

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

October 8, 2014 – 1:30 p.m.

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

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

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 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: Approval of Minutes from the August 13, 2014 meeting.

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 through 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, it's 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

6. 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.

7. 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.

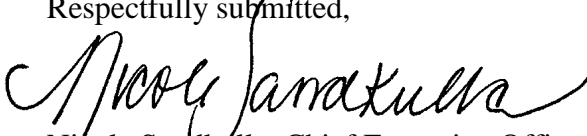
Director Guzzetta stated that the issue is economic. BAWSCA and its member agencies can choose to build facilities to provide the reliability, but the issue is affordability. Reliability and quality of water will raise costs in the next 10-20 years.

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.

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

Respectfully submitted,



Nicole Sandkulla, Chief Executive Officer

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Attachments: 1) Attendance Roster

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:

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

Public Attendees:

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