

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

December 10, 2014

1:30 p.m.

BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room
(Directions on page 2)

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page#</u>
1. <u>Call To Order, and Roll Call</u> Roster of Committee Members (<i>Attachment</i>)	(Mendall)	<i>Pg 3</i>
2. <u>Comments by Chair</u>	(Mendall)	
3. <u>Public Comment</u> <i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Mendall)	
4. <u>Consent Calendar</u> A. Approval of Minutes from the October 8, 2014 meeting (<i>Attachment</i>)	(Mendall)	<i>Pg 5</i>
5. <u>Action Items</u> A. Proposed Fiscal Year 2015-16 Bond Surcharges (<i>Attachment</i>) <u>Issue:</u> How much will the surcharges be for FY 2014-15? <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> That the Committee recommend Board approval of the proposed FY 2015-16 bond surcharges as presented in the staff memorandum.	(Tang)	<i>Pg 17</i>
B. Mid-Year 2014-15 Work Plan and Budget Review (<i>Attachment</i>) <u>Issue:</u> What adjustments are needed to complete planned and anticipated work during FY 2014-15? <u>Information to Committee:</u> A memo and oral presentation on FY 2014-15 Work Plan and Budget, projected year-end spending, and the estimated year-end General Reserve balance. <u>Committee Action Requested:</u> That the Committee recommend: 1. Board approval of the following revision to the FY 2014-15 Work Plan: <ul style="list-style-type: none">Defer item 8C "Coordinate input to goals and objectives for future examination of alternative wholesale water rate structures and potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues" for consideration in FY 2015-16 Work Plan 2. Board review and discussion related to managing the General Reserve balance at the March 2015 and May 2015 Board meetings	(Sandkulla)	<i>Pg 21</i>

6. Reports and Discussion Items

- A. Fiscal Year 2015-16 Work Plan and Budget Preparation (Sandkulla)

Issue: What critical results need to be achieved next year and what resources will be required?

Information to Committee: An oral report on challenges that must be considered in preparing the FY 2015-16 preliminary Work Plan and Budget.

Committee Action Requested: Discussion of issues that must be addressed during FY 2015-16.

7. Reports

(Sandkulla)

- A. Water Supply Update
- B. Pilot Water Transfer Progress Report (*Attachment*) Pg 29
- C. Long-Term Reliable Water Supply Strategy Report
- D. CEO's Letter (*Attachment*) Pg 33
- E. Board Policy Committee Calendar (*Attachment*) Pg 37
- F. Correspondence Packet ([*Under Separate Cover*](#))

8. Comments by Committee Members

(Mendall)

9. Adjournment to the next meeting on February 11, 2015 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo. (Mendall)

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Directions to BAWSCA

From 101: Take Hwy.92 Westbound towards Half Moon Bay. Exit at El Camino Northbound (move into the far left Lane) Left at the 1st stop light which is Bovet Road (Chase Building will be at the corner of Bovet and El Camino). Proceed West on Bovet Road past 24 Hour Fitness to two tall buildings to your left. Turn left into the driveway between the two buildings and left again at the end of the driveway to the "Visitor" parking spaces in front of the parking structure.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Committee Roster:

Al Mendall, City of Hayward (Chair)

Charlie Bronitsky, Estero MID (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)

Tom Piccolotti, North Coast County Water District

Barbara Pierce, Redwood City

Louis Vella, Mid-Peninsula Water District

John Weed, Alameda County Water District

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**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**

MINUTES

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, Purrisima 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:

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:

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

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Proposed Fiscal Year 2015-16 Bond Surcharges**

Summary:

This memorandum presents the proposed bond surcharges for each agency for FY 2015-16. The surcharge would go into effect at the beginning July 2015. This surcharge setting conforms to BAWSCA's Revenue Bond Indenture (Indenture) for the Series 2013A and 2013B revenue bonds.

BAWSCA's Revenue Bond Series 2013A and Series 2013B (Taxable) were issued to prepay the capital debt that the agencies owed San Francisco. The bond transaction and the prepayment program will 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.

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 member agencies. FY 2015-16 will be the third year for BAWSCA to collect the bond surcharge payments that are used to make debt service payments on BAWSCA's revenue bonds.

Recommendation:

That the Committee recommend Board approval of the proposed FY 2015-16 bond surcharges as presented in this memorandum.

Discussion:

The bond surcharge for each member agency is a fixed amount each fiscal year as adopted by the BAWSCA Board. Consistent with the Indenture, the FY 2015-16 bond surcharge setting includes a "true up" adjustment included in the calculation. This "true up" adjustment is used to reflect each agency's actual percentage of water purchases in FY 2013-14, the first year of BAWSCA collecting the bond surcharge payments. Moving forward, a "true up" adjustment is anticipated every year as part of the calculation of the Annual Bond Surcharge.

Calculating the "True Up" Adjustment

The annual surcharges collected from the member agencies in FY 2013-14 were calculated by multiplying the obligated debt service in 2014 by each agency's percentage of total wholesale customer purchases in FY 2011-12. FY 2011-12 purchases were used as a surrogate for FY 2013-14 purchases, which were not known when the FY 2013-14 bond surcharges were adopted. Now that the actual wholesale customer purchases for FY 2013-14 are available, the actual surcharges for FY 2013-14 are calculated again by multiplying the obligated debt service in 2014 by each agency's percentage of total wholesale customer purchases in FY 2013-14. The difference between the surcharges that were actually collected in FY 2013-14, which were based on the surrogate purchase values, and the actual surcharges for FY 2013-14, which are based on actual FY 2013-14 purchases, are the "true up" adjustments to be included in the annual surcharge setting for FY 2015-16.

Calculating the FY 2015-16 Bond Surcharge

The annual surcharges for FY 2015-16 are calculated by multiplying the obligated debt service in 2016 by each agency's percentage of total wholesale customer purchases in FY 2013-14, and adding the "true up" adjustment for the FY 2013-14 surcharges. Per the Indenture, the Rate Stabilization Fund at the Trustee has been reviewed and no replenishment amount is determined necessary at this time. One-twelfth of the annual surcharge, or the monthly surcharge, will be included in the first water bill from San Francisco sent to the agencies each month. A "true up" adjustment for FY 2015-16 will be included in the surcharge setting for FY 2017-18.

The proposed FY 2015-16 bond surcharge for each agency is shown in the Table 1. Table 2 shows how the "true up" adjustment for each member agency is determined and included in the proposed FY 2015-16 surcharge amount. Table 3 indicates how much the capital recovery payment cost would be in FY 2013-14 (column A) if BAWSCA didn't issue the bonds to prepay the capital debt that the agencies owed to San Francisco. The actual savings to each agency in FY 2013-14 (column D) are calculated accordingly.

Some expenses incurred to date in connection with the bond administration, which include the fees to Bank of New York for its Trustee services and the costs of legal, financial advisor, investment advisor and arbitrage rebate services, have been paid through BAWSCA's annual operating budget. Pursuant to the Prepayment and Collection Agreement between BAWSCA and San Francisco, BAWSCA shall reimburse San Francisco for specific expenses incurred for compliance with tax-exempt regulations. These charges have not been billed at this time. In future years, those costs may be included in the surcharges and are estimated to be no more than \$40,000 a year, which represents 0.16% of the average annual debt service of the bonds.

Table 1. Proposed BAWSCA FY2015-16 Bond Surcharges

Agency	Annual Bond Surcharge	Monthly Bond Surcharge	Agency	Annual Bond Surcharge	Monthly Bond Surcharge
Alameda County WD	\$2,562,483	\$213,540	Mid Pen WD	\$461,024	\$38,419
Brisbane Water	\$69,593	\$5,799	Millbrae	\$347,076	\$28,923
Burlingame	\$641,739	\$53,478	Milpitas	\$1,133,951	\$94,496
Coastside County WD	\$343,801	\$28,650	Mountain View	\$1,483,318	\$123,610
CWS - Bear Gulch	\$2,253,184	\$187,765	North Coast WD	\$456,936	\$38,078
CWS - Mid Peninsula	\$2,332,373	\$194,365	Palo Alto	\$1,786,373	\$148,865
CWS - South SF	\$928,169	\$77,347	Purissima Hills WD	\$349,306	\$29,109
Daly City	\$547,378	\$45,615	Redwood City	\$1,466,685	\$122,224
East Palo Alto WD	\$156,111	\$13,009	San Bruno	\$189,262	\$15,772
Estero Municipal ID	\$647,337	\$53,945	San Jose (North)	\$782,185	\$65,182
Guadalupe Valley	\$35,148	\$2,929	Santa Clara	\$376,801	\$31,400
Hayward	\$2,341,505	\$195,126	Stanford University	\$378,575	\$31,548
Hillsborough	\$568,480	\$47,373	Sunnyvale	\$1,277,127	\$106,427
Menlo Park	\$614,752	\$51,229	Westborough WD	\$141,324	\$11,777
Total				\$24,671,995	\$2,056,000

Table 2. Proposed BAWSCA FY2015-16 Bond Surcharge Breakdowns

Agency	FY 2013-14			FY 2015-16	
	Annual Surcharge Estimated Based on FY 2011-12 Actual Purchase	Annual Surcharge Should Be Based on FY 2013-14 Actual Purchase	True-up Amount for FY 2013-14	Annual Surcharge Estimated Based on FY 2013-14 Actual Purchase	Annual Surcharge plus True-ups
Alameda County WD	\$1,381,008	\$1,971,858	\$590,850	\$1,971,633	\$2,562,483
Brisbane Water	\$51,307	\$60,454	\$9,147	\$60,447	\$69,593
Burlingame	\$710,442	\$676,129	(\$34,313)	\$676,052	\$641,739
Coastside County WD	\$281,454	\$312,645	\$31,191	\$312,610	\$343,801
CWS - Bear Gulch	\$1,997,787	\$2,125,607	\$127,820	\$2,125,364	\$2,253,184
CWS - Mid Peninsula	\$2,417,837	\$2,375,241	(\$42,596)	\$2,374,969	\$2,332,373
CWS - South SF	\$1,202,618	\$1,065,454	(\$137,163)	\$1,065,332	\$928,169
Daly City	\$617,148	\$582,296	(\$34,852)	\$582,229	\$547,378
East Palo Alto WD	\$332,523	\$244,331	(\$88,192)	\$244,303	\$156,111
Estero Municipal ID	\$692,518	\$669,966	(\$22,552)	\$669,889	\$647,337
Guadalupe Valley	\$47,084	\$41,118	(\$5,965)	\$41,114	\$35,148
Hayward	\$2,658,912	\$2,500,352	(\$158,561)	\$2,500,066	\$2,341,505
Hillsborough	\$552,293	\$560,419	\$8,125	\$560,355	\$568,480
Menlo Park	\$549,156	\$581,987	\$32,831	\$581,921	\$614,752
Mid Pen WD	\$500,087	\$480,583	(\$19,504)	\$480,528	\$461,024
Millbrae	\$361,319	\$354,218	(\$7,101)	\$354,177	\$347,076
Milpitas	\$1,057,528	\$1,095,802	\$38,274	\$1,095,677	\$1,133,951
Mountain View	\$1,492,817	\$1,488,152	(\$4,664)	\$1,487,982	\$1,483,318
North Coast WD	\$502,034	\$479,513	(\$22,522)	\$479,458	\$456,936
Palo Alto	\$1,942,943	\$1,864,764	(\$78,178)	\$1,864,551	\$1,786,373
Purissima Hills WD	\$314,145	\$331,745	\$17,600	\$331,707	\$349,306
Redwood City	\$1,544,344	\$1,505,601	(\$38,743)	\$1,505,429	\$1,466,685
San Bruno	\$340,700	\$264,996	(\$75,704)	\$264,966	\$189,262
San Jose (North)	\$747,164	\$764,718	\$17,554	\$764,631	\$782,185
Santa Clara	\$319,014	\$347,927	\$28,913	\$347,888	\$376,801
Stanford University	\$367,446	\$373,032	\$5,586	\$372,989	\$378,575
Sunnyvale	\$1,539,526	\$1,408,407	(\$131,119)	\$1,408,246	\$1,277,127
Westborough WD	\$153,661	\$147,501	(\$6,160)	\$147,484	\$141,324
Totals	\$24,674,815	\$24,674,815	(\$0)	\$24,671,995	\$24,671,995

Table 3. Actual Savings to Each Agency for FY 2013-14

Agency	SFPUC Capital Recovery Payment	Annual Surcharge Collected in FY 13-14	True-ups To Be Collected or Refunded in FY 15-16	BAWSCA Annual Surcharge Plus True-ups	Actual Savings
	A	B	C	D = B + C	E = A - D
Alameda County WD	\$2,253,569	\$1,381,008	\$590,850	\$1,971,858	\$281,711
Brisbane Water	\$69,091	\$51,307	\$9,147	\$60,454	\$8,637
Burlingame	\$772,724	\$710,442	(\$34,313)	\$676,129	\$96,596
Coastside County WD	\$357,312	\$281,454	\$31,191	\$312,645	\$44,666
CWS - Bear Gulch	\$2,429,283	\$1,997,787	\$127,820	\$2,125,607	\$303,676
CWS - Mid Peninsula	\$2,714,581	\$2,417,837	(\$42,596)	\$2,375,241	\$339,340
CWS - South SF	\$1,217,671	\$1,202,618	(\$137,163)	\$1,065,454	\$152,217
Daly City	\$665,486	\$617,148	(\$34,852)	\$582,296	\$83,190
East Palo Alto WD	\$279,237	\$332,523	(\$88,192)	\$244,331	\$34,907
Estero Municipal ID	\$765,681	\$692,518	(\$22,552)	\$669,966	\$95,715
Guadalupe Valley	\$46,993	\$47,084	(\$5,965)	\$41,118	\$5,874
Hayward	\$2,857,566	\$2,658,912	(\$158,561)	\$2,500,352	\$357,215
Hillsborough	\$640,483	\$552,293	\$8,125	\$560,419	\$80,065
Menlo Park	\$665,133	\$549,156	\$32,831	\$581,987	\$83,146
Mid Pen WD	\$549,242	\$500,087	(\$19,504)	\$480,583	\$68,659
Millbrae	\$404,823	\$361,319	(\$7,101)	\$354,218	\$50,606
Milpitas	\$1,252,354	\$1,057,528	\$38,274	\$1,095,802	\$156,552
Mountain View	\$1,700,758	\$1,492,817	(\$4,664)	\$1,488,152	\$212,606
North Coast WD	\$548,018	\$502,034	(\$22,522)	\$479,513	\$68,506
Palo Alto	\$2,131,175	\$1,942,943	(\$78,178)	\$1,864,764	\$266,411
Purissima Hills WD	\$379,139	\$314,145	\$17,600	\$331,745	\$47,395
Redwood City	\$1,720,699	\$1,544,344	(\$38,743)	\$1,505,601	\$215,099
San Bruno	\$302,855	\$340,700	(\$75,704)	\$264,996	\$37,859
San Jose (North)	\$873,970	\$747,164	\$17,554	\$764,718	\$109,252
Santa Clara	\$397,634	\$319,014	\$28,913	\$347,927	\$49,707
Stanford University	\$426,326	\$367,446	\$5,586	\$373,032	\$53,293
Sunnyvale	\$1,609,620	\$1,539,526	(\$131,119)	\$1,408,407	\$201,213
Westborough WD	\$168,574	\$153,661	(\$6,160)	\$147,501	\$21,073
Totals	\$28,200,000	\$24,674,815	(\$0)	\$24,674,815	\$3,525,185

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Mid-Year 2014-15 Work Plan and Budget Review**

Summary:

To ensure continued access to reliable supplies of high quality water at a fair price, one revision to the adopted FY 2014-15 Work Plan is recommended in response to the level of activities to date this fiscal year and the BAWSCA staffing resources now available. The resources to address these issues and produce necessary results can be provided within the currently approved Operating Budget for FY 2014-15 of \$2,939,286. Given that it is anticipated that 100% of the Operating Budget will be expended this fiscal year, and the resulting impact this will have on the estimated General Reserve balance at the end of FY 2014-15, it will be critical for the Committee and the Board to closely review the General Reserve as part of the budget development and approval process, including a possible assessment increase to fund the FY 2015-16 budget and replenish the General Reserve so that it is within the approved guidelines.

This memorandum presents: 1) the results of the mid-year Work Plan and budget review including one recommended change to the FY2014-15 Work Plan, and 2) the estimated FY 2014-15 end of year balance of the General Reserve.

Fiscal Impact:

At this time, expenditures are projected to be on target with the approved budget. No changes to the Operating Budget are recommended at this time.

It is possible that an amendment to increase legal counsel's overall budget will be necessary before the end of the fiscal year. The CEO will work closely with legal counsel to minimize the impact on the Operating Budget and will report to the Board in March 2015 and May 2015 on this item.

Recommendation:

That the Committee recommend:

- 1. Board approval of the following revision to the FY2014-15 Work Plan:**
 - **Defer item 8c "Coordinate input to goals and objectives for future examination of alternative wholesale water rate structures and potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues" for consideration in FY 2015-16 Work Plan.**
- 2. Board review and discussion related to managing the General Reserve balance at the March 2015 and May 2015 Board meetings.**

Prior Board Approved Budget Actions for FY 2014-15

On May 15, 2014, the Board approved the FY 2014-15 Operating Budget of \$2,939,286. No changes to the FY 2014-15 Work Plan or Operating Budget have been approved by the Board to date.

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

Discussion:

The mid-year review included examining progress toward completing the FY 2014-15 Work Plan as adopted, and considering anticipated work that should be performed during the balance of this fiscal year.

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

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

Overall Status of Results to be Achieved During FY 2014-15

The most critical time sensitive items in the approved Work Plan are on schedule as of December 4, 2014. In addition, the status or pace of work by outside entities, such as FERC, results in some activities needing fewer resources than originally estimated.

Attached are two tables presenting the results of the mid-year Work Plan review:

- Table 1 presents a list of key results achieved to date this fiscal year; and
- Table 2 presents progress on the complete Work Plan, and identifies the single recommended Work Plan change.

Recommended Work Plan Modification

One modification to the adopted FY 2014-15 Work Plan is recommended.

Specifically, it is recommended that the following Work Plan item be postponed for consideration in the FY 2015-16 Work Plan:

- Work Plan Item 8c "Coordinate input to goals and objectives for future examination of alternative wholesale water rate structures and potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues"

Given the current drought situation with its resultant impacts on water rates and the upcoming departure of the SFPUC's Chief Financial Officer, it is unlikely that any significant effort to address this issue will proceed this fiscal year.

Budget Modifications Needed to Complete Work Expected During FY 2014-15

The budget review resulted in projected expenditures being on target with the approved budget. This review included a thorough evaluation of Salaries and Benefits. At this time, it is estimated that the Operating Budget will be fully spent this fiscal year.

Legal Counsel's expenses to date are higher than planned due to significant effort in the last several months to secure the recent settlement with the SFPUC. It is possible that a budget increase for the contract with Hanson Bridgett will be necessary to accomplish the critical work necessary for this fiscal year. The CEO will work closely with legal counsel to closely manage the available budget and

minimize any budget increase that might be necessary. The CEO will report to the Board in March 2015 and May 2015 on this item.

Capacity to Accommodate Potential or Unanticipated Issues

As always, if potential or unanticipated issues arise during the Spring (e.g. arbitration to address unresolved cost allocation issues), they will be brought to the attention of the Committee and the Board with recommendations to further reallocate and/or augment existing resources, if necessary. In addition, the Board will have the opportunity to consider implementation of a pilot water transfer plan as early as February 2015.

Projected Year-End Spending and General Reserve Balance as of July 1, 2015:

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

The adopted FY 2014-15 funding plan includes the following:

- Use of \$296,436 from the General Reserve to fund the FY 2014-15 Operating Budget; and
- Assumed expenditure of 88% of the approved FY 2014-15 Operating Budget, resulting in a transfer of approximately \$328,000 to the General Reserve at the close of FY 2014-15.

At this time, the FY 2014-15 Operating Budget is anticipated to be 100% expended at year end. Therefore, the assumed deposit of savings from FY 2014-15 is not anticipated to occur, and may result in an estimated General Reserve balance at the end of FY 2014-15 as shown below:

\$521,897 General Reserve balance as of June 30, 2014

\$225,461 Estimated General Reserve balance as of June 30, 2015

This estimated level of General Reserve at the end of FY 2014-15 represents 8% of the approved FY 2014-15 Operating Budget, which is outside the 20%-35% guideline re-affirmed by the Board in November 2014.

BAWSCA assessments were increased by 5% (or \$125,841) in FY 2014-15 following 5 years of no assessment increases. Given the estimated General Reserve balance at the end of FY 2014-15, a full analysis of the General Reserve will be included in FY 2015-16 budget development and approval process. Funding the FY 2015-16 budget will need to include consideration of an assessment increase to ensure recovery of the General Reserve to within the adopted guideline.

Attachments:

- Table 1. FY 2014-15 Mid-Year Review – Key Results to Date
- Table 2. FY 2014-15 Work Plan and Results to be Achieved: Changes and Progress

Table 1. FY 2014-15 Mid-Year Review – Key Results to Date

1. Monitoring progress and making recommendations for the WSIP and CIP.
2. Legislative extension of state oversight for the WSIP.
3. Administration of BAWSCA's bonds to prepay capital debt to San Francisco.
4. Additional protections for constituents' water supply and financial interests in administration of the 2009 WSA.
5. Completion of BAWSCA's Long-Term Reliable Water Supply Strategy.
6. Projects to improve drought reliability, including monitoring and documenting water use in the service area.
7. Implementation and measurement of regional water conservation programs.
8. Use of awarded California grants for conservation programs and applications for new ones.
9. Tours of member agencies' facilities to explain potential supply projects.
10. Professional management of BAWSCA.

Table 2. FY 20-14-15 Work Plan and Results to be Achieved

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

RELIABLE SUPPLY - WATER SUPPLY MANAGEMENT PROGRAM

1. **Long-Term Supply Solutions: Ensure a Reliable, High Quality Supply of Water is Available Where and When Needed.**
 - a. Long Term Reliable Water Supply Strategy – Complete Strategy by Dec. 2014. Work will include evaluation of project portfolios to meet updated supply needs & presentation of policy decisions for board consideration, including drought level of service. [On schedule. Final Strategy Report will be completed by December 2014.]
 - b. Drought Reliability – Pursue planning for projects that would enhance near-term drought reliability for all agencies including examination of a pilot water transfer with Santa Clara Valley Water District. Implementation of a pilot water transfer is not included but can be added if later authorized by the Board. [Progress on Pilot Water Transfer with EBMUD continues with the development of the necessary agreements. Work is progressing with SCVWD in accordance with the July 2014 MOU between BAWSCA and SCVWD for the development of a short-term pilot water transfer plan, though at a slower than anticipated rate given impacts of current drought.]
 - c. Consistent and Defendable Regional Planning – Support members' efforts to develop required 2015 Urban Water Management Plans. [Ongoing, with activity slower than planned in response to State extension of deadline to July 1, 2016 for completion of 2015 UWMPs.]
2. **Near-term Supply Solutions: Water Conservation**
 - a. Implement Core Water Conservation Programs - Programs that benefit all customers. [On schedule.]
 - b. Implement Subscription Water Conservation Programs - Rebate and other programs that benefit, and are paid for by, agencies that subscribe for these services. [On schedule, including the implementation of two new subscription programs: Home Water Use Reports and Rain Barrel Rebates.]
3. **Facility Reliability: Monitor the SFPUC's Water System Improvement Program/10-Year Capital Improvement Program**
 - a. Monitor WSIP scope, cost, and schedule as San Francisco continues an aggressive construction schedule through 2019. Press the SFPUC and the city's political leadership to meet the city's adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. Focus resources on monitoring project and program performance during construction. [On schedule, including significant efforts related to review and comment on the SFPUC's 2014 Revised Adopted WSIP.]
 - b. Pursue legislation to modify current sunset clause and extend State oversight on WSIP implementation to 2022. [Complete.]
 - c. Review and monitor SFPUC's Regional 10-Year Capital Improvement Program to ensure that identified projects and programs meet the needs of the BAWSCA member agencies in a cost-effective and appropriate manner. Some of the consultant resources currently being utilized as part of BAWSCA's WSIP review will aid in this effort. [On schedule, including significant efforts related to the SFPUC Mountain Tunnel Project.]
4. **Protect Members' Interests in a Reliable Water Supply**
 - a. Proponents of draining Hetch Hetchy Reservoir – Continue to assess potential significance and risks associated with "legal and congressional" actions that might be taken by proponents. [On schedule.]

- b. FERC – Ensure resources for legal and technical monitoring and intervention in the FERC re-licensing of New Don Pedro Reservoir are sufficient to protect the customers' long-term interests in Tuolumne River water supplies. [On schedule, though overall FERC process moving at a slower pace than planned.]
- c. SFPUC Water Supply Level of Service Goal – Protect members' water supply and financial interests as SFPUC addresses actions needed to meet its adopted Water Supply Level of Service Goal. [On schedule, including recent discussions with the SFPUC concerning the Alameda Creek Recovery Project and clarification of its potential water supply benefit and impact on Water Supply LOS Goal.]

5. Take Actions to Protect Members' Water Supply Interests in the Administration of the 2009 Water Supply Agreement

- a. Pursue amendment of the Tier 1 drought allocation formula with SFPUC. [Due to the current drought, BAWSCA is actively discussing the implementation of mandatory rationing, including the potential application of the existing Tier 1 formula and near term opportunities for flexibility that might exist. No discussions of a WSA amendment are occurring at this time.]
- b. SFPUC Interim Supply Decisions – Protect members' water supply and financial interests as SFPUC initiates new planning effort (Water Management Action Plan "MAP") to support the Commissions' upcoming 2018 water supply decisions. [On schedule. Greater clarification of SFPUC's potential actions as a result of the release of *Regional Water Demand and Conservation Projections Report* (BAWSCA, Aug. 2014).]

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

- a. Implement use of Proposition 84 grant funds awarded for water conservation programs. [On schedule. Continued implementation of \$1.8M of grant funds for FY 11-12 through FY 18-19, including \$195k Round 2 funds secured this fiscal year.]
- b. Secure new Proposition 84 Round 2 grant funds as appropriate for water conservation programs. [Complete. Secured \$195k Round 2 grant funds and an additional \$535K Drought Relief grant funds.]
- c. Investigate the potential for additional grant funds to support the implementation of the Strategy. [Ongoing.]

7. Reporting and Tracking of Water Supply and Conservation Activities

- a. BAWSCA Annual Survey [Preparation of the FY 2013 -14 Annual Survey on schedule.]
- b. BAWSCA Annual Water Conservation Report [Preparation of the FY 2013-14 Annual Water Conservation Report on schedule.]
- c. Water Conservation Database [The Water Conservation Database has been an effective tool this fiscal year for collecting water use data from the agencies on a monthly basis to be used in discussions with the SFPUC regarding the drought and the level of water use reductions being achieved by the BAWSCA member agencies and their customers.]

FAIR PRICE

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

- a. Administer the Water Supply Agreement with SF to protect interests of members and their customers in a fair price for water purchased. [In September, BAWSCA and the SFPUC entered into a settlement agreement related to administration of the Water Supply Agreement for FY 2010-11. Additional activity with the SFPUC is ongoing as a result of this settlement related to the definition and cost allocation of certain Regional Water System assets.]
- b. Administer bonds issued by BAWSCA to retire capital debt owed to San Francisco. [Ongoing.]
- c. Coordinate input to goals and objectives for future examination of alternative wholesale water rate structures and potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues. [Recommend postponing this activity for consideration in FY 2015-16]

HIGH QUALITY WATER

9. Support Member Agencies in Receiving Reliable Communication of Water Quality Issues

- a. Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs. [Working with Water Quality Committee Chair and Vice Chair to implement a training workshop focused on addressing recent water quality issues experienced by BAWSCA agencies.]
- b. Review and act on, if necessary, State legislation affecting water quality regulations. [No action at this time.]

AGENCY EFFECTIVENESS

10. Maintain Community Allies and Contacts with Environmental Interests

- a. Maintain close relationships with BAWSCA's powerful allies (state legislators, business, labor, local government, water customers, and the media) and activate them if necessary to safeguard the health, safety, and economic well-being of residents and communities. Respond to requests from local legislators. Maintain a dialogue with responsible environmental and other groups, who will participate in the project permitting and approval process for rebuilding the system. [Ongoing.]
- b. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants. [Tours of the Hetch Hetchy facilities and Calaveras Dam have been offered to all the board members this fiscal year.]

11. Manage the Activities of the Agency Professionally and Efficiently

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

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

Summary:

The following is an informational update on BAWSCA's efforts to implement 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).

Fiscal Impact:

None at this time. Implementation of the Pilot Water Transfer is not included in the adopted FY 2014-15 budget and would need to be funded through a separate, future Board action.

Recommendation:

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

Discussion:

As noted in previous Board reports on this matter, there are specific actions that must be undertaken by BAWSCA's water transfer partners in order to enable implementation of the Pilot Water Transfer. Updates on several of these actions are discussed below.

Action by EBMUD:

The first such action is a declaration by EBMUD to initiate operations at its Freeport Regional Water Project (Freeport Facilities). These facilities would be necessary to divert and convey water supplies from YCWA, which would be made available via the Sacramento River. EBMUD has indicated that their board will be making a decision on December 9th on whether they will operate Freeport beginning in January 2015 to deliver the remainder of their 2014 water year allotment from the Central Valley Project. BAWSCA is working to finalize the necessary agreements to implement a pilot water transfer should EBMUD continue to operate Freeport Facilities through Spring 2015 when YCWA supplies are projected to be available.

Agreements with Hayward:

One of these necessary agreements would be between Hayward and BAWSCA to identify and address potential issues and expenses associated with operation of the Hayward Intertie and use of Hayward's distribution system during a pilot water transfer. BAWSCA and Hayward have been meeting regularly since July to further understand Hayward's operational concerns, identify benefits to both Hayward and BAWSCA from the occurrence of the pilot transfer, and to resolve important issues that remain.

Hayward and BAWSCA have recently entered into a Cooperative Agreement setting forth the respective roles and responsibilities of the parties in regard to the preliminary planning and analysis associated with a one-year pilot water transfer. Under this agreement, Hayward and BAWSCA will identify potential impacts related to the delivery of pilot transfer water to the Hayward, including, but not limited to, impacts on system pressure and flows and changes in water quality affecting customers.

SFPUC Action:

Finally, the SFPUC has notified BAWSCA and the Wholesale Customers that the current call for a voluntary 10% reduction in water use will remain in place into 2015 until they deem the drought to be over. The SFPUC has also indicated the potential for an increase in the level of voluntary reductions or even mandatory cutbacks if water supply conditions significantly worsen or the request for water reductions are not achieved.

Schedule and Next Steps

BAWSCA will continue to work with EBMUD, Hayward, SFPUC and Yuba County Water Agency (YCWA) to finalize the agreements and take the steps necessary to implement the Pilot Water Transfer in preparation for the potential operation of the Freeport Facilities in winter 2015.

BAWSCA staff is preparing to bring the Pilot Water Transfer to the Board in January or March 2015 for consideration of conditional approval for the execution of the transfer contingent upon (1) the completion of all necessary agreements and (2) EBMUD's operation of the Freeport Facilities. If approved, the Board decision could authorize the BAWSCA CEO/General Manager to enter into a purchase agreement with a willing seller, enter into cost allocation agreements with the other Pilot Water Transfer partners, obtain all of the necessary regulatory approvals, and implement the transfer in 2015.

The implementation of the Pilot Water Transfer would mark the first time that the BAWSCA member agencies have acted collectively and independently of the SFPUC to secure a reliable water supply.

Background:

BAWSCA has been investigating water transfers as one alternative to improve the future water supply reliability of its member agencies as part of BAWSCA's Long-Term Reliable Water Supply Strategy (Strategy) planning process. Since 2012, BAWSCA has partnered with EBMUD to investigate water transfer projects to improve the future water supply reliability of each agency including the development of a short-term, one year pilot water transfer (the Pilot Water Transfer) for possible implementation as early as Spring 2015.

Elements of the Pilot Water Transfer

The Pilot Water Transfer includes the following key elements:

- **Water Transfer Amount:** 1,000 AF (.89 MGD) delivered over approximately 22 days
- **Source of Supply:** BAWSCA is in negotiations with YCWA
- **Type of Water Right:** Pre-1914 Water Right or other
- **Initial Point of Diversion:** North of Delta at Freeport Facilities diversion location on Sacramento River
- **Timing of Deliveries:** Both spring and fall windows exist (e.g., March-May or October-November)

Agreements Necessary to Implement the Pilot Water Transfer

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

- **Water Purchase Agreement:** Agreement for the purchase of water from willing seller;

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

Pilot Water Transfer Costs

Phase 1 identified estimated costs for the Pilot Water Transfer including water purchase, wheeling, operations and maintenance, and administrative cost associated with a potential transfer. BAWSCA continues to work with the Pilot Water Transfer partners to refine the cost estimates, which are presented in Table 1 below. All costs remain preliminary at this time.

Table 1: Estimated Preliminary Pilot Water Transfer Costs			
<i>Type of Cost</i>	<i>Recipient</i>	<i>Est. Cost (\$/AF)</i>	<i>Est. Total Costs</i>
Water Purchase	Water Seller	\$50-\$350	\$50,000 - \$350,000
Wheeling	EBMUD, USBR	\$360 - \$550	\$360,000 - \$550,000
Hayward Facilities ⁽¹⁾	Hayward	\$100 - \$200	\$100,000 - \$200,000
SF RWS	SFPUC	\$420-\$620	\$420,000 - \$620,000
<i>Total Estimated Costs</i>		<i>\$930-\$1720 / AF</i>	<i>\$930,000-\$1,720,000</i>

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

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BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
DATE: December 5, 2014
FROM: Nicole Sandkulla, CEO/General Manager
SUBJECT: Chief Executive Officer/General Manager's Letter

Drought Outreach Campaign

BAWSCA and SFPUC are continuing the regional drought campaign to encourage continued water use reductions. BAWSCA is working with SFPUC on the following activities for the campaign:

- Tailoring the regional drought campaign messaging to winter water use, in particular to eliminating irrigation through the rainy season.
- Extending the current media buyer contract through the winter
- Preparing a Request for Proposals for a media buyer to continue the campaign through 2015 should water supply conditions warrant continued reductions.

In preliminary analysis of the campaign results, BAWSCA noted an increase of 89% in its website visits during the period where the media campaign was active compared to the same period for the prior year.

Regional Groundwater Storage and Recovery Project - Update

To increase water supply reliability during dry years, the San Francisco Public Utilities Commission (SFPUC) is developing the Regional Groundwater Storage and Recovery Project (Project) as part of the Water System Improvement Program (WSIP). The Project is located in San Mateo County and will utilize the Westside Groundwater Basin by increasing water storage during wet and normal years for subsequent recapture during dry years. The Project will benefit both the Wholesale Customers and San Francisco, by providing up to 60,500 acre-feet of total water storage to be available during dry years to the Regional Water System. Three BAWSCA member agencies are partnering with the SFPUC to implement the Project: the City of Daly City, the City of San Bruno, and the California Water Service Company in its South San Francisco service area (collectively referred to as Participating Pumpers). The Project was authorized by the SFPUC in August 2014, construction bids were received in November, and construction is slated to begin in the spring of 2015.

The Wholesale Customers and the SFPUC anticipated the Project when they entered into the 2009 Water Supply Agreement (WSA), however, as Project details have been finalized, several changes to the WSA are required to protect the interests of the Wholesale Customers. BAWSCA and San Francisco are developing an amendment to the WSA (Amendment), which addresses water-supply reliability, water quality, and cost allocation. This Amendment will assure that the interests of the Wholesale Customers are protected during the implementation of the Project by the SFPUC. The Amendment is necessary to define how Project costs are allocated between San Francisco and the Wholesale Customers and how Project assets would be divided in the case of potential dissolution of the Project.

BAWSCA, SFPUC, and the Participating Pumpers are working to finalize the Amendment by the end of December. After agreement is reached, it is anticipated that the SFPUC will adopt the Amendment in January 2015, and the Amendment will be distributed to BAWSCA member agencies for adoption by their governing bodies. It is anticipated that all of the BAWSCA member agencies will have adopted the Amendment by the end of Spring 2015. While the BAWSCA Board has no direct role in the adoption of this contract amendment, BAWSCA will provide support to the member agencies during this adoption process.

Don Pedro Hydroelectric Project FERC Relicensing - Update

In 2011, the Modesto and Turlock Irrigation Districts (Districts) formally initiated the process for obtaining a new license from the Federal Energy Regulatory Commission (FERC) for the operation of the Don Pedro Hydroelectric Project on the Tuolumne River. The project currently operates under a 50-year license that extends through April 30, 2016. The multi-year relicensing process (Relicensing Process) includes multiple operational, environmental and economic studies and involves multiple parties including the Districts, FERC, other federal and state resource agencies, local governments, nongovernmental organizations, and members of the public. Because of the potential for impacts to Tuolumne River supplies, such as in-stream flow requirements imposed for the Tuolumne River as conditions of a new license, the SFPUC and BAWSCA are participants in the Relicensing Process.

Over the past 3 months, informal discussions have taken place among many of the participants in the Relicensing Process regarding a separate negotiated settlement process (Settlement Process) that is intended to allow the parties to reach agreement on any conservation measures that might be included in the FERC license. The results of these negotiations would eventually be contained in a settlement agreement for FERC's review and consideration. FERC generally favors such settlements in licensing cases because it can save time and money, avoid the need for protracted litigation, promote positive relationships among the participating entities, and gives FERC a clear sense as to the parties' views on the issues presented as it acts on license applications.

Recently the Tuolumne Settlement Group was formed and has selected Lee Lamb and Susan Driver of Negotiation Guidance Associates to serve as facilitators for the Settlement Process. BAWSCA and its attorneys are currently reviewing a confidentially agreement that the settlement group has developed as a condition for participating in the negotiations.

Status of FY 2012-13 & FY 2013-14 Wholesale Revenue Requirement Reviews

Pursuant to Section 7.06A of the 2009 Water Supply Agreement (WSA), BAWSCA conducted its review of SFPUC's calculation of the annual Wholesale Revenue Requirement and the changes in the balancing account for FY 2012-13, which was submitted by the SFPUC on February 10, 2014. BAWSCA's questions and concerns were sent to the SFPUC on April 10. After reviewing the SFPUC's responses provided on September 10, BAWSCA followed up with further questions on October 3 and is still waiting for the SFPUC's responses. The deadline for both parties to enter into a settlement agreement for FY 2012-13 or for the wholesale customers to file a demand for arbitration on any unsolved issues is February 10, 2015.

In accordance with Sections 5.04, 6.08B and 7.02 of the WSA, the SFPUC provided BAWSCA the required reports for FY 2013-14 on November 26, 2014. This information was also provided to the auditor assigned to the FY 2013-14 compliance audit. The SFPUC expects the auditor to complete the compliance audit by January 31, 2015. A copy of SFPUC's calculation of the annual Wholesale Revenue Requirement and the changes in the balancing account for FY 2013-14 will be submitted to BAWSCA for wholesale revenue requirement review after the compliance audit is completed.

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Board Policy Committee Calendar Through February 2015

BPC Meeting	Purpose	Issue or Topic
Dec. 2014	D&A D&A D R	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
Feb. 2015	D&A D&A D D	Review Water Supply Forecast & Decide if a Transfer Should be Pursued Final Strategy Report and Recommended Action Discussion of Preliminary FY 15-16 Work Plan and Budget Discussion of Possible Actions to Implement the Strategy
Apr. 2015	D&A	Proposed FY 15-16 Work Plan and Budget

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

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