

**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, November 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	(Breault)	
2. Comments by the Chair	(Breault)	
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>	(Breault)	
5. Consent Calendar	(Breault)	
A. Approve Minutes of the September 18, 2014 Meeting <i>(Attachment)</i>		<i>Pg 15</i>
B. Receive and File Budget Status Report – As of September 30, 2014 <i>(Attachment)</i>		<i>Pg 19</i>
C. Receive and File Annual Audit Report for BAWSCA and Compilation Report for BAWUA for FY 2013-14 <i>(Under Separate Cover)</i>		<i>Pg 21</i>
D. Receive and File Directors' Reimbursement Report – As of Sept. 30, 2014 <i>(Attachment)</i>		<i>Pg 23</i>
E. Receive and File Investment Report – As of Sept. 30, 2014 <i>(Attachment)</i>		<i>Pg 25</i>
F. Receive and File Bond Surcharge Collection, Account Balance and Payment Report – As of Sept. 30, 2014 <i>(Attachment)</i>		<i>Pg 27</i>
G. Authorization to Negotiate and Execute a Contract Amendment with PG&E for the Washing Machine Rebate Program <i>(Attachment)</i>		<i>Pg 31</i>
H. Authorization of Agreement to Implement Grant Funding for Regional Water Conservation Program <i>(Attachment)</i>		<i>Pg 35</i>
6. <u>Action Items</u>		
A. Annual Review and Consideration of BAWSCA's Statement Of Investment Policy <i>(Attachments)</i> <i>The Committee voted unanimously to recommend authorization of the proposed Board Action.</i>	(Sandkulla)	<i>Pg 37</i>
B. Annual Review and Consideration of BAWSCA's General Reserve Policy <i>(Attachment)</i> <i>The Committee voted unanimously to recommend authorization of the proposed Board Action.</i>	(Sandkulla)	<i>Pg 45</i>
7. SFPUC Report	(Kelly)	

8. Reports

- A. Long-Term Reliable Water Supply Strategy – Update (*Attachment*) (Hurley) Pg 53
- B. Board Policy Calendar (*Attachment*) (Sandkulla) Pg 59
- C. CEO/General Manager’s Letter (*Attachment*) (Sandkulla) Pg 61
- D. Water Supply Conditions (Sandkulla)
- E. Correspondence Packet (*Under Separate Cover*) (Sandkulla)

9. Directors’ Discussion: Comments, Questions and Agenda Requests (Breault)

10. Date, Time and Location of Future Meetings (Breault) Pg 65 (See attached schedule of meetings)

11. Adjourn to next meeting scheduled for **January 15, 2015** at 7pm (Breault)

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

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

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

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

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

BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board Members

FROM: Nicole Sandkulla, Chief Executive Officer/General Manager

DATE: November 14, 2014

SUBJECT: Summary of Board Policy Committee meeting held October 8, 2014

1. **Call to Order:** Committee Chair Al Mendall called the meeting to order at 1:33 pm. A list of Committee members who were present (7), absent (3) and other attendees is attached.

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

2. **Comments by the Chair:** Director Mendall welcomed the Committee members, and noted that the Regional Water System tour of Hetch Hetchy in September was very helpful. He highly encourages members of the Committee who have not attended to participate in the next tour San Francisco offers.
3. **Public Comments:** Peter Drekmeier, Tuolumne River Trust (TRT) Policy Director, reported that TRT will be holding a Community Water Reuse Forum in Palo Alto on December 11th, 2014. Informational flyers were distributed to the Committee members.

4. **Consent Calendar:**

Director O'Connell made a motion, seconded by Director Bronitsky, that the minutes from the August 13, 2014 Board Policy Committee meeting be approved.

The motion passed unanimously.

5. **Action Items:**

- A. **Authorization to Negotiate and Execute a Contract Amendment with PG&E for the Washing Machine Rebate Program:**

BAWSCA's Water Resources Manager, Michael Hurley reported that BAWSCA has been offering the Washing Machine Rebate Program in partnership with PG&E since 2008. Water customers of participating BAWSCA member agencies receive a combined energy and water rebate funded by PG&E and agencies participating in the program. Current

participating member agencies are interested in extending the program through December 2015.

The action requested of the Committee is to recommend Board authorization of the CEO/General Manager to extend the contract with PG&E and offer participation in the program to BAWSCA member agencies through December 31, 2015.

The contract with PG&E would be extended through June 30, 2016. This would extend the Program to run through December 31, 2015, with a 6-month close out period to process all rebates and complete necessary administrative tasks for calendar year of January 1, 2015 – December 31, 2015.

Mr. Hurley reported that two program modifications will be implemented for CY 2015. Participating agencies will rebate only the most energy efficient tier of washing machines, and then will be a single rebate amount of \$200 for the water portion of the rebate.

Previously, the program had 2-tiers of rebates where participating agencies had a \$100 rebate for machines in the 1st tier of efficiency, and \$50 for machines in the 2nd tier of efficiency.

Mr. Hurley also reported that PG&E will be dropping its rebate amount to \$75.

Director O'Connell requested that the cumulative water savings from the program be included in the report to the Board in November.

In response to Director Guzzetta, Mr. Hurley stated that the 2-tiers of washing machines were based on both energy and water savings.

Ms. Sandkulla added that the 2-tiers were based on the standards determined by the Consortium of Energy Efficiency (CEE) and Environmental Protection Agency (EPA).

In addition, PG&E's cost analysis of its conservation efforts shows that the WMRP is a less efficient use of PG&E's conservation funds. The regional program group has been in discussion about the possibility of PG&E pulling out of the program and what decisions water agencies would make at that time.

Director Pierce stated that the program has been in place for fourteen years. Machines purchased then will likely reach its life expectancy and would need to be replaced again, providing a market demand for the program.

Ms. Sandkulla stated that BAWSCA will have to review its options when the time comes that PG&E withdraws from the program.

Director Pierce made a motion, seconded by Director O'Connell, to recommend Board authorization of the CEO/GM to negotiate and execute a contract amendment with PG&E, subject to legal counsel's final review, for administrative and rebate processing services through June 30, 2016 associated with implementation of the Washing Machine Rebate Program

from January 1, 2015 through December 31, 2015; and offer participation in the program to BAWSCA member agencies though December 31, 2015.

The motion carried unanimously.

B. Authorize Agreement to Implement Grant Funding for Regional Water Conservation Programs:

Michael Hurley reported that the Bay Area Integrated Regional Water Management (IRWM) received a Prop 84 Round 2 grant of \$20M. The grant provides \$195,000 to be applied to BAWSCA's Home Water Use Reports Program. The funds will offset a portion of the cost paid by BAWSCA member agencies to implement the program. The amount is roughly 25-50% of annual per household cost, or \$3 per household.

The Committee is requested to recommend Board authorization of the CEO/General Manager, subject to legal counsel's review of the final documents, to enter into an interagency Memorandum of Understanding (MOU) with Solano County Water Agency, for the administration of the grant funds.

Mr. Hurley explained that the Association of Bay Area Government (ABAG) is the grant applicant and will enter into an agreement with the Department of Water Resources (DWR). Solano County Water Agency (Solano CWA) agreed to be the lead agency for the water conservation portion of the grant. The MOU defines the roles and responsibilities of the lead agency and the regional water agencies, including BAWSCA, that are receiving the grant. The MOU also defines the schedule and process for reporting and requirements associated with the grant implementation process.

Director Weed noted that Zone 7 and Marin County Water District have a role in managing the Bay Area IRWM grant funds.

Ms. Sandkulla clarified that different participating agencies are leads for different portions of the grant program. Solano CWA remains the lead agency for the conservation portion of the grant.

In response to Director Guzzetta, Ms. Sandkulla explained that the \$195,000 is the gross amount, and that agencies will have the ability to recover administrative costs.

Ms. Sandkulla further explained that this round of the Prop 84 grant is focused on funding programs around the state to help alleviate drought conditions and improve regional drought preparedness.

Director O'Connell made a motion, seconded by Director Breault, to recommend Board authorization of the General Manager, subject to legal counsel's review of the final documents, to enter into an interagency MOU with Solano CWA for the grant-administration of Proposition 84 IRWM grant funds to support BAWSCA's Home Water Use Reports Program.

The motion carried unanimously.

C. Review of BAWSCA's Conflict of Interest Code and Proposed Amendment:

Ms. Sandkulla reported that BAWSCA is required to review its Conflict of Interest Code every even numbered years or when organizational changes necessitate amendments to the code.

Ms. Sandkulla explained that state law has changed such that the FPPC is the only legislative body whose action is legally binding in the adoption of an agency's Conflict of Interest Code. Current law provides a process where agency staff works directly with FPPC staff to ensure the code meets all requirements. The Code goes through a series of reviews in FPPC's chain of command, and can be subject to further changes, before the Code is agendized for adoption by the FPPC. Both BAWSCA and the FPPC are required to issue a 45-day public notice period of the Code's amendments before the FPPC's final adoption.

BAWSCA staff and legal counsel have been working closely with FPPC staff to update the code. Modifications to the code are recommended to reflect the current organizational structure, particularly the new position approved by the Board in 2013.

BAWSCA staff is working through the process so that it is in concert with the FPPC. Upon FPPC staff approval of the recommended changes, BAWSCA will initiate, along with FPPC, a 45-day notice period. The code will then be presented to the BAWSCA Board, in unison with the code being presented to the FPPC for final adoption.

Because of the required schedules for review, the Board will act on the adoption of a Conflict of Interest Code in January 2015 after the final changes are made to the code and the required 45-day review period is complete.

The Board's last review of the code was in 2010. In 2012, BAWSCA staff and legal counsel reviewed the code with the FPPC, resulting in an approval of an updated code by the FPPC in December 2012.

In response to Director Weed, Ms. Sandkulla explained that BAWSCA staff is working with FPPC staff on the requirements for the RFA.

Chair Mendall noted the consideration of the item being under consent for the January 2015 Board meeting.

Director O'Connell made a motion, seconded by Director Pierce, to recommend Board adoption of the proposed Conflict of Interest Code, following the required 45-day public notice period, subject to further amendment and approval by the FPPC.

The motion passed unanimously.

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

BAWSCA's Sr. Administrative Analyst Christina Tang reported that BAWSCA's Investment Policy requires an annual review and consideration by the Board at a public meeting. The policy was last reviewed in November 2013.

BAWSCA staff and legal counsel recommend no changes as the current Policy is consistent with state law.

The Committee is asked to recommend Board re-affirmation of the current Statement of Investment Policy.

Director Weed commented that the ACWA Joint Powers Insurance Authority (JPIA) is looking into lines of credit for public agencies. He noted that BAWSCA can look into this for its use as a contingency fund. Director Mendall suggested to further discuss the consideration of lines of credit under the item 6E, General Reserve Policy.

Director O’Connell made a motion, seconded by Director Pierce, to recommend Board re-affirmation of the current Statement of Investment Policy.

The motion passed unanimously.

E. Review and Consideration of BAWSCA’s General Reserve Policy:

Ms. Tang reported that the Board originally adopted a General Reserve Policy in 2004. It was amended in July 2011 to change the guideline for the range in the General Reserve from 20%-25% to 20%-35% of the operating budget.

Ms. Tang emphasized that the Policy is designed to protect the agency against unanticipated deviations in revenue and expenditures, and to stabilize variations in assessments to member agencies. Some of the key purposes of the general reserve is to serve as a resource to urgent needs that were not foreseen at the time of the annual budget development and adoption.

Having the general reserve avoids the need to impose special assessments and additional burden on the annual operating budget when a need arises. The general reserve also serves as a source of funding for one-time, non-recurring expenses to moderate variations in annual assessments. Ms. Tang noted the Regional Water Demand and Conservation Projections Project as an example of a one-time study that was valuable to the agencies and funded by the general reserve.

BAWSCA’s assessment of the current Policy recommends no changes and asks the Committee to recommend Board re-affirmation of the current Policy.

Ms. Tang reported that BAWSCA reviewed and considered recommendations from the Government Financial Officers Association (GFOA), California Society of Municipal Finance Officers (CSMFO) and California Special District Association (CSDA).

BAWSCA also performed a benchmarking survey and a risk assessment analysis recommended by GFOA to determine an appropriate reserve target. Ms. Tang explained that there is no standardized percentage of general reserve to annual operating budget that is applicable to the various types of local governments and water agencies.

For comparison purposes, BAWSCA surveyed member agencies and government organizations with an annual operating budget of \$15,000,000 or less. The responding

agencies, including City of Brisbane, North Coast County Water District, Purissima Hills Water District, and the Sacramento Regional Water Authority, set their general reserve up to 50% of their annual operating expenditures. Purissima Hills Water District has a set amount with a minimum of \$750,000.

To determine a reserve target, BAWSCA used GFOA's risk assessment analysis and considered the risk factors in the following eight categories: Vulnerability to extreme events, revenue source stability, expenditure volatility, leverage, liquidity, other funds dependency, growth, and capital Projects.

Ms. Tang stated that while other funds dependency, growth and capital projects are not applicable to BAWSCA, she explained how the other categories have significant relevance.

BAWSCA could encounter unanticipated expenses in an event of arbitration associated with the administration of the Water Supply Agreement. BAWSCA is currently disputing issues in its review of the Wholesale Revenue Requirement for FY 2010-11, and without sufficient funds in the reserve, BAWSCA would have to impose special assessments to fund arbitration needs.

BAWSCA's main revenue source is the annual agency assessments which are currently collected as fixed amounts, and provides BAWSCA a stable revenue base. BAWSCA's revenues would not be interrupted by an inability to deliver water.

Ms. Tang further explained that because BAWSCA is currently fully funding the annual pension liabilities and annual required contribution to OPEB, BAWSCA is not subject to any major sources of leverage or debt that are not already managed with its reserves.

Finally, BAWSCA's only current cash imbalances that has no risk management alternatives available or existing enforcement remedy, is its collection of the annual agency assessments. Member agencies are billed their assessments on a quarterly basis, with the exception of Cal Water which is billed monthly by San Francisco, and there are times when agencies make payments later than the required 30 days.

Based on the results of the analysis, BAWSCA has a moderate to high level of risk to retain through reserves, and should consider adopting a target amount that is higher than GFOA's recommended agency minimum of 16.6% of its operating revenues/expenditures.

BAWSCA's current general reserve policy has a guideline of 20%-35% of its operating budget, therefore, BAWSCA recommends no changes to the policy.

Committee discussion ensued on ways to clarify the presentation for the Board.

Director Pierce asked how similar is BAWSCA with the organizations that have a general reserve of up to 50% of their operating budget. She noted that those organizations may have different factors contributing to their revenue sources and expenditures, and may not completely be comparable with BAWSCA, for BAWSCA to have a general reserve as high as 50%.

Ms. Sandkulla concurred, and added that while Sacramento Regional Water Authority is very similar to BAWSCA, its revenue source is not similar or as stable as BAWSCA's.

Director Pierce suggested to include this information in the report to the Board in November.

Director Weed suggested the consideration of applying late fees to assessment payments received after 30-days.

Ms. Sandkulla explained that the late payments appear to be a result of the required administrative processes within the agencies. She will review the occurrences with the Office Manager to determine the required actions, if any.

Director Mendall asked Director Weed to further explain his thought on how the lines of credit through JPIA may be valuable for BAWSCA, and ask committee members to provide comments.

Director Weed stated that public agency lines of credit can be a source of funds in lieu of reserves for contingency capital.

Chair Mendall directed the CEO/General Manager to investigate and provide a report to the Committee.

Director Bronitsky made a motion, seconded by Director O'Connell, to recommend Board re-affirmation of the current General Reserve Policy.

The motion passed unanimously.

7. Reports

- A. Water Supply Conditions: Ms. Sandkulla reported that overall water consumption continues to meet the target 10% water use reduction despite a spike in the usage, which was to be expected, as a result of the hot weather last week. The cumulative water savings based on a 10% reduction continues to exceed the target since September 1st.

Ms. Sandkulla reported that she and Mr. Ritchie are in agreement about the need to discuss the requirements for achieving water use reduction that is greater than 10%. She stated that it is a necessary discussion and she is pleased that Mr. Ritchie agrees to have the conversation initiated sooner rather than later.

Ms. Sandkulla reported that Mr. Ritchie will be presenting an overview of the hydrologic modeling at the November Board meeting.

In response to Director Mendall, Ms. Sandkulla reported that ACWD achieved the 10% reduction in supplies purchased from the SFPUC for the 2013-14 Water Year.

She further explained that the savings among the agencies have variances, as to be expected. However, the variances are not significant. Ms. Sandkulla stated that a 20% call for water use reduction will require a closer analysis of the variances.

Director Pierce expressed concern about how water use reduction presumes conservation efforts without putting a closer look at water use on a per capita basis. She noted that recycled water use, for example, is not counted as an agencies' reduction in potable water use.

Director Bronitsky asked about potential impacts of further provisions required by the State. Ms. Sandkulla stated that this is a concern, and re-stated Mr. Kelly's comment at the September Board meeting, saying that San Francisco will defend its water rights.

- B. Long-Term Reliable Water Supply Strategy: Michael Hurley provided a progress report on the Long-term Water Supply Strategy which began in 2009.

He stated that the key objectives of the Strategy are to develop an assessment of the region's reliability needs, and an evaluation of water management actions required to meet those needs.

BAWSCA has been working closely with each of the member agencies to complete the reliability assessment portion of the Strategy, which includes an analysis of both demand and supply projections.

Mr. Hurley reported that the recent findings of BAWSC's updated regional demand projections project show normal year demands to be lower than previous estimates, and that increased development of local supplies have been identified by member agencies to meet those needs. These developments result in higher reliability, and therefore, change the reliability outlook.

In comparison with a study performed in 2008, the need for additional actions to meet normal year demands through 2040 is nearly eliminated. The need for additional drought year actions, however, remains.

Mr. Hurley explained that the 2008 study projected a demand of 184 mgd in 2035. BAWSCA's recent demand and conservation projections project shows an anticipated purchase of 168 mgd in 2040. This includes projected SFPUC purchases of 9 mgd for San Jose and Santa Clara.

The analysis to identify the necessary plan of actions to reduce water supply shortfalls during drought assumes up to a 20% (43 mgd) system-wide reduction on SFPUC supply.

Mr. Hurley reported that the member agencies' changing supply portfolios have increased the planned development and use of local supplies and conservation potential. He presented a pie chart comparison to demonstrate that supply portfolios are evolving to meet the identified needs.

BAWSCA is continuing to review hydrologic modeling based on the revised demand forecast, and will work to better understand how lower demands changes the severity of impacts caused by drought shortages, as well as the focus on transfers and storage for drought-year supplies.

Mr. Hurley stated that the FERC process, the State Board, and Westland suits can impose potential threats to existing normal year supplies, as well as restrictions for developing local supplies.

BAWSCA will continue to explore supplemental normal year supplies, such as recycling and desalination, to determine how they can be affected by external and institutional threats. Additionally, the types of supply projects will affect institutional roles and collaborations.

Mr. Hurley presented a chart of BAWSCA's preliminary list of water supply projects, potential capacity, and estimated costs. The list includes Recycled Water, Groundwater, Desalination (Open Intake), Desalination (Brackish Water), Water Transfers, and Groundwater Storage.

In response to Director Mendall, Mr. Hurley stated that water purchased from San Francisco is \$1,335/af.

Director Weed commented that the source of water for desalination, whether it is Bay water or recharged water, should be clarified in the chart, and that the list should indicate whether the project is for contingency supplies or for long-term supplies. He encouraged the full development of the information as it can potentially be used as CEQA alternatives for the agencies. He added that the Water Bond will include funding for local supply projects, and he encouraged staff to look at the funding opportunities.

Ms. Sandkulla was pleased to report that BAWSCA has a feasibility study for the brackish groundwater project included in the Bay Area IRWMP. The pursuit for grant funding of water supply projects is included in the planning for the Strategy.

In response to questions from Director O'Connell and Director Guzzetta, Mr. Hurley explained that the capacity for groundwater projects listed in the table is currently based on Sunnyvale's identified project. The quantity potential can be higher or lower, and the final cost will be dependent on location availability and quality of supply.

Ms. Sandkulla reminded the Committee that the earlier decisions by the Board required local agencies to support their projects for inclusion in BAWSCA's Strategy.

In response to Director Bronitsky, Mr. Hurley stated that the current total use is 240 mgd.

Director Bronitsky brought up the potential for water supply interruption from the regional system in case of catastrophic events, and whether the Strategy will identify alternative sources of supplies under those circumstances.

Ms. Sandkulla explained that the purpose of the Strategy is to identify ways to meet the region's unmet water supply reliability needs. The \$4.7 billion WSIP is the program that ensures the regional water system's infrastructure can withstand a catastrophic earthquake.

Director O'Connell noted that former BAWSCA Board member, Rick Wykoff, raised this same concern to the BAWSCA Board and staff previously.

Committee Chair Mendall stated that alternative supply to the Regional Water System is a separate topic from the Strategy, and questioned whether it should be included in the subsequent BPC agenda under discussion.

Committee discussions ensued and changes on the charts and tables were suggested for clarification.

Director Pierce noted her concern that agencies will be discouraged from investing in local non-potable supplies given the overall demand hardening that is being experienced in the service area.

She added that because new members have been appointed to the BAWSCA Board since the Strategy began in 2009, it would be good to re-state the objectives of the Strategy at the November Board meeting.

Mr. Hurley reported that the Strategy will be completed in December of 2014. The final report will provide recommendations for what actions should be implemented to meet dry year reliability needs to avoid economic consequences of water shortages, and identify additional actions and studies that will inform future BAWSCA work plans.

- C. Mid-Year Budget Review: Ms. Sandkulla reported she will provide an early budget update at the November Board meeting. The report will consider the potential continuance of dry conditions and the impacts it has on resources, the implementation of the settlement with San Francisco, and a report on the General Reserve following the audit of FY 2013-14.
- D. Board Policy Committee Calendar: Ms. Sandkulla presented the Board Policy Committee Calendar and noted the upcoming discussions and actions that will be put forward to the Board in the upcoming months.

8. Comments by Committee Members.

Director Bronitsky said that he welcomes a conversation on the side with the CEO/General Manager about his concern with the potential for water supply interruption, especially if it has previously been discussed by the leadership before, and recognizes that it might not be an issue to be discussed by the entire board at this time.

Director Guzzetta stated that the issue is economic. BAWSCA and its member agencies can choose to build facilities to provide the reliability, but the issue is affordability. Reliability and quality of water will raise costs in the next 10-20 years.

Director Mendall advised the CEO/General Manager to decide how to address the concern and whether to bring it back to the Committee and the Board for further discussion.

Director Pierce noted the better understanding she got out of SFPUC's presentation about the Water Bank during the Regional Water System tour, and suggested for the CEO/General Manager to consider having the presentation provided to the Board.

9. **Adjournment**: The meeting was adjourned at 3:08pm. The next meeting is December 10, 2014.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – October 8, 2014

Roster of Attendees:

Committee Members Present

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

Committee Members Absent

Kirsten Keith, City of Menlo Park
Tom Piccolotti, North Coast County Water District
Louis Vella, Mid-Peninsula Water District

BAWSCA Staff:

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

Public Attendees:

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

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

**September 18, 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 Chair, Irene O’Connell, called the meeting to order and led the salute to the flag. Nicole Sandkulla called the roll. Nineteen (19) members of the Board were present, constituting a quorum. A list of Directors present (19) and absent (7) is attached.

2. Comments by the Chair:

Chair O’Connell reported that the action calendar before the Board includes the re-appointment of Mr. Jensen as Special Counsel to the CEO/General Manager. Mr. Jensen’s re-appointment is to provide assistance related to specific work with San Francisco on the implementation of the Water Supply Agreement. The Board Policy Committee voted unanimously to recommend Board approval of the re-appointment.

At the Chair’s request, a report will be presented to the Board by SFPUC’s Program Director for the Water System Improvement Program, Mr. Dan Wade, and representatives from GEI consultants, on the results of GEI’s independent review of the pre-construction investigations and design of the Calaveras Dam Replacement Project. The investigation was performed by the SFPUC after major differing site conditions were experienced at the project which resulted to changes in design, cost increases and schedule delays. Chair O’Connell stated that it is important to BAWSCA, on behalf of its member agencies and their water customers, to understand the results of the independent review.

Lastly, Chair O’Connell reported that she appointed an ad-hoc sub-committee comprised of herself, Vice-Chair Breault, Directors Guzzetta, Kasten, and Piccolotti, and the CEO/General Manager, to review and provide input on the item raised by Vice-Chair Breault at the July Board meeting regarding how BAWSCA takes a position on a public issue that might affect its constituents. The sub-committee will examine the appropriate process and will report back to the BPC and the Board.

3. Board Policy Committee (BPC) Report: On behalf of Committee Vice-Chair Bronitsky, Ms. Sandkulla reported the discussions and actions taken by the Board Policy Committee at its meeting on August 13, 2014.

As stated by the Chair, the Committee voted unanimously to recommend Board approval of the proposed action to re-appoint Mr. Jensen as Special Counsel to the CEO/General Manager for the remainder of FY 2014-15. The committee discussions on water supply conditions and the Long-Term Reliable Water Supply Strategy are recorded in the summary report included in the packet.

4. Public Comments: There were no public comments.

5. Consent Calendar:

Director Kasperzak made a motion, seconded by Director Chambers, to approve the July 17, 2014 Minutes, receive and file the Pre-Audit Budget Status Report as of June 30, 2014, and the Surcharge Collection Status Report as of June 30, 2014.

The motion carried unanimously.

6. Action Calendar:

- A. Resolution Approving Temporary Re-appointment of Arthur Jensen as Special Counsel to the CEO/General Manager, with Compensation Consistent with the Salary Schedule for the CEO/General Manager Position.**

Director Pierce made a motion, seconded by Director Laporte, that the Board adopt the resolution approving the re-appointment of Arthur Jensen to the temporary position of Special Counsel to the CEO/General Manager, and making associated findings in support of such an appointment.

The motion carried unanimously.

7. SFPUC Report:

SFPUC General Manager, Harlan Kelly, talked about the findings of the National Economic and Labor Impacts of Water Utilities Survey and how water infrastructure projects have contributed to regional economies. He reported that SFPUC partnered with water agencies across the nation in an effort to elevate the significance of water infrastructure so that it receives the same government support roads and energy receives. The SFPUC brought its efforts to the White House Counsel on Economic Quality to discuss key points including low-cost financing. Mr. Kelly welcomed members of the Board and their agencies to participate in a series open houses the SFPUC is holding to engage the service area in raising the visibility of the water industry.

SFPUC Program Director, Dan Wade, reported on the progress of major projects in the WSIP, including the Peninsula Pipeline Seismic Upgrade, Crystal Springs/San Andreas Transmission Upgrade, and the Groundwater Storage and Recovery Project. He reported that the WSIP celebrated its 10-year milestone which was held at Sutro Reservoir. He added that a staff transition plan has been developed to ensure that efficient allocation of resources is in place as projects approach completion.

Mr. Wade introduced Steve Verigan from GEI consultants, who addressed the BAWSCA Board on the independent review of the pre-construction investigations and design of the Calaveras Dam Replacement Project.

Mr. Briggs, SFPUC Water Supply and Treatment Division Manager, reported on the current water supply conditions, the system storage capacity, and the outlook for 2015. He reported that the target water use reduction of 10% requested by the SFPUC will be carried

through the remainder of 2014. He emphasized that policy, including the State policy, will be dictated by hydrology.

In response to Board Member questions, Mr. Kelly stated that San Francisco will defend its water rights.

8. Reports:

The Board discussed the staff reports on the Long-Term Water Supply Strategy, the WSIP Groundwater Storage and Recovery Project, the Regional Drought Campaign, and SB 1345.

9. Closed Session:

The meeting adjourned to Closed Session at 8:40pm.

10. Reconvene and Report from Closed Session:

The meeting reconvened to Open Session at 9:25pm.

Chair O'Connell reported that no reportable action was taken during Closed Session for Item 9A.

For Item 9B, Chair O'Connell reported that the Public Employee Performance Evaluation for the CEO/General Manager was discussed and accepted.

Director Richardson made a motion, seconded by Director Mendall, to approve the recommended contract amendment to the CEO/General Manager's Employment Contract. The motion carried unanimously.

11. Directors' Discussion:

Director Weed encouraged members of the Board, who have not signed up to attend the Regional Water System Tour at Hetch Hetchy, to do so.

Ms. Sandkulla announced that two spots are available in the September 24th – 25th Tour.

12. Date, Time and Location of Next Meeting: The next meeting is scheduled on November 20, 2014 in the Wind Room, Foster City Community Center.

13. Adjournment: The meeting adjourned at 9:35pm.

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
September 18, 2014

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
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
Jerry Marsalli	City of Santa Clara
Al Mendall	City of Hayward
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
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
Charlie Bronitsky	City of Foster City
Armando Gomez	City of Milpitas
Larry Klein	City of Palo Alto
Chris Mickelsen	Coastside County Water District
Dan Quigg	City of Millbrae
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

DATE: November 10, 2014

SUBJECT: Budget Status Report as of September 30, 2014

This memorandum shows fiscal year budget status for FY 2014-15. 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 September 30, 2014, 25 percent into the fiscal year, total expenditures were \$756,727 or 26 percent of the total budget of \$2,939,286.

Table 1. Operating Budget Summary as of September 30, 2014

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	770,162	134,444	17%
Fair Pricing	287,000	220,101	77%
Administration	85,300	32,028	38%
Subtotal	1,142,462	386,573	34%
Administration and General			
Salary & Benefits	1,439,324	308,608	21%
Other Expenses			
BAWSCA	295,000	61,352	21%
BAWUA	1,100	0	0%
Subtotal	2,877,886	756,532	26%
Capital Expenses	2,500	0	0%
Budgeted Contingency	57,500	0	0%
Regional Financing Authority	1,400	195	14%
Grand Total	2,939,286	756,727	26%

Overview:

Overall expenditures for FY 2014-15 are tracking within budget.

Consultants

The \$125,000 budget for technical review and tracking of the SFPUC's Water System Improvement Program was 22 percent expended. The Operating Budget allocation of \$150,000 for strategic counsel was 23 percent expended. The Operating Budget allocation of \$524,000 budget for legal counsel was 49 percent expended, reflecting the significant efforts at the beginning of this fiscal year and the successful settlement negotiation of the FY 2010-11 Wholesale Revenue Requirement. The \$148,162 budget for water management and conservation-related activities was 19 percent expended.

Administration and Other Expenses

Budgets for salaries and other expenses were both 21 percent expended.

Use of CEO's Discretionary Spending Authority:

In October, the CEO entered into an agreement with North Bay Pensions for \$2,000 to conduct an OPEB (Other Post-Employment Benefits) study.

Use of Reserve and Reserve Fund Balance:

Though expenditures in FY 2013-14 were within the approved budget, revenue realized by June 30, 2014 was less than actual expenses. The net result is such that no funds are available to deposit into the General Reserve with the close of FY 2013-14. This information became available upon completion of BAWSCA's audited financials for FY 2013-14.

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 07/31/14)	Account Balance (As of 09/30/14)
General Reserve	\$521,897	\$521,897

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 September 30, 2014 total \$1,723,099.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Audit Report for BAWSCA and Compilation report for BAWUA for FY 2013-14**

Summary:

An independent auditor's report has been completed for BAWSCA and a compilation report for BAWUA for the year ending June 30, 2014. The audit of BAWSCA accounts is required by Division 31, Section 81426 of the Water Code. The compilation of BAWUA accounts is prepared in accordance with its bylaws, Article 8, Section 8.2. The reports are enclosed, under separate cover, for your review. A financial audit of the Regional Finance Authority is not required at this time.

Fiscal Impact:

None

Board Policy Committee Action:

None. The reports became available on October 29th for staff review, allowing their inclusion in the BAWSCA board meeting agenda.

Recommendation:

That the Board receive and file the independent auditor's report for BAWSCA and the compilation report for BAWUA for the year ending June 30, 2014.

Discussion:

BAWSCA's and BAWUA's financial statements have been audited and compiled by the independent auditing firm of Chavan & Associates, LLP. The goal of an independent audit is to provide reasonable assurance that the financial statements are free from material misstatement.

Based on their review of the financial statements, the auditors have concluded that the financial statements are in conformance with generally accepted accounting principles, and fairly present, in all material respects, the financial position of both BAWSCA and BAWUA and the changes in financial position and cash flows for FY 2013-14.

As demonstrated by the statements, schedules and notes included in the auditor's reports, BAWSCA and BAWUA are meeting the requirements for sound financial management.

Enclosed under separate cover:

1. BAWSCA FY 2013-14 Audit Report
2. BAWUA FY 2013-14 Compilation Report

(This page intentionally left blank.)



Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes, Office Manager

DATE: November 3, 2014

SUBJECT: Directors' Reimbursement Quarterly Report for the Period Ending
September 30, 2014

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

There were no director expenses reimbursed for the quarter ending September 30, 2014.

(This page intentionally left blank.)



Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes, Office Manager

DATE: November 3, 2014

SUBJECT: Investment Report – As of September 30, 2014

In February 2004, the Board originally adopted an investment policy consistent with the Government Code that requires a report on the Agency's investments be provided to the Board. The Board is scheduled to review and consider modifications to the investment policy at the November 20th board meeting. This report presents fund management in compliance with the current investment policy.

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

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

<u>06/30/14</u>	<u>09/30/14</u>
\$1,885,425	\$1,885,425

Of the total in the BAWSCA LAIF account as of September 30, 2014, \$521,897 represents BAWSCA's General Reserve Fund, equivalent to approximately 18 percent of FY 2014-15 Operating Budget. This amount is subject to any final changes to the General Reserve that were previously authorized by the Board for FY 2014-15 but not yet executed. The remaining amount consists of Subscription Conservation Program funds, Water Management funds and unrestricted funds.

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

<u>06/30/14</u>	<u>09/30/14</u>
0.22%	0.24%

(This page intentionally left blank.)



Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: Nicole Sandkulla, CEO/General Manager

FROM: Christina Tang, Senior Administrative Analyst

DATE: October 24, 2014

**SUBJECT: Bond Surcharge Collection, Account Balance and Payment Report
as of September 30, 2014**

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 and August in 2014 have been collected. Payments of surcharges billed for September 2014 are still being received. 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 Surcharges Remitted to Trustee for Quarter Ending 9/30/2014

<u>Month</u>	<u>Amount Billed</u>	<u>Amount Remitted to Trustee</u>
July 2014	\$2,056,235	\$2,056,235
August 2014	\$2,056,235	\$2,056,235
September 2014	<u>\$2,056,235</u>	<u>\$1,139,869</u>
Total	\$6,168,705	\$5,252,339

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 9/30/2014

	27,148,388	Account Market Value as of 6/30/2014 ⁽¹⁾
<i>plus:</i>	<i>5,842,971</i>	<i>Surcharge collected in June 2014 through August 2014</i>
<i>plus:</i>	<i>171,227</i>	<i>Coupons and money market fund interest earnings</i>
<i>minus:</i>	<u><i>82,023</i></u>	<u><i>Change in securities market value from 6/30/14 to 9/30/2014</i></u>
	33,080,563	Account Market Value as of 9/30/2014

⁽¹⁾ Effective September 30, 2014, BAWSCA will be reporting and reconciling its Bank of New York bond trustee account activity based upon market value as opposed to the previously reported balances which were based upon original cost values. Because BAWSCA is now actively managing investments in the Interest, Principal, and Stabilization Accounts, it is believed that the account market value will provide a more accurate and appropriate measure of account balances. The difference between the account market value as of June 30, 2014 in the table above and the previously reported original cost values of \$27,400,590 in the last year-end report is due to the reconciliation adjustment on the market value.

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 \$346. 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.

Based upon an evaluation of the available yields, it was determined that BAWSCA would realize a moderate earnings benefit by purchasing the U.S. Treasury securities instead of staying invested in the money market account. For the quarter ending September 30, 2014, BAWSCA's investment earnings on the U.S. Treasury securities held in the Stabilization Fund and Interest Fund were \$4,793 and \$1,013, respectively. These earnings represent an increase of \$4,535 and \$899 versus what BAWSCA would have earned had the Stabilization Fund and Interest Fund remained invested in the money market fund account. BAWSCA made additional U.S. Treasury purchases in October which will be included in the next quarterly report.

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 \$17,947,407 was made on October 1, 2014. It was paid using the bond surcharges collected from the agencies, consistent with the initial bond structure. The next debt service payment of \$6,681,251 will be made on April 1, 2015. 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.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Authorization to Negotiate and Execute a Contract Amendment with PG&E for the Washing Machine Rebate Program**

Summary

Since January 2008, PG&E has administered a joint Water Utility and Energy Utility Residential Washing Machine Rebate Program (WMRP) in partnership with BAWSCA and the other major water utilities in the Bay Area. The current WMRP will end December 31, 2014. BAWSCA's current contract with PG&E expires June 30, 2015 as it anticipates a 6 month close out period for the current program. To continue the WMRP through calendar year 2015 (CY 2015), a contract amendment with PG&E needs to be executed. Participating BAWSCA member agencies have expressed interest in continuing the program for an additional year through calendar year 2015 (CY 2015).

For CY 2015, two program modifications will be implemented: water agencies will offer rebates for only the most energy efficient tier of washing machines, and the water agency portion of the rebate amount will be \$100 per qualifying washing machine.

The recommended action would authorize the Chief Executive Officer to negotiate and execute a contract amendment with PG&E, subject to legal counsel's final review, for administrative and rebate processing services through June 30, 2016. This would extend the availability of the rebates through December 31, 2015 and provide a 6-month close out period to process all rebates and complete necessary administrative tasks. The amendment would also provide BAWSCA the opportunity to modify its participation in June 2015 consistent with the desires of the participating member agencies.

Fiscal Impact

None. As a subscription program, all costs are accounted for separately and paid by participating BAWSCA agencies.

Board Policy Committee Action:

The Committee voted unanimously to recommend the proposed Board action.

Recommendation

That the Board authorize the CEO/General Manager to:

- 1) Negotiate and execute a contract amendment with PG&E, subject to legal counsel's final review, for administrative and rebate processing services through June 30, 2016 associated with implementation of the Washing Machine Rebate Program from January 1 through December 31, 2015, and**
- 2) Offer participation in the program to BAWSCA member agencies through Dec. 31, 2015.**

Discussion

Since 2001, BAWSCA has partnered with other major Bay Area water utilities to offer the Bay Area Water Utility Clothes Washer Rebate Program (WMRP). In January 2008, PG&E began administration of the WMRP on behalf of the Bay Area water utilities to offer a new combined Water Utility and Energy Utility rebate program to Bay Area residents.

The change to PG&E as the administrator of the program has increased visibility of the program, increasing rebate activity up to 30% in some areas. Customers have indicated a high rate of

satisfaction with the current format of the WMRP because they are able to complete a single rebate application form and get rebates from both PG&E and the Bay Area water utilities.

BAWSCA agency participation in BAWSCA's conservation programs, including the WMRP, typically operates on a fiscal year basis, as this is consistent with the budget cycles of most of the BAWSCA member agencies. In contrast, PG&E operates on a calendar year basis, which is why the current WMRP ends December 31, 2014. BAWSCA's current contract with PG&E expires on June 30, 2015, which allows for a 6-month close-out period. In the event that PG&E or BAWSCA were to elect not to continue the WMRP beyond December 31, 2014, the six-month close-out period accommodates the three months that customers have to submit a rebate request, plus processing time for the rebates and resolution of all accounting. A contract amendment with PG&E extending the existing contract through June 30, 2016 would allow for the current WMRP to continue through December 31, 2015 with a 6-month close-out period allowance.

Table 1 below presents the number of rebates issued each year since the Washing Machine Rebate Program was initiated and the annual water savings achieved.

Table 1: Washing Machine Rebate Program Results

Program Information	Rebates Issued	Total Rebates Issued (Cumulative)	Estimated Annual Water Savings (acre-feet)
FY 2001-02	1,244	1,244	23
FY 2002-03	3,091	4,335	81
FY 2003-04	1,805	6,140	115
FY 2004-05	2,914	9,054	170
FY 2005-06	2,332	11,386	214
FY 2006-07	3,254	14,640	275
FY 2007-08	4,162	18,802	348
FY 2008-09	5,339	24,141	441
FY 2009-10	6,941	31,082	563
FY 2010-11	7,030	38,112	686
FY 2011-12	6,003	44,115	791
FY 2012-13	5,706	49,821	891
FY 2013-14	4,273	54,094	966
Totals	54,094	306,966	5,564

For CY 2015, two program modifications will be implemented:

1. Water agencies will offer rebates for only the most energy efficient tier of washing machines. Currently, water agencies offer rebates for the top two most water efficient tiers. However, the 2015 proposed federal code changes (to be adopted in November 2014) for washing machines will align the water efficiency factors for these tiers, making a two-tier rebate structure unnecessary going forward.

2. The water agency portion of the rebate will be \$100 per qualifying washing machine (a change from the two tier agency rebate amounts of \$50 or \$125, depending upon actual machine purchased). The PG&E portion will be \$50 per qualifying machine, for a total rebate of \$150.

In addition to BAWSCA, participants in this regional program include Contra Costa Water District, Zone 7 Water Agency, EBMUD, ACWD, Santa Clara Valley Water District, Marin Municipal Utility District, SFPUC, Solano County Water Agency, Sonoma County Water Agency, and City of Davis.

Alternatives to the Recommended Action

Two primary alternatives exist to the recommended action.

1. Offer Program Using Different/New Rebate Administrator: Prior to using PG&E as the rebate administrator for this program, the Bay Area water utilities contracted with Electric Gas Industry Associates (EGIA) to administer the program. Other entities also exist that would potentially be willing to administer a regional WMRP. The EGIA administrative fees for the WMRP were greater than PG&E's current administrative fees. Furthermore, customers have indicated a high rate of satisfaction with the current format of the WMRP because they are able to complete a single rebate application form and get rebates from both PG&E and the Bay Area water utilities. At this time no other Bay Area water utilities have indicated a desire to change WMRP administrators. In addition, customer satisfaction rates might decrease if BAWSCA did not continue to utilize PG&E as the program administrator because they would no longer be able to fill out a single rebate application. Lastly, if BAWSCA decided to go with a different WMRP administrator, a full request for proposal process would be required, which would delay the continuation of the WMRP until a new contract was in place.
2. Not Offer Program: The WMRP has been the most successful conservation program offered within the BAWSCA service area to date. Since 2001, the number of agencies, total budgets, and total number of rebates issued has increased each year. BAWSCA has also secured grant funding through the Prop 84 Integrated Regional Water Management program which offsets the WMRP costs to the participating agencies. Continued implementation of the WMRP with expanded customer participation is one of key conservation measures incorporated in the BAWSCA member agencies' conservation program plans as part of the Regional Water Demand and Conservation Projections Project. Continued implementation of this program is critical to achieving the conservation savings goals of the BAWSCA member agencies through 2040.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Authorize Agreement to Implement Grant Funding for Regional Water Conservation Programs**

Summary

In September 2014, the California Department of Water Resources (DWR) notified the Association of Bay Area Governments (ABAG) that its \$20M grant request on behalf of multiple public agencies in the Bay Area, including BAWSCA, had been selected for funding. The grant request was part of the Proposition 84 Integrated Regional Water Management (IRWM) Grant Program and included \$2,558,168 for regional water conservation programs including \$195,000 to be applied to BAWSCA's Home Water Use Reports Program. The grant funds will be used to offset a portion of the cost paid by BAWSCA member agencies to implement this program.

Although ABAG was the grant applicant and will enter into the agreement with DWR for grant implementation, Solano County Water Agency (Solano CWA) will be the lead agency for the water conservation portion of the grant. In order to receive its portion of the grant award, BAWSCA will need to enter into a Memorandum of Understanding (MOU) with Solano CWA. The MOU describes the roles and responsibilities of Solano CWA as the lead agency, as well as the roles and responsibilities of BAWSCA and the other regional water agencies. The MOU also describes the schedule and process for all reporting and other requirements that are part of the grant implementation process.

The recommended action would authorize the CEO/General Manager, subject to legal counsel's review of the final documents, to enter into an interagency MOU with Solano CWA for the grant-administration of Proposition 84 IRWM grant funds to support BAWSCA's Home Water Use Reports Program.

Fiscal Impact

There is no financial cost to BAWSCA to receive the grant funds from DWR. These grant funds will be used to implement a subscription conservation program (Home Water Use Reports Program) and all costs to administer the grant disbursement, including budgeted BAWSCA staff time, will continue to be billed to the member agencies that participate through BAWSCA. There is a **financial benefit** to the participating BAWSCA member agencies of \$3 per household annually for households enrolled in the Home Water Use Reports Program.

Board Policy Committee Action

The Board Policy Committee voted unanimously to recommend the proposed Board action.

Recommendation

That the Board authorize the CEO/General Manager, subject to legal counsel's review of the final documents, to enter into an interagency MOU with Solano CWA for the grant-administration of Proposition 84 IRWM grant funds to support BAWSCA's Home Water Use Reports Program.

Discussion

In September 2013, the California Department of Water Resources (DWR) notified the Association of Bay Area Governments (ABAG) that its \$20M grant request on behalf of multiple public agencies in the nine-county Bay Area, including BAWSCA, had been selected for funding. Within that total grant was a specific allocation of \$2.6M for the regional water conservation programs. BAWSCA's share of the grant is \$195,000 to be allocated as shown in Table 1.

Table 1: Details of Grant Award to BAWSCA

<u>BAWSCA Program</u>	<u>Home Water Use Reports</u>
Total Grant Award	\$195,000
Unit Reimbursement	\$3 per household annually
Potential # of Customer Accounts Benefitting	Up to 65,000

Several actions need to be taken in order for BAWSCA to receive its portion of the grant funds received from DWR. First, as the grant applicant, ABAG must enter into a grant agreement with DWR for access to the entire grant. Second, for each of the major funding areas of the grant, a local lead agency was included in the grant request to be responsible for all financial and other accounting associated with the grant implementation. Each of these lead agencies must enter into a Memorandum of Understanding (MOU) with ABAG clarifying roles and responsibilities. For the water conservation portion of the grant, Solano CWA agreed to be the lead agency. Third, in order to have access to this Proposition 84 IRWM grant funding, BAWSCA must enter into a different (but similar) MOU with Solano CWA as the lead agency for the water conservation portion of the grant.

The current schedule calls for the necessary agreements to be finalized and signed by March 2015. To date, the agreements between DWR and ABAG and between ABAG and Solano CWA have been executed. The MOU between Solano CWA and BAWSCA is still in draft form and will be reviewed by BAWSCA's Legal Counsel in the coming months prior to execution. Upon finalization of the agreements, it is anticipated that grant funds will be available to reimburse Home Water Use Reports program activities back to the program launch date of September 2014. BAWSCA will make these grant funds available to its member agencies on a first come-first served basis through participation in the Home Water Use Reports program.

Alternatives to Recommended Action

Not Enter into an MOU with Solano CWA: An alternative to the recommended action would be for BAWSCA to not enter into an MOU with Solano CWA for the management of the awarded DWR grant funds. This alternative is not recommended as such an MOU is necessary to secure access to the grants funds and would result in BAWSCA and its member agencies being unable to access the awarded grant funds.

Background

This is the fifth DWR grant for regional water conservation in which BAWSCA has been a participant. Prior grants included a Proposition 13 grant, two Proposition 50 grants, and a Proposition 84 Round 1 grant. In each of these prior grants, similar MOUs were necessary to enable a single water agency to be the signatory with DWR for receipt of the grant awards.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Annual Review and Consideration of BAWSCA's Statement of Investment Policy**

Summary:

The Board's Investment Policy states the CEO/General Manager shall annually submit a Statement of Investment Policy to the Board, which the Board will consider at a public meeting. The previous review occurred on November 21, 2013 and resulted in no changes to the Policy. Quarterly investment reports are provided to the Board as required by the Policy.

Legal counsel advises that there are no recommended changes to the Investment Policy at this time as the current Investment Policy reflects language consistent with current State law.

Fiscal Impact:

No impact on BAWSCA's annual operating budget.

Board Policy Committee Action:

The Committee voted unanimously to recommend the proposed Board action.

Recommendation:

That the Board re-affirm the current Statement of Investment Policy.

Attachment:

1. Statement of Investment Policy

(This page intentionally left blank.)

BAY AREA WATER SUPPLY & CONSERVATION AGENCY
STATEMENT OF INVESTMENT POLICY

Adopted February 19, 2004

Amended by the Board, July 15, 2010

Amended by the Board, July 21, 2011

Amended by the Board, November 15, 2012

(This page intentionally left blank.)

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF INVESTMENT POLICY

1. Introduction

The investment policies and practices of the Bay Area Water Supply & Conservation Agency (BAWSCA) are based on state law and prudent money management. All funds will be invested in accordance with the Agency's Investment Policy and the California Government Code.

2. Scope

This policy applies to all funds and investment activities under the direction of the Agency, including funds held in the name of the Bay Area Water Users Association (BAWUA), a California nonprofit corporation of which the Agency is the sole member.

3. Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency.

Investments shall be made with the judgment and care which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived, and in accordance with the provisions of Government Code Section 53600 et seq.

4. Objectives

The primary objectives, in priority order, of the Agency's investment activities shall be:

A. Safety. Safety of principal is the foremost objective of the investment program. The Agency's funds shall be invested in a manner that seeks to ensure preservation of capital.

B. Liquidity. The Agency's investments will remain sufficiently liquid to enable the Agency to meet its cash flow requirements.

C. Return on Investment. The Agency's investments shall be designed with the objective of attaining a market rate of return consistent with the constraints imposed by its safety and liquidity objectives.

5. Delegation of Authority

The management and oversight responsibility for investments is hereby delegated to the CEO/General Manager who shall monitor and review all investments for consistency with this Investment Policy.

6. Investment of Funds

A. Permitted Investments and Depositories

(i) Agency funds may be deposited only in state or national banks and state or federal savings associations with offices in California that meet the requirements and conditions of the Government Code, as it may be amended from time to time.

(ii) Funds not deposited in banks or savings associations shall be invested in the Local Agency Investment Fund administered by the Treasurer of the State of California, in accordance with Government Code Section 16429.1.

B. Other Limitations

(i) The maximum amount of funds deposited with any bank or savings association shall be \$250,000; provided that if funds are each separately insured by the Federal Deposit Insurance Corporation ("FDIC"), the General Manager may maintain separate accounts for the Agency and for BAWUA (to a maximum of \$250,000 for each entity) at one bank or savings association. The temporary increase from \$100,000 to \$250,000 in the standard maximum deposit insurance amount has been permanently extended by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

(ii) Investment maturities shall be based on a review of cash flow forecasts and shall be scheduled so as to allow the Agency to meet all projected obligations. The maturity of any certificate of deposit shall not exceed 12 months.

7. Investment of Bond Proceeds

Permitted Investments and Depositories. Pursuant to Government Code section 53601(m), a local agency may invest bond proceeds "in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance of those bonds." Typically, a local agency will specify in its investment policy that the investment of bond proceeds is out of the scope of the investment policy because permitted investments are specified in the bond indenture.

Instead, BAWSCA has determined that it would like to at least temporarily use its Investment Policy to restrict the vehicles permitted for the investment of bond proceeds to more conservative investments than are permitted by the Revenue Bond Indenture, dated January 1, 2013, by and between BAWSCA and the Trustee (the "Indenture"). This gives BAWSCA the flexibility to, through amendments to future Investment Policies, gradually expand permitted investments for bond proceeds to include some or all of the investment vehicles permitted in the Indenture. As

such, notwithstanding language allowing a broader range of investment vehicles in the Indenture, bond proceeds may be invested only in the following instruments:

(i) “Federal Securities” meaning direct and general obligations of the United States of America, or those which are fully and unconditionally guaranteed as to timely payment of principal and interest by the same;

(ii) “Money Market Mutual Funds” meaning funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor’s of “AAAm-G” or “AAAm” and, if rated by Moody’s, having a rating by Moody’s of “Aaa,” including money market funds from which the Trustee or its affiliates derive a fee for investment advisory or other services to the fund or for which the Trustee or any of its affiliates serve as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee; and

(iii) “Certificates of Deposit” (including those placed by third parties pursuant to an agreement between the Agency and the Trustee), trust funds, trust accounts, overnight bank deposits, interest bearing money market accounts, time deposits, savings accounts, deposit accounts, bankers’ acceptances or money market deposits which are fully insured by the Federal Deposit Insurance Corporation, including those of the Trustee or its affiliates.

8. Reporting Requirements

The CEO/General Manager shall provide the Board a quarterly investment report, which shall include the information specified in Government Code Section 53646.

9. Annual Review of Investment Policy

The CEO/General Manager shall annually submit a Statement of Investment Policy to the Board, which the Board will consider at a public meeting.

(This page intentionally left blank.)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Review and Consideration of BAWSCA's General Reserve Policy**

Summary

This item presents a review of BAWSCA's General Reserve Policy. No changes to the policy are recommended at this time. The BAWSCA Board originally adopted a General Reserve Policy in 2004. The Board adopted a resolution on July 21, 2011 to amend the policy to change the guideline for the range in the general reserve from 20%-25% to 20%-35% of the operating budget. The current General Reserve Policy is designed to protect the agency against unanticipated deviations in revenue and expenditures, and stabilize or attenuate variations in assessments to member agencies.

Fiscal Impact

No impact on BAWSCA's annual operating budget.

Board Policy Committee Action:

The Committee voted unanimously to recommend approval of the proposed Board action. A suggestion was raised during the Committee meeting that BAWSCA investigate the concept of the Line of Credit with the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), who has recently initiated conceptual phase discussions on this idea. BAWSCA will continue to monitor the development of this concept and report to the Board if any action might be appropriate in the future.

Recommendation:

That the Board re-affirm the current General Reserve Policy.

Discussion

A general reserve serves two primary purposes:

1. Enables the agency to apply resources to urgent needs that were not foreseen at the time the annual budget was adopted. Using the reserve allows the needs to be met without imposing special assessments and avoid imposing additional burdens on the agency's budget during a fiscal year.
2. Fund one-time, non-recurring expenses to moderate variations in annual assessments.

To perform the review of the General Reserve Policy, the following steps were taken:

1. Review of the current General Reserve Policy adopted by the Board in 2011,
2. Review publications and recommendations from the following sources: a) the Government Financial Officers Association (GFOA), b) the California Society of Municipal Finance Officers, and c) the California Special Districts Association.

As a result of reviewing the publications listed above, a benchmarking study was performed and a risk assessment analysis recommended by GFOA was performed to determine an appropriate reserve target for BAWSCA. The results of the benchmarking survey and the risk analysis are described below.

Benchmarking Survey: There is no standardized percentage of General Reserve to annual operating budget that can be applied to various types of local governments or water agencies, especially for an entity like BAWSCA. Unlike BAWSCA, most water agencies' reserves are sized to cover emergency operating needs and short-term loss of revenue as well as being sufficient to cover legal actions or special studies that might arise mid-year.

For comparison purposes, BAWSCA conducted a benchmarking survey of all member agencies whose annual operating budgets are lower than \$15,000,000. However, no member agencies' revenue sources or operating needs are similar to BAWSCA's. The Sacramento Regional Water Authority (RWA), a public Joint Powers Authority that operates a business similar to BAWSCA, was also included in the survey. The SRWA has a general reserve guideline in the range of 33% - 50% of the operating budget, which is higher than BAWSCA's current guideline. However, more than 20% of RWA's revenues are from grants, which indicate significant risk from revenue instability. Attachment 2 presents the results of the survey for those agencies who responded as of October 3, 2014.

Use of GFOA's Risk Assessment Analysis to Determine Reserve Target. Strong reserves reflect an agency's ability to manage risk. To determine an overall reserve target, BAWSCA analyzed the risk factors in the following eight categories.

1. Vulnerability to extreme events: BAWSCA could encounter unanticipated expenses in an event of arbitration of issues associated with administration of the 2009 Water Supply Agreement. For example, currently BAWSCA is disputing the SFPUC's change of classification on the Kirkwood and Moccasin Penstocks. Without a sufficient reserve to fund the cost, BAWSCA would have to impose special assessments to fund the needs.
2. Revenue source stability: BAWSCA's main revenue source, the annual agency assessments, are currently collected as fixed amounts independent of water sales. This provides BAWSCA a stable revenue base which is unlike most water suppliers as BAWSCA's revenues during the fiscal year would not be interrupted by an inability to deliver water.
3. Expenditure volatility: BAWSCA could experience significant expenditure increases as a result of legal actions or special studies. While typically planned for as part of the budget development process, these have a potential to impact BAWSCA's operating budget.
4. Leverage: BAWSCA is not subject to any major sources of leverage or debt that are not already managed with its reserves. For example, BAWSCA is currently fully funding the annual pension liabilities and annual required contribution to OPEB.
5. Liquidity: BAWSCA's only current revenue source, annual assessments, is exposed to intra-period cash imbalances with no risk management alternatives readily available and no existing enforcement remedy. BAWSCA bills the member agencies on a quarterly basis with the exception of CalWater, which is billed monthly by San Francisco. There is always an agency(ies) making its assessment payment to BAWSCA later than the required 30 days. While not a significant issue to date, this will

be reviewed in the future at the suggestion of the Committee for possible consideration of a fine or other mechanism to encourage on-time payment.

6. Other funds dependency: BAWSCA has no other funds that rely on the general fund for backstopping.
7. Growth: Not applicable to BAWSCA. This category reflects growth in things like property taxes that are generated from new development.
8. Capital projects: BAWSCA does not currently manage any capital projects.

GFOA's Analytical Guidance: Based on the result of the risk assessment analysis above, GFOA advises that BAWSCA "faces a moderate to high level of risk to retain through reserves. Consider adopting a target amount of reserves significantly higher than the GFOA recommended minimum reserve of 16.6% of general fund operating revenues or general fund operating expenditures."

Recommended Action & Alternatives for Consideration: Upon BAWSCA's review of the existing general reserve policy, an analysis of BAWSCA's risk assessment, and the consultations with BAWSCA's auditor and legal counsel, no changes to the policy are recommended at this time. Since BAWSCA's current General Reserve Policy is consistent with GFOA's analytical guidance and is not inconsistent with the result of the benchmarking survey, identifying and analyzing alternatives are considered unnecessary. Therefore, no alternatives are presented for consideration at this time.

Background

BAWSCA established its General Reserve Policy in FY 2003-04. Attachment 3 presents a table showing BAWSCA's historical annual assessments and year-end reserves.

Either as part of the annual Work Plan, Budget and Funding plan adoption, or during the year as a separate independent action, the BAWSCA board has authorized use of the General Reserve consistent with the purposes identified above. Examples of past use of the General Reserve are provided in Attachment 3.

Attachments:

1. 2014-04, Resolution Re-Affirming the General Reserve Policy
2. Result of Benchmarking Survey
3. Table 1: BAWSCA Historical Annual Assessments and Year-End Reserves
Table 2: Examples of Historical Use of BAWSCA's General Reserve

(This page intentionally left blank.)

ATTACHMENT 1

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

RESOLUTION NO. 2014-04

RE-AFFIRM GENERAL RESERVE POLICY

WHEREAS, maintenance of a reserve to provide funds for urgent but unanticipated expenses is a prudent financial measure; and

WHEREAS, the Agency originally adopted a Reserve Policy in 2004, Resolution 2004-07, and revised such Policy by Resolution 2011-01 in 2011; and

WHEREAS, the CEO/General Manager and Board Policy Committee have reviewed the Reserve Policy and recommend re-affirmation.

BE IT RESOLVED by the Board of Directors of the Bay Area Water Supply & Conservation Agency as follows:

1. Revenue received by the Agency during a fiscal year that is not expended or obligated by June 30 of that year shall be transferred to the General Reserve, subject to the limitation on that reserve in Section 2.
2. For budgetary purposes, the guideline for the maximum balance in the General Reserve is thirty five percent (35%) of the budget year's operating expense.
3. For budgetary purposes, the guideline for the minimum balance in the General Reserve is twenty percent (20%) of the budget year's operating expense. Once that level is achieved, it is the policy of the Board to maintain the General Reserve at the minimum 20% level.
4. Each year the proposed budget submitted to the Board by the CEO/General Manager shall estimate the amount of the reserve at the end of the fiscal year covered by the budget. If the ending reserve balance is estimated to fall outside the guidelines established by this resolution, the budget shall include a prudent and practical schedule for restoring the reserve balance to within those guidelines.
5. Funds in the General Reserve may be used only for purposes approved by the Board of Directors.
6. Funds in the General Reserve are to be deposited in accordance with the Board's approved Investment Policy, but need not be deposited in a separate account.

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

AYES:

NOES:

ABSENT:

Chair, Board of Directors

ATTEST:

Secretary

Attachment 2. Result of Benchmarking Survey*

Agency (Contact Name)	General Fund Operating Budget	Reserve Percentage	General Reserve Policy	
City of Brisbane Stuart Schillinger	\$ 13,000,000	50%	of	Annual operating expenditures
North Coast County Water District Connie Hsu	\$ 9,125,020	50%	of	Annual operating expenditures
Purrisima Hills Water District Patrick Walter	\$ 4,770,899	Set Amount	of	\$750,000*
Sacramento Regional Water Authority Nancy Marrier	\$ 1,365,000	33%-50%	of	Annual operating expenditures

** BAWSCA surveyed all member agencies whose annual operating budgets are lower than \$15,000,000. The table above includes the agencies who responded as of October 3, 2014.*

Attachment 3**Table. 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	\$521,897

Table 2: Examples of Historical Use of BAWSCA's General Reserve

Fiscal Year	Authorized Use of General Reserve
FY 2013-14	<ul style="list-style-type: none"> • \$300,000 for work associated with the Regional Water Demand and Conservation Projections Project • \$98,000 to fund the annual required contribution to Other Post-Employment Benefits (OPEB) • \$66,000 for water resources services
FY 2012-13	<ul style="list-style-type: none"> • \$65,000 for work associated with the Regional Water Demand and Conservation Projections Project • \$130,000 for EBMUD Pilot Transfer Program
FY 2011-12	<ul style="list-style-type: none"> • \$172,190 refund to the member agencies

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Long-Term Reliable Water Supply Strategy – Update**

Summary:

BAWSCA is developing its Long-Term Reliable Water Supply Strategy (Strategy) to (1) meet the projected water supply needs of its member agencies through 2035 and (2) increase their water supply reliability under normal and drought conditions. The *Strategy Phase II Final Report* will be completed in December 2014. This memo summarizes the progress to date, selected preliminary findings and outlines the next steps.

Discussion:

In 2009, BAWSCA launched the Strategy to provide a comprehensive, regional assessment of the BAWSCA member agencies' water supply reliability needs, an evaluation of potential water management actions that could be implemented to meet these needs, and identify potential next steps for implementation for consideration by the BAWSCA Board to achieve an increased level of reliability.

The Strategy was a direct response to the following principal issues:

1. Water demand in the BAWSCA service area was projected to be greater than available supplies in both normal and drought years, which would result in severe economic impacts to the region;
2. The San Francisco Public Utilities Commission's (SFPUC) unilateral decision to limit the Regional Water System (RWS) supplies available to the BAWSCA member agencies to 184 million gallons per day through 2018;
3. Anticipated supply shortages on the RWS of up 20% system-wide resulting in even greater potential cutbacks to the BAWSCA member agencies; and
4. Additional identified threats to RWS reliability from environmental, regulatory and political forces.

Policy Level Input Received from Board to Date and Actions Taken

During each phase of the Strategy, the BAWSCA Board has taken decisive action including:

1. Authorizing Phase I, Phase II, and Phase IIA of the Strategy;
2. Defining the Strategy's guiding principles (see Attachment A, Table A-1);
3. Providing clear input on Strategy's (1) planning objectives and (2) the project and portfolio evaluation criteria to be used for the Strategy (see Attachment A, Tables A- 2 and A-3); and
4. Approving the action items identified in the *Strategy Phase IIA Report*, which called for the updating of conservation and demand projections, initiating the work on the EBMUD pilot water transfer plan, and the modifications to the Strategy's final scope of work based on the findings from previous phases.

Overview of Strategy Progress to Date

Work on the Strategy has proceeded in three phases:

- **Phase I** – defined the magnitude of the water reliability issue, identified over 65 different potential projects that could be developed in some combination to meet the identified reliability needs and an evaluation process and criteria to assess potential projects.
- **Phase II** – was restructured to address changing conditions, and led to the following efforts:
 - *Phase IIA* - presented a detailed analysis of a refined list of potential projects identified in Phase I, identified near-term recommendations to address immediate opportunities (e.g., pilot water transfer), and refined the scope of work for the remainder of Phase II to match changing conditions.
 - *Phase II Final* - will present an updated water supply need analysis, a further refined list of appropriate projects, analysis results for a range of supply portfolios and how they compare to the adopted criteria, and identify potential next steps for consideration by the BAWSCA Board.
- **Phase III** – Phase III will encompass implementation of recommendations resulting from the Strategy Phase II Final Report

Phase I was completed in May 2010 and concluded that water demand in the BAWSCA service area would be significantly greater than available supplies in both normal and drought years by 2035 based on a review of the BAWSCA member agencies' 2005 urban water management plans and other related planning documents.

Phase I also included a preliminary evaluation of over 65 projects that could potentially be developed by BAWSCA and the BAWSCA member agencies to meet the identified supply needs through 2035. The project information developed focused on initial estimates of the yield, cost, reliability, and implementation schedule. Four types of projects emerged with the most promise for addressing the reliability need (i.e., recycled water, local capture and reuse, desalination, and water transfer projects) that were carried forward into Phase II.

Phase II Progress

Phase II was initiated in Summer 2010 and will be completed with the upcoming Strategy Phase II Final Report, which will be distributed next month. The original scope of work for Phase II included the following:

- Determination of the supply reliability need in both normal and dry years;
- Further refinement of project descriptions to: (1) incorporate the additional project information developed by BAWSCA and others; and (2) inclusion of all the information needed to compare the projects against the evaluation criteria;
- Completion of an analysis of the economic impacts of drought;
- Development of a screening and evaluation process to evaluate and rank the potential projects and portfolios in their ability to meet identified reliability needs
- Evaluation and ranking of the projects, or groups of projects, against the evaluation process criteria including a comparison of alternative costs of increased drought reliability to avoid potential economic impacts due to water shortages;
- Preparation of an implementation plan for developing the recommended projects, or groups of projects, to achieve the Strategy planning objectives

During the course of Phase II, it became apparent that the overall scope of the effort needed to be refined based on changed conditions and that several near-term actions needed to be taken. As such, in July 2012, the Strategy Phase IIA Report was distributed, which documented the results of

two years of work further defining both the reliability need and identifying potential projects to fill the reliability need for the BAWSCA member agencies. As a result of the work completed during this time, the Strategy Phase IIA Report presented the following recommendations, which were presented to the BAWSCA Board in September 2012:

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

In response to the Phase IIA recommendations, the efforts to date to develop a pilot water transfer have focused on the use of EBMUD facilities. In September 2013, the BAWSCA-EBMUD Short-Term Pilot Water Transfer Plan was published, which highlighted the findings to date and identified the necessary additional analysis and agreements. Since that time, BAWSCA has continued close work with EBMUD, and the other pilot water transfer partners, to execute a pilot transfer as early as Spring 2015. In addition, a memorandum of understanding and scope of work was executed and approved with SCVWD in August 2014 and work continues currently to develop a pilot water transfer plan.

The results of the Regional Demand and Conservation Projections Project (Project), another recommendation from Phase IIA, are a critical component of the Strategy results and include a large reduction in normal year water demands in the BAWSCA service area, which nearly eliminates the need for additional actions to meet normal year demands through 2040. These results will be reflected in the Strategy Phase II Final Report.

Select Phase II Preliminary Findings

During Phase IIA, the multitude of agency-identified projects that had been carried forward from Phase I, and the additional projects identified during Phase IIA, were evaluated and pared down to a resultant 10 projects. These 10 projects were carried forward through the completion of Phase II for further evaluation.

Table 1 presents a summary of the potential yield and approximate capital and operations cost of the local and regional projects retained for development and evaluation as part of the Strategy.

Table 1: Summary Of The Potential Yield and Approximate Capital and Operations Costs of Phase II Projects		
Project	Capacity	Capital & Ops Costs/AF*
Recycled Water - <i>City of Daly City</i> – Recycled Water Expansion Project, Colma Expansion - <i>City of Mountain View</i> – Increase Recycled Water Supply from Palo Alto Regional Water Quality Control Plant - <i>City of Palo Alto</i> – Recycled Water Project to Serve Stanford Research Park - <i>City of Redwood City</i> – <i>Regional Recycled Water Supply</i>	Up to 6.5 mgd	\$1,950 - \$3,310/AF

Groundwater - <i>City of Sunnyvale</i> – expanded use of new or converted wells to normal year supply	Up to 2.1 mgd	\$1230 - \$1350/AF
Desalination (Brackish Water)	0.7-6.5 mgd	\$1,400 - \$4,700/AF
Desalination (Open Intake)	10–20 mgd	\$2,000 - \$2,700/AF
Water Transfers - <i>East Bay Municipal Utility District</i> - <i>Santa Clara Valley Water District</i>	Up to 20 mgd	\$500 – 1,100/AF
Rainwater Harvesting	0.2-0.6 mgd	\$2,900 - \$4,800/AF
Graywater Capture	1.1-2.7 mgd	\$500 - \$10,000/AF
Groundwater Storage	TBD	TBD

* Costs do not include potential Regional Water System costs.

Next Steps:

To evaluate and rank the potential projects, a four level screening and evaluation process was developed for use in Phase II to screen individual projects and combinations of projects to meet identified reliability needs:

1. *Preliminary “Fatal Flaw” Screening* – identified those projects that either cannot be completed in time to meet the future demands within the Strategy planning horizon (i.e., by 2018 or 2035), or with environmental impacts that would likely prohibit their implementation.
2. *Individual Water Supply Management Project Evaluation* – projects were grouped into supply categories (e.g., desalination, surface water, etc.) and then assessed using evaluation criteria to establish their relative ranking within each supply category.
3. *Portfolio Development* – multiple projects will be combined into portfolios formulated to meet the identified need. Multiple portfolios to satisfy different objectives (e.g., least cost, maximum yield, etc.) will be identified for the Strategy.
4. *Portfolio Evaluation* – the final step involves the assessment of the different water supply portfolios based on the evaluation criteria to provide decision makers with the information needed to make informed decisions about supply management costs, impacts, and benefits.

The results of this screening will be documented in the Strategy Phase II Final Report and form the basis for the recommendations presented in the report.

The Strategy Phase II Final Report will be distributed to the BAWSCA Board in December 2014. The report will include a further refinement of the list of viable projects whose implementation, either individually or in various combinations, would address the identified reliability needs of the BAWSCA service area.

At the January BAWSCA Board meeting, the results of the Strategy will be presented. The presentation will also review the recommendations presented in the report and initiate dialogue with the Board for possible future action.

Attachment A

Table A-1: Long-Term Reliable Water Supply Strategy Guiding Principles

1. The Strategy must add value to BAWSCA member agency customers.
2. The Strategy must provide certainty for future planning and development.
3. The Strategy must not result in the uncompensated or involuntary reallocation of BAWSCA member agency assets.
4. The Strategy must be consistent with the water transfer provisions of the 2009 WSA between the City and County of San Francisco and the Wholesale Customers.
5. The projects that are developed as part of the Strategy will be paid for based upon cost allocation methods that will be agreed upon by the BAWSCA Board.

Table A-2: Long-Term Reliable Water Supply Strategy Planning Objectives

1. Increasing supply reliability;
2. Providing a high level of water quality;
3. Reducing cost impacts;
4. Increasing potable water use efficiency;
5. Reducing environmental impacts; and
6. Increasing implementation potential.

Table A-3 – Strategy Project and Portfolio Evaluation Objectives, Criteria and Metrics

Objective	Criteria	Metrics (For Project/For Portfolio)
1 - Increase Supply Reliability	Criterion 1A – Ability to Meet Normal Year Supply Need	Quantitative (AF/year): Average annual yield in normal years in 2035
	Criterion 1B – Ability to Meet Drought Year Supply Need	Quantitative (AF/year): Average annual yield with drought hydrology of 1987 – 1992.
	Criterion 1C – Risk of Facility Outage	Qualitative (1-5): Estimated probability and duration of major conveyance failure.
	Criterion 1D – Potential for Regulatory Vulnerability	Qualitative (1-5): Potential for regulatory decisions to impact supply reliability.
2 - Provide High Level of Water Quality	Criterion 2A – Meets or Surpasses Drinking Water Quality Standards	Quantitative (mg/L): TDS level as an indicator of water quality.
	Criterion 2B – Meets or Surpasses Non-Potable Water Quality Standards	Qualitative: Meets minimum water quality requirement (e.g., Title 22) for the targeted use.
3 - Minimize Cost of New Water Supplies	Criterion 3 – Capital and Present Worth Costs	Quantitative (\$/AF): Present Worth costs including capital and operating costs.
4 - Reduce Potable Water Demand	Criterion 4 – Augment Non-Potable Water Supplies	Quantitative (AF/year): Reduction of potable water demand by use of non-potable supply.
5 - Minimize Environmental Impacts of New Water Supplies	Criterion 5A – Greenhouse Gas Emissions	Quantitative (metric tons/AF of Supply): Estimates of unit greenhouse gas emissions.
	Criterion 5B – Impact to Groundwater Quantity and Quality	Qualitative (1-5): Potential impacts to groundwater levels, groundwater quality, or potential for subsidence.
	Criterion 5C – Impact to Habitat	Qualitative (1-5): Potential impacts to habitat, such as wetlands, riparian zones, fisheries, and inundation areas.
6 - Increase Implementation Potential of New Water Supplies	Criterion 6A – Institutional Complexity	Qualitative (1-5): Number and type of agencies and agreements involved.
	Criterion 6B – Level of Local Control	Qualitative (1-5): BAWSCA and Member Agency ownership of supply projects.
	Criterion 6C – Permitting Requirements	Qualitative (1-5): Permitting or regulatory issues for supply projects.

Board of Directors

Policy Calendar for FY 2014-15

Board Meeting	Purpose	Issue or Topic
Nov. 2014	D&A D&A D&A D&A	Annual Review and Consideration of BAWSCA's Investment Policy Review of BAWSCA's General Reserve Policy Contract Amendment with PG&E for Continuation of Washing Machine Rebate Program Agreement to Implement Grant Funding for Regional Water Conservation Programs
Jan. 2015	D&A D&A D&A D R	Review Water Supply Forecast & Decide if a Transfer Should be Pursued Mid-Year Review of FY 2014-15 Work Plan and Budget Consideration of BAWSCA Bond Surcharges for FY 2015-16 Work Plan and Budget Planning for FY 2015-16 Presentation of Final Strategy Report and Recommendations
March 2015	D&A D	Final Strategy Report and Recommended Action Presentation of Preliminary FY 15-16 Work Plan and Budget
May 2015	D&A	Adoption of Proposed FY 15-16 Work Plan and Budget

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

(This page intentionally left blank.)

BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
DATE: November 14, 2014
FROM: Nicole Sandkulla, CEO/General Manager
SUBJECT: Chief Executive Office/General Manager's Letter

Requests for BAWSCA to Take Positions on Issues

Earlier this year, a question was raised by Director Breault about the process BAWSCA follows when it is requested to take a position on a public issue that might affect its constituents and would need to be implemented and communicated successfully by its Chief Executive Officer.

To review, BAWSCA's current process for addressing such requests includes the following:

- The CEO/GM analyzes a request including:
 - Does the issue fall within BAWSCA's authority, goals, policies, and desired results;
 - Is the issue related to BAWSCA's current work plan;
 - Does BAWSCA have the staff or consultant expertise to address the issue;
 - Could the staff effort and cost to address the issue be provided within the current work plan and budget; and
 - Should BAWSCA, alternatively, suggest that this issue be addressed by another party?
- Based on this analysis, the CEO decides whether to recommend to the Board Chair that BAWSCA should take a position on the issue, whether the CEO should make the decision, and if there are reasonable alternatives. The CEO informs the party requesting the position about BAWSCA's decision.

The Board Chair convened the Ad Hoc Committee to provide input to the Chair and CEO about whether the current process is satisfactory or should be changed to achieve BAWSCA's goals.

As a result of the input received from the Ad Hoc Committee and further discussion with the Chair, the following additional clarification is added to the description of the process:

- As needed, the CEO will consult with the Board Chair, who in turn may consult with the BAWSCA Vice-Chair, and Chair and Vice-Chair of the Board Policy Committee as needed, to provide input to the CEO and Chair.

Pilot Water Transfer Plan with EBMUD – Policy Decision Process

BAWSCA is continuing development of a pilot water transfer in partnership with the East Bay Municipal Utilities District (EBMUD), San Francisco Public Utilities Commission (SFPUC), the City of Hayward (Hayward), and Yuba County Water Agency (YCWA).

Recent efforts have focused on finalizing the draft agreements with EBMUD, Hayward, and SFPUC that are necessary to implement the transfer. The current schedule identifies possible implementation of the pilot water transfer as early as Spring 2015. Increased work with Yuba County Water Agency will be commencing this upcoming month including a scheduled face to face meeting in December.

BAWSCA and Hayward continue to meet regularly on the pilot water transfer project with progress being made on understanding Hayward's operational concerns, identifying benefits to both Hayward and BAWSCA from the occurrence of the pilot transfer, and resolving important issues that remain. This month, BAWSCA and Hayward will enter into a planning-level agreement that will commit both agencies to working cooperatively to resolve issues surrounding a pilot water transfer that could occur as early as Spring 2015.

San Mateo County Energy Water BAWSCA Joint Fellowship

BAWSCA is partnering with the San Mateo County Energy Watch (SMCEW) to co-fund a fellowship position for water conservation community outreach. The fellow will be reaching out to the community to communicate details about several regional water conservation initiatives and programs, including the Lawn Be Gone! Program, High Efficiency Toilet Rebate Program, Rain Barrel Rebate Program, and Landscape Education Program. In addition to contacting community organizations, the fellow will be performing store visits to the various hardware, home improvement, gardening, and landscaping retail stores in support of the programs.

The fellow will also be conducting water use benchmarking (e.g. Performing an onsite water audit and preparing a report identifying areas for possible water savings) of public K-12 schools and coordinating with water agencies on implementation of water-saving measures. The fellowship will be a 10-month position through the Americorps CivicSpark Program, which is managed by the Local Government Commission. SMCEW is a partnership between the City/County Association of Governments (C/CAG) and Pacific Gas and Electric Company (PG&E).

Grant Funding – Update

BAWSCA has recently been awarded \$535,000 in grant funding from the Proposition 84 Integrated Regional Water Management 2014 Drought Grant Solicitation, as part of the San Francisco Bay Area Region's application. These funds will partially reimburse activities for BAWSCA conservation rebate programs including Lawn Be Gone! Rebates, High Efficiency Toilet Rebates, and Washing Machine Rebates. BAWSCA is also receiving an additional \$123,000 Prop 84 Round 1 funding through a re-allocation of funds among participating water agencies, bringing the total Round 1 funding to \$986,000. This reallocation is pending DWR approval. With these additional awards, the total grant funding to BAWSCA from Proposition 84 will exceed \$1.7M (as shown in Table 1 below). These funds are

distributed to BAWSCA member agencies that participate in the eligible rebate programs to offset the program costs.

Table 1: Proposition 84 BAWSCA Grant Funding Awards

<u>Prop 84 Grant Round</u>	<u>Grant Amount</u>
Round 1	\$986,030
Round 2	\$195,000
<u>Drought Relief Round</u>	<u>\$535,000</u>
Prop 84 Total	\$1,716,030

Silicon Valley Water Conservation Awards

The 2015 Silicon Valley Water Conservation Awards (Awards) will be held on March 23rd at the new Mitchell Park Library in Palo Alto. The Awards are presented annually to organizations, agencies, businesses and individuals whose programs and leadership have advanced water conservation in Silicon Valley (i.e San Mateo County, Santa Clara County and Alameda County from Hayward south). The goal of the Awards is to raise awareness and celebrate outstanding achievements in water conservation through best practices, efficiency and innovation in our region.

BAWSCA is a sponsor of the Awards and a participant in the coordinating committee. Several BAWSCA member agencies and BAWSCA itself have been recipients of a Silicon Valley Water Conservation Award. Awards are given in the following categories: Government Agency/Water Utility, Business, Organization, Greenscape Management, Innovation, Education, and Water Champion. Nominations can be submitted at www.waterawards.org by February 27, 2015.

(This page intentionally left blank.)

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

Meeting Schedule through June 2015

Schedule for BAWSCA Board Meetings (Meetings are held from approx. 7:00 – 9:00 p.m.)	
<u>Date</u>	<u>Location</u>
Thursday – January 15, 2015	Wind Room, Foster City Community Center
Thursday – March 19, 2015	Wind Room, Foster City Community Center
Thursday – May 21, 2015	Wind Room, Foster City Community Center
Thursday – July 16, 2015	Wind Room, Foster City Community Center
Thursday – September 17, 2015	Wind Room, Foster City Community Center
Thursday – November 19, 2015	Wind Room, Foster City Community Center

Schedule for RFA Board Meetings (Meeting time will be announced)	
<u>Date</u>	<u>Location</u>
Thursday – January 15, 2015	Wind Room, Foster City Community Center

Schedule for BAWSCA Board Policy Committee Meetings (Meetings held from 1:30-4:00 p.m.)	
<u>Date</u>	<u>Location</u>
Wednesday – December 10, 2014	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – February 11, 2015	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – April 8, 2015	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – June 10, 2015	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – August 12, 2015	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – October 14, 2015	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – December 9, 2015	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.