

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD POLICY COMMITTEE**

**February 12, 2014 – 1:30 p.m.
BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room**

MINUTES

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

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

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

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

- 3. Public Comment:** There were none.

- 4. Consent Calendar:** Approval of Minutes from the December 11, 2013 meeting.

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

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

5. Action Items:

A. Resolution Adopting Policy Governing Distribution of BAWSCA's Assets Upon Dissolution.

Ms. Sandkulla reminded the Committee that in September of 2013, the Board approved the establishment of an irrevocable trust with California Employers' Retiree Benefit Trust (CERBT). To implement the trust, CERBT requires BAWSCA to adopt a resolution that outlines how BAWSCA's assets would be distributed upon dissolution, and prohibits the distribution of BAWSCA's assets to private persons to avoid jeopardizing CERBT's tax-exempt status. BAWSCA worked closely with the attorney at CERBT to develop a resolution that fulfills these requirements.

The proposed means for distribution of BAWSCA's assets in the event of its dissolution involves a 2-step process. The first step distributes assets to a successor agency that assumes all of BAWSCA's debts and liabilities. The second step, if no such successor

agency exists, involves (a) the distribution of BAWSCA's assets to pay BAWSCA's debts and liabilities, (b) distribution of the remaining assets after payment of debts and liabilities, to the extent attributable to any reversion from CERBT assets in excess of BAWSCA's OPEB liabilities, to public member agencies, (c) distribution of assets remaining [after (a) and (b)] to ratepayers of all agencies as previously charged, and d) distribution of remaining assets after (a), (b), and (c) to eligible public entities.

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

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

Committee members mutually expressed the unlikelihood of dissolution happening.

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

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

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

The motion passed unanimously.

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

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

As a participant in the IRWMP, BAWSCA has been successful in receiving its share of grant funds for water conservation. BAWSCA was awarded \$862,988 in Round 1 of Prop 84 grant to subsidize high-efficiency toilets, washing machine, and lawn replacement rebate programs. Recently, BAWSCA was awarded \$187,312 in Round 2, and those grant funds will subsidize the Lawn Be Gone and Home Water Use Reports programs. The total estimated savings to BAWSCA from both grants is nearly 650 acre-feet per year.

In order to receive the grant funds, DWR is requiring each grant recipient agency to adopt the most recent updated IRWMP for their region. The Bay Area IRWMP has been updated

and is currently in draft form. It is expected to be finalized before the March Board meeting.

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

The motion passed unanimously.

6. Reports and Discussion Items:

A. Preliminary Fiscal Year 2014-15 Work Plan and Operating Budget:

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

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

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

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

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

Successful implementation of regional conservation programs will continue, as well as ongoing oversight of SFPUC's Water System Improvement Program (WSIP). While the WSIP is nearing completion, the projects that remain are some of the most critical to the system.

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

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

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

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

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

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

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

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

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

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

Ms. Sandkulla noted that while there will be no water supply limitation in 2018 since water use will not exceed 184 mgd, a question still remains as to what kind of certainty will San

Francisco provide wholesale customers in meeting increased water supply need in the future.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Director Keith agrees with the concerns about the Mountain Tunnel.

B. Pilot Water Transfer Progress Report:

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

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

Through the Phase I development of the Strategy, water transfers were identified as a promising water supply alternative. Transfers can augment both normal and dry year supplies, and was identified as one of four project types that are most promising in addressing water supply needs. Phase IIA of the Strategy led to the recommendation of a Pilot Water Transfer Plan investigation with EBMUD in 2012. The investigation,

completed in September 2013, identified potential supply sources and sellers, the required agreements and plans for implementation, and other approval and regulatory requirements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Director Pierce asked where the transferred water go.

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

7. Reports:

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

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

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

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

Committee members asked how the costs would be allocated.

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

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

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

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

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

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

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

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

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

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

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

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

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

In responding to the questions asked by members of the committee about overruns and increased costs in the WSIP, Ms. Sandkulla reported that there is \$125.4 million projected overruns in the WSIP that have been moved over to, and funded as a separate line item in

the Water Enterprise 10-year CIP. The SFPUC took a few projects out from the Water Enterprise CIP, and included the overruns from WSIP as a way to fund them.

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

Ms. Sandkulla explained that the planning dollars for the BARDP remain in the CIP, and the capital dollars are scheduled beyond the 10-year period. She reported that Commissioner Moran, who is most concerned about SFPUC's decisions in 2018, sees the BARDP as having the ability to help SFPUC answer the critical 2018 questions. BAWSCA will closely monitor the developments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Comments by Committee Members:

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

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Nicole Sandkulla", written in a cursive style.

Nicole Sandkulla, Chief Executive Officer

NS/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – February 12, 2014

Roster of Attendees:

Committee Members Present

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

Committee Members Absent

Tom Piccolotti, North Coast County Water District

BAWSCA Staff:

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

Public Attendees:

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