10	\$2,473.10
Palo Alto	\$198,514	\$208,439.70	\$9,925.70
Purissima Hills	\$31,448	\$33,020.40	\$1,572.40
Redwood City	\$169,604	\$178,084.20	\$8,480.20
San Bruno	\$35,161	\$36,919.05	\$1,758.05
San Jose	\$69,295	\$72,759.75	\$3,464.75
Santa Clara	\$58,922	\$61,868.10	\$2,946.10
Stanford	\$38,799	\$40,738.95	\$1,939.95
Sunnyvale	\$141,167	\$148,225.35	\$7,058.35
<u>Westborough</u>	<u>\$14,555</u>	<u>\$15,282.75</u>	<u>\$727.75</u>
Total	\$2,516,812	\$2,642,652.60	\$125,840.60

APPENDICES

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

Appendix A: Funding for Subscription Conservation Programs

As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA's subscription water conservation programs. The staff time to be devoted to those programs during FY 2013-14 is estimated to be 770 hours. Agencies participating in subscription programs pay for associated consultant support and direct expenses. A slightly increased level of effort is planned for FY 2014-15 with the addition of a new subscription program associated with the Residential Home Water Use Reports program. As in prior years, those consultant costs and direct expenses are not included in the Operating Budget.

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

The Operating Budget does not include the cost of consulting services for developing the Long-Term Reliable Water Supply Strategy, which is being funded through the Water Management Charge authorized by the Board in July 2010. An update on the Water Management Charge revenue is provided in the Budget Status Reports to the Board.

Appendix C: Value for the Cost

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

Appendix D: Historical Assessments

Table D-1 displays the history of assessments and year-end reserves.

Table D-1. Historical Annual Assessments and Year-End Reserves

Fiscal year	Assessments	Year-End Reserves
2003-04	\$1,668,550	\$276,480
2004-05	\$1,641,995	\$246,882
2005-06	\$1,953,998	\$240,000
2006-07	\$2,117,904	\$654,000
2007-08	\$2,117,904	\$691,474
2008-09	\$2,309,000	\$507,474
2009-10	\$2,517,000	\$407,192
2010-11	\$2,517,000	\$653,763
2011-12	\$2,517,000	\$916,897
2012-13	\$2,517,000	\$985,897
2013-14	\$2,517,000	\$551,628

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

The preliminary FY 2014-15 budget for BAWUA is \$1,100. This amount appears in the BAWSCA budget.

Appendix F: Preliminary Budget for the Regional Financing Authority Budget

The BAWSCA Board of Directors has continued to agree to fund nominal administrative costs for the Regional Financing Authority (RFA), at least until it became more actively involved and required significant resources. Assuming a continued low level of activity in FY 2014-15, the preliminary RFA budget is \$1,400. The RFA will formally consider and adopt this budget in July 2014.

Appendix G: History of Salary and Benefits Adjustments

The information below presents the history of salary and benefits adjustments for BAWSCA staff.

- FY 2013-14: The Board approved a 2.312 percent increase to the top step of staff salary ranges, consistent with the December value for the Consumer Price Index for Urban Water Earners and Clerical Workers in the San Francisco-Oakland-San Jose area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.
- FY 2012-13: The Board approved a 3.10 percent increase to the top step of staff salary ranges. Those adjustments were consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.
- FY 2011-12: The Operating Budget included no adjustment to the salary for any employee for COLA, merit or any other reasons.
- FY 2010-11: The Board approved a 3.01 percent increase to the top step of staff salary ranges. Those adjustments were consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.
- FY 2009-10: There was no COLA adjustment. An allowance for merit adjustments was budgeted for employees not yet at top step.

Appendix H: Uses of Professional Services

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

1. Professional engineering services for: a) developing a long-term strategy to ensure a reliable supply of water; b) implementing and tracking water conservation efforts; c) evaluating and monitoring SFPUC's 10-Year Capital Improvement Program (CIP) development and implementation; d) evaluating Water System Improvement Program project scopes during design and construction; e) monitoring WSIP project cost estimates, bids and schedules; f) monitoring and assessing San Francisco's performance in implementing the overall WSIP; g) assessing San Francisco's method for cost estimation, application of contingencies and addressing cost inflation during the WSIP; h) providing specific constructive recommendations for keeping the WSIP on or

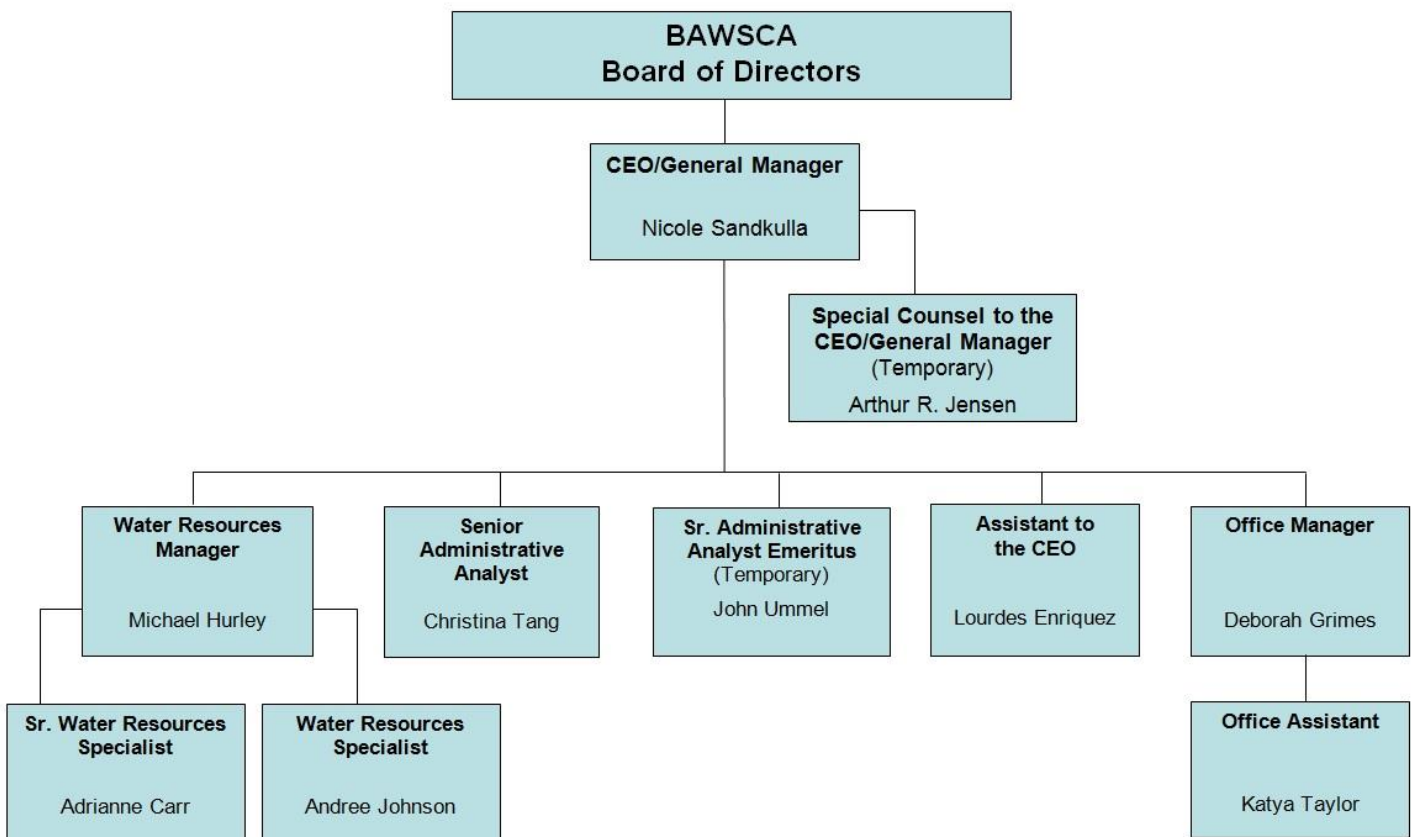
ahead of schedule; and i) analyzing hydraulic records used by San Francisco in setting the wholesale water rates.

2. General legal services for BAWSCA and the RFA; specialized legal services to support administration of the Water Supply Agreement; specialized legal services for addressing matters related to water supply reliability.
3. Strategic counsel for identifying and addressing strategic and political issues associated with maintaining the progress of the Water System Improvement Program, assisting the Board and the CEO in developing and implementing an effective policy making process that supports the development of the Long-Term Reliable Water Supply Strategy, providing legislative and political support, and providing advice to the CEO and the Board on other issues significant to the water customers and the effectiveness of the agency.
4. Financial advisory services to conduct specified capital financing and rate impacts analyses on a task order basis.
5. Accounting/auditing expertise to assist with implementing the Water Supply Agreement, as well as an independent auditor to prepare and review annual financial statements.

Appendix I: Current Organization and Staffing

Figure I-1 represents the current reporting relationships in the organization.

BAWSCA Organization Chart



Appendix J: Future Challenges Facing BAWSCA, Member Agencies, and Their Customers

Table 3 details the major challenges faced by BAWSCA, Member Agencies, and their customers between now and 2035 that were identified during the FY 2014-15 Work Plan development.

Appendix K: Beneficial Activities Identified But Not Included in Work Plan

In developing the preliminary Work Plan, several activities were identified that could be performed by BAWSCA to the benefit of the agency and its members but that are not included in the preliminary Work Plan because they are not critical to the agency achieving its state mandated mission and purpose. These items are presented in Table K-1 below.

**Table K-1: Beneficial Activities Identified
But Not Included in Preliminary Operating Budget for FY 2014-15**

<u>Program Area</u>	<u>Activity</u>
Fair Price	<ul style="list-style-type: none"> • Produce an independent evaluation of wholesale rate structures and how retail rates could be structure to avoid large revenue uncertainties. San Francisco has considered setting rates based on Individual Supply Guarantees, which would reduce or eliminate savings in the cost of water as an incentive for developing water conservation or alternative supplies.
Reliable Supply	<ul style="list-style-type: none"> • Coordinate or develop and implement drills of emergency preparedness procedures between the SFPUC and the BAWSCA member agencies (including their associated cities and counties) to protect the public health and safety of the water customers. Historical drills have focused on more on testing SFPUC response and communication rather than integrated response and operations. • Develop regional conservation program materials for BAWSCA member agencies to support their programs and BAWSCA's programs in a uniform fashion • Modify to BAWSCA's Water Conservation Database to match current CUWCC reporting requirements.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Pilot Water Transfer Progress Report**

Summary:

The following is an informational update on the current activities, costs and benefits, and potential deal points associated with implementing the Pilot Water Transfer.

BAWSCA has been investigating water transfers as one alternative to improve the future water supply reliability of its member agencies as part of BAWSCA's Long-Term Reliable Water Supply Strategy (Strategy) planning process. Since 2012, BAWSCA has partnered with the East Bay Municipal Utility District (EBMUD) to investigate water transfer projects to improve the future water supply reliability of each agency including the development of a short-term, 1 year pilot water transfer (the Pilot Water Transfer) for possible implementation as early as Fall 2014.

Fiscal Impact:

None at this time. Implementation of the Pilot Water Transfer is not included in the adopted FY 2013-14 budget and would need to be funded through a separate, future Board action.

Recommendation:

This item is for information and discussion only. Comments from the Board related to the written and oral presentation of this project are requested in anticipation of future board action.

Discussion:

Significant progress on the Pilot Water Transfer continues, but changing water supply conditions have increased the uncertainty associated with key elements of this potential transaction. As noted in the January Board report on this issue, BAWSCA's program partners must undertake certain actions in order to implement the transfer.

The first action necessary to trigger possible implementation of the Pilot Water Transfer is a decision by EBMUD to initiate operations of its Freeport Regional Water Project (Freeport Facilities). These facilities are essential for diverting and conveying available water supply from potential sellers made available via the Sacramento River. EBMUD has indicated that it would utilize its Freeport Facilities for the delivery of its own water transfer supplies if the projected storage level in its own storage facilities at the end of water year (i.e., Oct. 1 – Sept. 30) was less than 450 TAF. Current projections show that there is roughly a 50% chance that EBMUD's storage levels will be below this level at the end of September, but enough uncertainty remains that consideration of whether to operate these facilities by the EBMUD Board has been moved to the end of April. It would be cost prohibitive for BAWSCA if EBMUD were to operate the Freeport Facilities solely for the delivery of water transfer supplies to BAWSCA.

The second action necessary to trigger possible implementation of the Pilot Water Transfer is the determination by the San Francisco Public Utilities Commission (SFPUC) that a water shortage condition exists. All indications are that the SFPUC's current call for a voluntary 10% reduction in water use will remain in place if average conditions continue through the Spring and customers achieve the requested water use reduction. However, there is the potential for an increase in the level of voluntary reductions or even mandatory cutbacks if water supply conditions significantly worsen. BAWSCA continues to meet with the SFPUC regarding the Pilot Water Transfer, and these discussions have included the accounting for transfer supplies under the shortage provisions

of the 2009 Water Supply Agreement.

Additionally, the unprecedented drought conditions have also added uncertainty as to the amount and source of supply for any water transfer. BAWSCA continues to work with EBMUD to identify an appropriate seller of transfer supplies. With precipitation levels in February at or near normal in key California watersheds, the availability of transfer water may be increasing somewhat from those predicted in January when more challenging supply conditions existed.

Agreements Necessary to Implement the Pilot Water Transfer

Progress continues in discussions with staff from EBMUD, SFPUC and the City of Hayward (COH) to develop the following five key agreements necessary to conduct the Pilot Water Transfer:

- **Water Purchase Agreement:** Agreement for the purchase of water from willing seller;
- **BAWSCA-EBMUD Wheeling Agreement:** Agreement outlines the terms and conditions for EBMUD to wheel the transfer water, secured and purchased by BAWSCA, through EBMUD and US Bureau of Reclamation facilities to the Hayward Intertie;
- **Hayward Intertie Pilot Transfer Agreement:** Four-party agreement that defines the terms for the use of Hayward Intertie for the Pilot Water Transfer among EBMUD, SFPUC, COH, and BAWSCA;
- **BAWSCA-Hayward Agreement:** Agreement outlines the procedures for documenting and reimbursing COH for appropriate costs incurred to implement the transfer and identifies terms of use for COH's system beyond the EBMUD point of delivery;
- **BAWSCA-SFPUC Agreement:** Agreement outlines the operational and water accounting guidelines between BAWSCA and SFPUC for conveying purchased water to member agencies by in-lieu means through the San Francisco Regional Water System (RWS).

Included in these discussions are the costs elements associated with each agreement. As proposed, BAWSCA will be responsible for all costs associated with acquisition and delivery of the transferred water supply. Costs for purchase of the water, moving water to the Hayward Intertie, and through the COH will be shared by the BAWSCA member agencies. Costs for moving the water through the RWS to the member agencies shall be recovered through provisions of the 2009 Water Supply Agreement between the Wholesale Customers and the SFPUC (WSA) in proportion to use at the time.

Phase 1 identified estimated costs for the Pilot Water Transfer including water purchase, wheeling, operations and maintenance, and administrative cost associated with a potential transfer. BAWSCA continues to work with the Pilot Water Transfer partners to refine the cost estimates. Table 1 below presents an updated summary of the estimated costs to reflect the discussions with COH on operational costs of the Hayward Intertie. All costs remain preliminary at this time, including the costs for the COH, which are not final at this time.

Table 1: Estimated Preliminary Pilot Water Transfer Costs			
Type of Cost	Recipient	Est. Cost (\$/AF)	Est. Total Costs
Water Purchase	Water Seller	≈ \$275	\$ 275,000
Wheeling	EBMUD, USBR	\$348 - \$471	\$348,000 - \$471,000
Hayward Facilities ⁽¹⁾	COH	\$123 - \$201	\$123,000 - \$201,000
SF RWS	SFPUC	\$0	\$0
Total Estimated Costs		\$750 - \$950 / AF	\$750,000 - \$950,000

(1) Costs for the COH are not final at this time.

Schedule and Next Steps

BAWSCA will continue to work with EBMUD, COH, and SFPUC to finalize the agreements and take the steps necessary to implement the Pilot Water Transfer. Additionally, EBMUD and BAWSCA will be planning the implementation phase (Phase III) of the Pilot Water Transfer.

EBMUD's consideration of a drought declaration and concurrent decision to operate the Freeport Facilities is currently scheduled to occur at the April 22nd EBMUD Board meeting. On May 1st, EBMUD could formalize their request to the Bureau of Reclamation for operation of the Freeport Facilities.

On May 15th, the decision to execute the Pilot Water Transfer could be brought to the BAWSCA Board for consideration. If approved, the Board decision would initiate Phase III of the Pilot Water Transfer. Phase III activity would include securing approval for implementation from the EBMUD Board of Directors, entering into a water purchase agreement with a willing seller, obtaining all of the necessary regulatory approvals, and implementing the transfer in late Summer or Fall 2014.

Background:

In 2010, BAWSCA began investigating water transfers as one alternative to improve the future water supply reliability of its member agencies as part of the Strategy planning process.

Beginning in 2012, EBMUD and BAWSCA began evaluating the feasibility of partnering on long-term water transfer projects to improve the future water supply reliability of each agency. The investigations with EBMUD have been broken into three phases as follows:

- **Phase I:** Studied the potential to conduct a one-year pilot water transfer to deliver water supplies from the Sacramento River in a future dry-year when EBMUD is planning to operate its Freeport Facilities, which it jointly owns with the Sacramento County Water Agency. The findings of this investigation were documented in the EBMUD-BAWSCA Short-Term Pilot Water Transfer Plan report released in September 2013.
- **Phase II:** Development of the agreements between and among EBMUD, COH, SFPUC, and BAWSCA necessary to implement the Pilot Water Transfer should water supply conditions warrant. Phase II is ongoing.
- **Phase III:** Involves the implementation of the Pilot Water Transfer. As part of Phase III, the parties would make determinations that the requisite conditions exist, obtain the required regulatory approvals (e.g., Warren Act), and seek board approvals (including the BAWSCA Board) necessary to conduct the Pilot Water Transfer. Phase III could begin as early as mid-2014.

The attached Figure 1 presents a map with the path of the Pilot Water Transfer water and the relevant physical facilities.

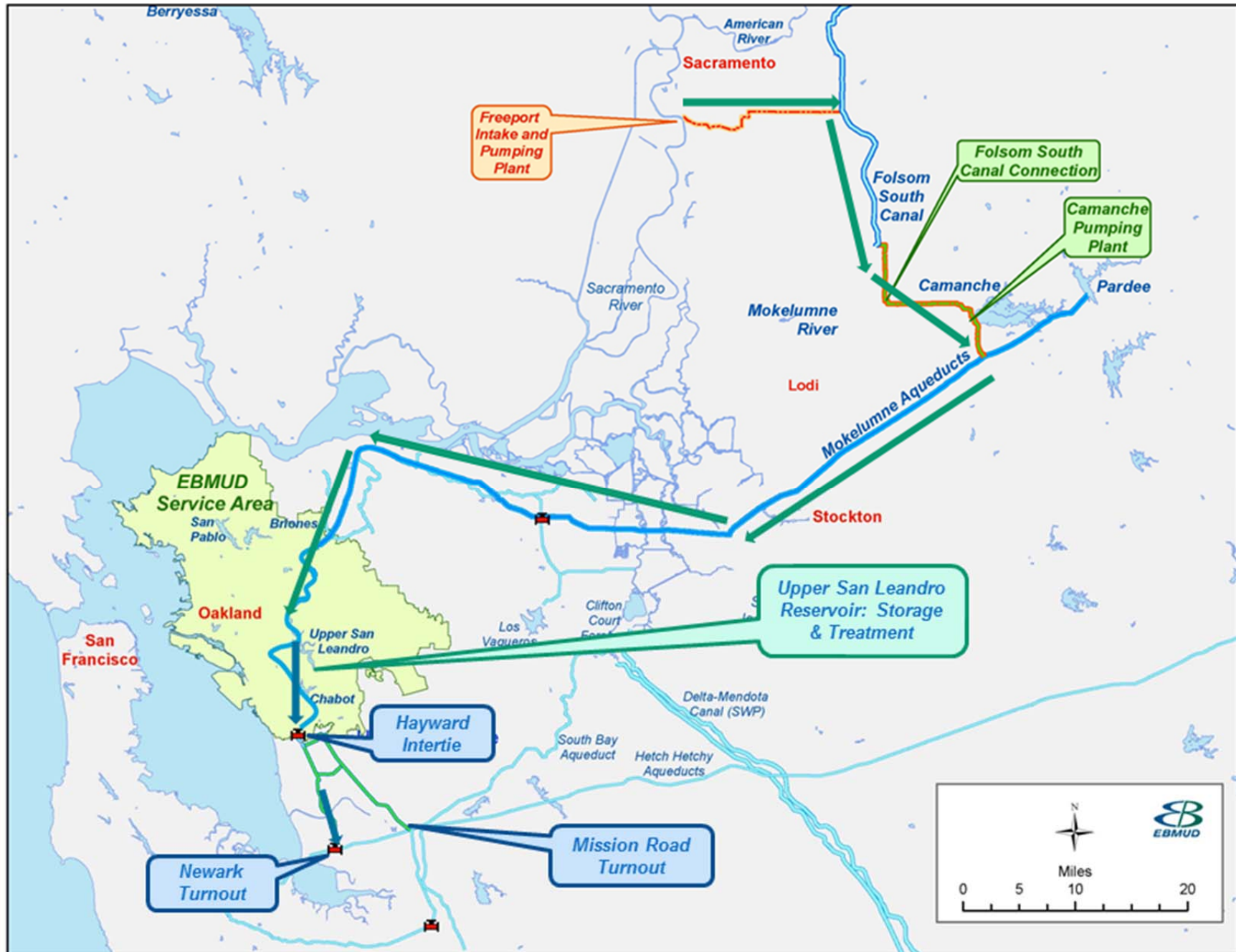
Benefits of a Pilot Water Transfer

The Strategy identified long-term water transfers as a promising option for improving the supply reliability of its member agencies. Development of a pilot water transfer plan was recommended in the Long-Term Reliable Water Supply Strategy Phase IIA Final Report to test the viability of water transfers and identify the technical, financial and institutional issues associated with a potential long-term water transfer. More immediately, the Pilot Water Transfer will provide an additional 1,000 acre-feet of dry year supply to the member agencies and their customers under the unprecedented drought conditions being experienced. Finally, the implementation of the Pilot Water Transfer would also mark the first time that the BAWSCA member agencies have acted collectively and independently of the SFPUC to secure a reliable water supply.

Elements of the Pilot Water Transfer

- **Water Transfer Amount:** 1,000 AF (.89 MGD) delivered over approximately 22 days
- **Source of Supply:** To be determined, potential sellers previously identified include Yuba County Water Agency and Placer County Water District
- **Type of Water Right:** To be determined based on source of supply
- **Initial Point of Diversion:** North of Delta at Freeport Facilities diversion location on Sacramento River
- **Timing of Deliveries:** Likely October/November

Figure 1.



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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: March 14, 2014
FROM: Nicole Sandkulla, CEO/General Manager
SUBJECT: Chief Executive Office/General Manager's Letter

Legislation – Senate Bill 1345:

BAWSCA is working with state legislators to extend the sunset provision of current state law, which provides for state oversight of San Francisco's Water System Improvement Program (WSIP) to rebuild and restore the San Francisco Regional Water System.

To achieve this extension, Senate Bill 1345 was introduced in the Senate on February 21, 2014 by the Senate Natural Resources and Water Committee chaired by Senator Fran Pavley. BAWSCA is working with legislators and BAWSCA's allies to support this vitally important legislation.

On March 14th, a support letter from BAWSCA for SB 1345 was sent to Senator Pavley. BAWSCA has also requested support letters from its member agencies. A support letter from Mayor Lee on behalf of the City and County of San Francisco has also been sent to Senator Pavley.

A copy of my most recent statement addressing the need for legislation to extend state oversight and supporting SB 1345 is attached for your reference.

SFPUC's Water System Improvement Program (WSIP):

The SFPUC has indicated that it intends to move forward with a Proposed Notice of Change to the WSIP to address schedule extensions and increased budgets for several WSIP projects, most noticeably the Calaveras Dam Replacement Project. Based upon conversations with the WSIP Program Director, the changes will include an overall budget increase of approximately \$125M and an overall schedule extension of approximately nine months. The official Proposed Notice of Change will be published by the SFPUC on March 21st, starting the required 30-day review period. The hearing to adopt the proposed changes is scheduled for the Commission's April 22nd meeting.

BAWSCA and its technical experts will be closely reviewing all materials associated with the Proposed Notice of Change and will be meeting with the WSIP Program Director during the review period to fully evaluate the proposed changes and implications to the member agencies and their customers. BAWSCA will submit comments on the proposed changes as appropriate and necessary to protect the interests of the member agencies and their customers. A report on the proposed changes and BAWSCA's assessments of the impacts will be provided at the April Board Policy Committee meeting and the May Board meeting.

SFPUC's Mountain Tunnel Project:

BAWSCA has continued its investigation of the issues surrounding the Mountain Tunnel, its current conditions, and the SFPUC's proposed approach to addressing this critical risk. The SFPUC has sent two replies to my January 28th letter. The first reply on February 11th committed to answering all five questions posed by the requested schedule. The second reply on March 10th provided an answer to the first question. The SFPUC's reply, while helpful, provides little specifics and requires additional information to fully understand the SFPUC's proposed plans. Copies of both letters from the SFPUC are attached for your information.

At BAWSCA's request, a meeting is being arranged with the SFPUC to discuss the SFPUC's March 10th reply and other questions raised during BAWSCA's review of the relevant technical documents. Given the importance of this issue, regular communication with the Board will continue on this subject.

Current Water Supply Conditions:

The SFPUC will present an updated water supply condition report at the March 20th meeting. At this time, the SFPUC continues to request 10% voluntary water use reductions from its retail and wholesale customers.

For other Bay Area water agencies, each water system presents a unique set of water supply conditions and as a result, each has responded individually to the current drought conditions. Table 1 below presents an overview of drought related actions taken by major water suppliers in the Bay Area.

Table 1: Overview of Drought Actions by Bay Area Water Agencies

Water Agency	Type of Action	Level
SFPUC Wholesale Customers	Voluntary Cutbacks	10%
SFPUC Retail Customers	Voluntary Cutbacks	10%
Alameda County Water Agency	Mandatory Cutbacks	20%
East Bay Municipal Water District	Voluntary Cutbacks	10%
Marin Municipal Water District	Voluntary Cutbacks	25%
Santa Clara Valley Water District	Mandatory Cutbacks	20%
Sonoma County Water Agency	Voluntary Cutbacks	20%



**Statement by Nicole Sandkulla, CEO/General Manager
March 11, 2014**

**State Oversight of the \$4.6 Billion Program to Rebuild the San Francisco Regional
(Hetch Hetchy) Water System Must Be Extended to Protect Water Users**

Unexpected, unstable soil conditions have caused at least a four-year delay to finish rebuilding Calaveras Dam, a critical part of the water system, which supplies water to 1.7 million residents, over 30,000 businesses, and thousands of community organizations in Alameda, San Mateo, and Santa Clara counties, and customers in San Francisco. Over two-thirds of the system's water customers are in the three counties outside of San Francisco, and they pay two-thirds of the cost of the system. BAWSCA represents their interests.

In the late 1990's, engineering studies revealed that this regional water system was seismically unsafe and could collapse following a major earthquake, cause a long-term water outage, and create a human and economic catastrophe for the region and the State.

In 2002, the California legislature passed AB 1823, the Wholesale Regional Water System Security and Reliability Act, requiring San Francisco to rebuild the unsafe system to protect the health, safety and economic well being of its customers. Among other provisions, the law established state oversight of the \$4.6 billion program by the California Department of Public Health (formerly called the Department of Health Services), the California Seismic Safety Commission, and the Joint Legislative Audit Committee.

AB 1823 mandated that the legislation be inoperative and terminated by a so-called "sunset provision." In 2008, when San Francisco estimated that only 20 percent of the projects would be completed by 2010, the Legislature amended the sunset provision to extend State oversight through January 1, 2015. San Francisco supported that bill [AB2437 (Ruskin – 2008)].

Now, with the Calaveras Dam construction delay and other project delays, the program will not be completed by the current sunset date. BAWSCA, on behalf of the water users that rely on the water system, has requested that state oversight of the program be extended once more until 2022. San Francisco supports the bill.

New legislation, therefore, is needed to extend the State's oversight until the rebuilding of Calaveras Dam and other remaining projects are completed. In the event that project schedules are further adjusted during the next five years, State oversight should continue until 2022.

The Senate Natural Resources and Water Committee introduced a committee bill, SB 1345, on February 21, 2014 to provide this essential extension of state oversight of the program.

We urge the Legislature to consider and act on this recommendation promptly to protect residents, businesses, and community agencies throughout the region.

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San Francisco Water Power Sewer

Operator of the Hetch Hetchy Regional Water System

525 Golden Gate Avenue, 13th Floor

San Francisco, CA 94102

T 415.554.3155

F 415.554.3161

TTY 415.554.3488

February 11, 2014

Nicole Sandkulla, CEO and General Manager
Bay Area Water Supply and Conservation Agency
155 Bovet Road, Suite 650
San Mateo, CA 94402

Dear Ms. Sandkulla:

We received your January 29th letter addressed to Commission President Courtney requesting additional information and analyses on the condition of Mountain Tunnel and plans for its repair.

As requested by your letter, we plan to provide a full response to your first question on immediate, near-term contingency plans by the Commission's first meeting in March and to your other questions by the last meeting in June.

We are taking the risk presented by Mountain Tunnel very seriously and are closely examining every option to address the problem. We are committed to providing uninterrupted supply to our 2.6 million users, and to the ongoing maintenance and stewardship of the Hetch Hetchy Regional Water System. We look forward to working with BAWSCA and our Wholesale Customers to find the best way to address the condition of the tunnel and to execute a plan for its repair.

We believe catastrophic failure of the tunnel is unlikely in the near term, but as I have noted in my presentations, the probability of failure increases over time. If such a failure were to occur prior to the permanent fix, we would of course rely initially on local resources just as we would for any outage of the regional transmission system. These resources include our local storage as well as our emergency interties with the East Bay Municipal Utility District and the Santa Clara Valley Water District. We are exploring other actions we could take to mitigate any potential outage and will include those actions in our forthcoming full response.

Again, we will develop and provide responses to you by the deadlines referenced above, and will continue our ongoing dialogue on this matter.

Sincerely,

Steven R. Ritchie
Assistant General Manager, Water

Edwin M. Lee
Mayor

Vince Courtney
President

Ann Moller Caen
Vice President

Francesca Vietor
Commissioner

Anson Moran
Commissioner

Art Torres
Commissioner

Harlan L. Kelly, Jr.
General Manager

cc: Harlan Kelly, General Manager, SFPUC
Services of the San Francisco Public Utilities Commission



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March 10, 2014

Nicole Sandkulla, CEO and General Manager
 Bay Area Water Supply and Conservation Agency
 155 Bovet Road, Suite 650
 San Mateo, CA 94402

Dear Ms. Sandkulla:

As indicated in my letter of February 11, here is the response to the first of your questions regarding Mountain Tunnel. Let me begin by stating again that we believe catastrophic failure of the tunnel is unlikely in the near term, but as I have noted in my presentations, the probability of failure will increase over time.

Your questions are repeated in italics below followed by the answers.

What is the immediate, near-term plan if such a catastrophic collapse occurred before long-term repairs to the Tunnel could be completed?

The immediate near-term plan would be to insure that water continued to be delivered to our customers. Our contingency plans for supplying water begin with the contingency plans that we presented to you and others regarding the Rim Fire. We initially would rely on local resources just as we would for any outage of the regional transmission system. These resources include our local storage as well as our emergency interties with the East Bay Municipal Utility District and the Santa Clara Valley Water District. More extreme measures would include requesting emergency support from the Modesto, Turlock and/or Oakdale Irrigation Districts and potentially the State Water Project. We will be exploring all of these options in the coming months. An additional measure may be requesting our customers to reduce their consumption.

What plan has been developed to restore water supply deliveries through the Tunnel to the customers that BAWSCA represents?

The plan we are developing to restore water supply deliveries through Mountain Tunnel includes several components. They are:

1. Improve existing adit access to minimize the length of time to return the Tunnel to service in the event of failure. The adits for which we propose to improve access are Early Intake Switchyard Adit, South Fork East Adit, Adit 5/6, and Adit 8/9.

Edwin M. Lee
 Mayor

Vince Courtney
 President

Ann Moller Caen
 Vice President

Francesca Viotor
 Commissioner

Anson Moran
 Commissioner

Art Torres
 Commissioner

Harlan L. Kelly, Jr.
 General Manager



2. Implement a monitoring program to assess any changed condition in Mountain Tunnel. This would include improved monitoring of turbidity in the Tunnel flow and pressure monitoring at the Adit bulkheads.
3. Develop emergency restoration plans that include preliminary:
 - Safety plans
 - Dewatering plan for entrapped water
 - Ventilation plans (including ventilation equipment)
 - Plan for debris removal and deposition (including equipment)

We are finalizing a task order that will be issued shortly to perform the engineering work to carry out these tasks.

How long will it take to restore deliveries through the Tunnel following a total collapse?

Regarding the question of how long will it take to restore deliveries through the Tunnel following a total collapse, it depends on many factors. Our best estimate is that it will take several months, as many as 6, to restore deliveries depending on the exact extent of the failure. The interim high-priority improvements noted above can reduce the amount of time needed to restore deliveries.

You and the BAWSCA Board of Directors can be assured that we are taking the risk presented by Mountain Tunnel very seriously and are closely examining every option to address the problem. We are committed to providing uninterrupted supply to all of our 2.6 million users, and to the ongoing maintenance and stewardship of the Hetch Hetchy Regional Water System. We look forward to working with BAWSCA and our Wholesale Customers to find the best way to address the condition of the Tunnel and to execute a plan for its repair. We will provide the answers to your additional questions by the second Commission meeting in June.

Sincerely,



for Steven R. Ritchie
Assistant General Manager, Water

cc: SFPUC Commissioners
Harlan Kelly, General Manager, SFPUC

Board Policy Calendar for FY 2013-14

Board Meeting	Purpose	Issue or Topic
March 2014	D&A	Consideration of Resolution Clarifying Asset Distribution Upon Agency Dissolution
	D&A	Consideration of resolution to adopt Bay Area IRWMP
	D	Discussion of Preliminary FY 2013-14 Work Plan and Budget
	D	Review Water Supply Forecast and Potential Water Transfer
May 2014	D&A	Consideration of FY 2014-15 Work Plan and Budget
	D&A	Consideration of Annual Contracts
	D&A	Review Water Supply Forecast and Decide if a Water Transfer Should be Pursued
	D	Updated Water Demand Projections: Results & Recommended Actions
July 2014	D&A	Review Water Supply Forecast and Decide if a Water Transfer Should be Pursued
	D	Discussion of a Possible Regional Drought Reliability Goal

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

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**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 – 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 – 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, 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.