

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

February 12, 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 December 11, 2013 meeting <i>(Attachment)</i>	(Mendall)	<i>Pg 5</i>
5. <u>Action Item</u>		
A. Resolution Adopting Policy Governing Distribution of BAWSCA's Assets Upon Dissolution <i>(Attachment)</i> <u>Issue:</u> What is required of BAWSCA to address the CalPERS CERBT provisions? <u>Information to Committee:</u> A memo and oral presentation on the resolution required by CalPERS to execute the establishment of the Trust previously authorized by the Board. <u>Committee Action Requested:</u> That the Committee recommend Board adoption of Resolution No. 2014-01 which outlines the policy governing the distribution of the Agency's assets upon its dissolution.	(Sandkulla)	<i>Pg 19</i>
B. Resolution Adopting San Francisco Bay Area Integrated Regional Water Management Plan (IRWMP) <i>(Attachment)</i> <u>Issue:</u> As a recipient of Proposition 84 IRWM grant funds for water conservation programs from the California Department of Water Resources, BAWSCA must adopt the updated Bay Area IRWMP. <u>Information to Committee:</u> A memo and oral presentation on the resolution required by California Department of Water Resources. <u>Committee Action Requested:</u> That the Committee recommend Board adoption of Resolution No. 2014-02 to meet the requirements of the California Department of Water Resources.	(Sandkulla)	<i>Pg 23</i>

6. Reports and Discussion Items**(Sandkulla)***Pg 27*

- A. Preliminary Fiscal Year 2014-15 Work Plan and Operating Budget (*Attachment*)

Issue: What critical results must be achieved next year and what resources are required?

Information to Committee: A memo and oral presentation on the FY 2014-15 preliminary Work Plan and Operating Budget.

Committee Action Requested: That the Committee provide: comments and suggestions concerning the results to be achieved, the preliminary Operating Budget estimate, and alternatives for funding the budget and managing the General Reserve; and suggestions concerning presentation of the preliminary Work Plan and Operating Budget to the Board of Directors in March.

- B. Pilot Water Transfer Progress Report (*Attachment*)

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Issue: Should conditions warrant the implementation of the Pilot Water Transfer, what preparations is BAWSCA doing, what actions are required of the BAWSCA Board, and when will these be known?

Information to Committee: A memo and oral presentation

Committee Action Requested: Comments from the Committee related to the written and oral presentation of this project are requested in anticipation of future board action.

7. Reports**(Sandkulla)**

- A. Current Water Supply Conditions
 B. Water System Improvement Program and SFPUC 10-Year CIP– Status Report
 C. Board Policy Calendar

8. Comments by Committee Members**(Mendall)****9. Adjournment to the next meeting on April 9, 2014 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo.**

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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 (Washington Mutual Building will be at the corner of Bovet and El Camino). Proceed West on Bovet Road past Albertson's 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.

From 92: Exit at El Camino Northbound and follow the same directions shown above.



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

December 11, 2013 – 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 Rob Guzzetta called the meeting to order at 1:30 pm. A list of Committee members who were present (8), participated by teleconference (1), and other attendees is attached.

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

- 2. Comments by Chair:** Chair Guzzetta commented that this is the last BPC meeting for 2013. It has been a busy year with many accomplishments, difficult decisions, and a major transition in the organization. He appreciates the hard work and dedication of the Committee in effectively working together to accomplish BAWSCA's regional responsibilities. It has been a pleasure serving as Chair of the Committee as well as working with each Committee members, and he looks forward to the new year.

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

- 4. Consent Calendar:** Approval of Minutes from the October 9, 2013 meeting.

Director Pierce made a motion, seconded by Director O'Connell, to approve the minutes of the Board Policy Committee meeting held on October 9, 2013. The motion passed by roll call vote with an abstention by Director Vella.

5. Action Items:

- A. Resolution Adopting Policy Governing Distribution of BAWSCA's Assets Upon Dissolution:** Chair Guzzetta announced that the item is being pulled from the agenda because further preparations are needed for a sound consideration. It will be considered at the March Committee meeting.

B. Mid-Year 2013-14 Work Plan and Budget Review:

Ms. Sandkulla reported that the Mid-Year Budget review is a process that BAWSCA goes through very thoroughly each year, and even more so this year given the major changes the agency went through. The review was a major focus in the first 2 months of Ms.

Sandkulla's role as CEO/General Manager, and she is pleased to report that the results that need to be achieved continue to be achievable within the approved operating budget, and that only minor changes are needed in the Work Plan.

The Operating Budget approved by the Board in May 2012 was \$3,214,189. The Board authorized an increase of \$66,000 at its meeting on July 18th, revising the Operating Budget to \$3,280,189.

Ms. Sandkulla explained that each year, the Work Plan is diligently developed to align with BAWSCA's goals of ensuring reliable supply of high quality water at a fair price. The mid-year budget review confirms that the most critical and time sensitive items are on schedule.

The work plan items proposed to be re-scheduled are a result of the pace set by outside agencies and are primarily associated with FERC. Both San Francisco and the irrigation districts have slowed down their process in the pre-environmental impact statement phase. This results in less studies that need to be reviewed this fiscal year as they are not yet complete, and provides some flexibility with legal activities otherwise scheduled for this fiscal year.

Ms. Sandkulla stated that the deadline for renewing the FERC license is 2016. BAWSCA will continue to monitor what resources are needed as activities develop. She explained that the work will require a combination of legal, biological, and water resources expertise. BAWSCA's water resources team has been informed and is kept apprised of all developments.

Ms. Sandkulla reminded the Committee that the implementation of the dry-year pilot water transfer with EBMUD is not included in the current work plan. This was a conscious decision because implementation of the pilot water transfer program would be a decision made as a result of the water supply outlook as early as this Spring.

Ms. Sandkulla presented a summary of the FY 2013-14 Work Plan categorized according to BAWSCA's three goals of reliable supply of high quality water at a fair price, and discussed the status and progress of work that are most critical.

In the area of reliable water supply, Ms. Sandkulla reported that the Strategy is on track and is anticipated to be completed by December 2014. This includes the development of the updated water demand projections which is expected to be completed by the end of June 2014.

BAWSCA continues to closely monitor SFPUC's implementation of the Water System Improvement Program (WSIP) and development of its 10-Year Capital Improvement Program (CIP), particularly with the recent changes to the program and the increased costs of the Calaveras Dam Project. Ms. Sandkulla reported that, to date, the Commission has indicated a desire to have a net zero change in their projected rates as forecasted for 10-years. For example, the Commission indicated that the \$54M increased cost of the WSIP adopted by the Commission in April 2013 would be funded through a reduction in the then current 10-Year CIP so that projected rate increases remain unchanged. The result of this action is deferral of planned maintenance that was in the SFPUC 10-year CIP.

Ms. Sandkulla stated that she spoke at the Commission meeting on December 10th and emphasized that BAWSCA is concerned about the practice of funding increases in the WSIP through a deferral of planned work in the 10-Year CIP or other maintenance because that is one of the factors that led to the need for the WSIP today. In her address to the Commission, she emphasized that while BAWSCA and the wholesale customers share SFPUC's concerns with the cost of water and increasing rates, it is critically important that the system is maintained and the investments protected to ensure the reliability of supply.

In response to Director Weed's question, Ms. Sandkulla stated that in June 2013, the SFPUC adopted a budget increase on the Regional WSIP of \$77M. The most recent cost changes associated with the Calaveras Dam Replacement Project is not quantified yet.

Ms. Sandkulla explained that the SFPUC's CIP is still in developmental stages and the SFPUC may be able to move things around without impacting overall long-term goals for system maintenance. The concern, however, is with the lack of details in what these potential CIP changes will be. Ms. Sandkulla stated that the CIP includes some major maintenance of the system, but that the amount of routine maintenance included and the breakdown between the water versus power components are not yet known.

BAWSCA will continue to pursue State legislation to extend the State oversight of SFPUC's implementation of the WSIP, as well as monitoring the significance and risks associated with actions taken by proponents of Drain Hetch Hetchy.

In the area of fair price, BAWSCA's goal is highly focused on saving the customers money, and a critical part of it is successfully administering the 2009 Water Supply Agreement. Every year, John Ummel's and Christina Tang's work thoroughly reviews the Suburban Revenue Requirement to ensure customers are billed appropriately for the water supply received. Ms. Sandkulla reported that there is ongoing review and discussions on the FY 2011-12 and FY 2012-13 wholesale revenue requirement and the Board will be updated on further developments. BAWSCA also continues to work for a smooth administration of the bonds.

The work plan also puts focus on the agency's effectiveness, and Ms. Sandkulla is pleased to report that BAWSCA's transition to a new CEO as well as three new staff members has been exceptionally efficient and with no lost momentum.

Ms. Sandkulla reported that the proposed changes to the Work Plan includes development of a new conservation program for implementation next fiscal year, and deferral of work.

The proposed new program is a new subscription based conservation program for residential customers that would be implemented in FY 2014-15. Work in FY 2013-14 would be to prepare the program for implementation after July 1. The program provides a customized water use report that water customers can easily understand. Customer access to the report can be through internet or direct mail. The report informs water customers of their water use and provides comparisons to other customers in their area, as well as conservation measures available to them. Water savings have been reported to be in the range of up to 5%, in addition to the savings associated with the education component.

The program will be subscription based and will be paid for by participating agencies. Member agencies have expressed interest in the program.

Ms. Sandkulla explained that the program was included in the current fiscal year but was deferred due to the staff changes that occurred in May 2013. The program will be prepared in the current fiscal year for implementation in FY 2014-15, which can now take advantage of the \$187K Prop 84 grant funds recently awarded to BAWSCA.

In response to Director Mendall's question, Ms. Sandkulla explained that agencies will retain control over their customers' data through their billing system. The granularity of the data available, including whether data is daily, monthly or bi-monthly, to provide to the customer will depend on each agency's existing metering and billing system. Conservation program information provided to the customers will be customized according to each city or district.

The deferral of work includes the amendment to Tier 1 drought allocation formula. Ms. Sandkulla explained that the Tier 1 Drought Plan, included in the 2009 Water Supply Agreement, allocates available water between the San Francisco retail customers and BAWSCA agencies. An amendment was anticipated for the current fiscal year, however, SFPUC has not indicated a desire to address this matter, and therefore it will be deferred to next fiscal year.

A third item reviewed in the mid-year budget review was the coordination of input to SFPUC's examination of wholesale rate structure. Ms. Sandkulla explained that the 2009 Water Supply Agreement with San Francisco defines how much wholesale customers pay. This is called the Wholesale Revenue Requirement. The rate structure, however, is within San Francisco's authority. SFPUC staff had expressed interest in examining a new wholesale rate structure during FY 2012-13. As a result, BAWSCA anticipated the effort to coordinate input to San Francisco to ensure that the objectives for changing the wholesale rate structure are identified and the wholesale customers' interests are fully represented.

Ms. Sandkulla explained that she initially planned to eliminate the item from the work plan because in talking with SFPUC, they indicated no interest in examining the rate structure. However, in SFPUC's first budget priorities meeting held on December 10th, one Commissioner mentioned the discussion of such a modification. Ms. Sandkulla now anticipates discussions to continue and stated that she will monitor San Francisco's intentions. It is more appropriate to defer this item than to eliminate it as previously thought based on SFPUC's earlier indications.

Ms. Sandkulla stated that in doing the mid-year budget review, examining the potential unanticipated issues that may come up is important so that issues can be brought to the attention of the Board with a recommended action, as necessary. There are none identified at this time, however Ms. Sandkulla stated that one effort, which the Board already is aware of, is the consideration of implementing the pilot water transfer in Spring 2014.

The mid-year budget review also includes a thorough evaluation of expenses including Salaries and Benefits. This is critically important this fiscal year given all the changes in staffing. Ms. Sandkulla is pleased to report that projected expenditures are on target with the approved Operating Budget. No changes to the General Reserve are recommended. The current General Reserve balance of \$985,897 is 30% of the approved Operating Budget, which is within BAWSCA's adopted guideline. Future Work Plan and Budget discussions for FY 2014-15 will include a full analysis of the projected FY 2013-14 expenditures, a review of the General Reserve, and a review of BAWSCA's assessment level.

Director O'Connell made a motion, seconded by Director Vella, that the Committee recommend:

- 1. Board approval of the following revisions to the FY2013-14 Work Plan:**
 - a. Investigate a potential pilot subscription program that would provide customers with water use information designed to promote water conservation, with all costs to be borne by participating member agencies;**
 - b. Complete Phase II of the Pilot Water Transfer Plan to develop the agreements necessary to support a potential pilot water transfer;**
 - c. Defer further evaluation of alternatives to current Tier 1 Drought Allocation Plan with San Francisco to FY 2014-15; and**
 - d. Defer coordination effort related to SFPUC examination of alternative wholesale water rate structures.**
- 2. Board review and discussion related to managing the General Reserve balance at the March 2013 and May 2013 Board meetings.**

The motion passed unanimously by roll call vote.

B. Fiscal Year 2014-15 Work Plan and Budget Preparation:

Ms. Sandkulla explained that the development of the work plan entails a review of major challenges and a look far ahead into the future to identify the results that need to be achieved. Because BAWSCA's work has very long lead times, a long-term perspective helps identify specific objectives, potential issues, and the necessary resources required to achieve the results and address the challenges.

This process also helps with prioritization. Emphasis is placed on the most vital results that need to be achieved. Ms. Sandkulla took the FERC process as an example. It is one of the critical matters identified in BAWSCA's work plan, and one that will be in multiple fiscal years. However, as activities slowed down this fiscal year, staff was able to move its focus on matters that became more critical in providing reliability and high quality water at a fair price. While the FERC process remains a critical item, being able to prioritize items in the work plan maximizes BAWSCA's effectiveness. It is anticipated that work associated with the FERC process on New Don Pedro will be a major effort next fiscal year.

In preparing the budget, Ms. Sandkulla reminded the Committee that there were discussions last year about seriously examining BAWSCA's assessment level and the likely need to increase it in FY 2014-15. She noted that the assessments have remained at the same level since FY 2009-10.

Ms. Sandkulla presented a long-term list of major challenges starting with the period of 2021-2035. Challenges include ensuring that new water supplies are on-line to meet future needs that are not met by San Francisco, extending or renegotiating the 2009 Water Supply Agreement before it expires in 2034, and foreseeing mayoral changes in San Francisco every four years.

Ms. Sandkulla noted that anticipating the renegotiation of the contract with San Francisco is important because the 2009 contract is much improved from the 1984 Master Water Sales Contract. The next contract with San Francisco may also be the time to improve the contractual relationship with San Francisco. Additionally, mayoral changes in San Francisco means there will be inconsistencies in San Francisco's governing processes as they are influenced by the Mayor.

In response to Director Mendall's question, SFPUC Liaison Michelle Novotny explained that every mayor who comes into office has the opportunity to appoint new Commission members to the SFPUC. Because this is not a requirement, the current Mayor made no changes to the existing Commission. The appointment by the mayor is a nomination and needs to be approved by 2/3rds of a vote by the Board of Supervisors. While each Commissioner has a term, it is not guaranteed.

The period of 2016-2020 is a critical period because FERC activities will be combined with the decisions San Francisco has to make by 2018 about San Jose and San Clara's water supply and providing additional water supply to the BAWSCA member agencies. BAWSCA's role in these matters is to conduct investigations and advocate appropriate positions to protect the interests of its member agencies.

The matters of SFPUC's decisions by 2018 has been brought up at the Commission level, and Ms. Sandkulla is pleased to report that one of the Commissioners is pushing SFPUC staff to start their planning efforts in FY 2014-15 in order to ensure they have sufficient information to make those critical decisions in a timely manner. BAWSCA has been applying pressure on SFPUC staff to provide the Commission a clear process and schedule on how those decisions will be made.

Director Pierce asked what kind of information BAWSCA will be looking for as part the SFPUC's investigations. Ms. Sandkulla explained that BAWSCA would be interested in knowing where San Francisco's interests lie, what options will they consider, and how BAWSCA can be of help to San Francisco in pursuing those considerations to ensure certainty to the member agencies. BAWSCA will take advantage of the information obtained and the technical knowledge developed from the Long-Term Reliable Water Supply Strategy (Strategy) to help the member agencies and San Francisco make informed decisions.

Additionally in 2016-2020, ensuring that San Francisco maintains its Tuolumne River water rights, enforcing the Water Supply Agreement (WSA) to ensure San Francisco maintains their water supply, quality, maintenance and reporting commitments, and assisting member agencies in the negotiations of a new Tier 2 drought allocation formula before its 2018 expiration are critical activities.

Ms. Sandkulla explained that the Tier 2 drought allocation plan is the formula that determines the allocation of water supply among the member agencies. The date for this plan to expire is before the expiration of the WSA because it is tied to San Francisco's 2018 decisions. Given the potential impact of San Francisco's 2018 decisions on the drought allocations, there was a lack of comfort in committing to the Tier 2 plan among the member agencies beyond 2018.

Director Mendall asked whether the potential impacts of the Bay Delta plan to the member agencies should be included in the list of challenges. Ms. Sandkulla reported that BAWSCA has been approached by the Executive Director of ACWA, Tim Quinn, to speak to the BAWSCA Board about ACWA's proposal for the Bay Delta, and what it entails. The Chair of the BAWSCA Board has agreed to have him speak at the January Board Meeting.

Ms. Sandkulla explained that because member agencies' primary source of water, for the most part, is San Francisco, the Bay Delta supply is not something BAWSCA and its member agencies deal with directly. She stated that one of the things that BAWSCA expects San Francisco to do about the Bay Delta plan is to protect their wholesale customers' interests with regard to that supply. Ms. Sandkulla will ask San Francisco for a presentation on how it plans to protect its wholesale customers' interests.

Director Mendall asked for background information in advance of the January Board meeting so that members of the Board are more informed in anticipation of Mr. Quinn's presentation.

Director Weed noted that the water bond is tied to the Bay Delta plan and includes a local water resources component that could potentially impact BAWSCA and its member agencies. He suggested that this aspect be included in Tim Quinn's presentation to the Board in January.

Based on the challenges anticipated for the coming years of up to 2035, Ms. Sandkulla presented the challenges that BAWSCA ought to be looking at for FY 2014-15.

Extending the State oversight of the WSIP until its completion through legislation, and monitoring the implementation of the WSIP and taking necessary steps, are critical activities in fiscal year 2014-15 to continue to protect the interests, health and safety of the water customers. Equally important are the administration of the bonds, completion of BAWSCA's Strategy by December 2014, and the effective representation of the member agencies in the FERC relicensing process of New Don Pedro.

Ms. Sandkulla noted that BAWSCA will have further discussions with San Francisco and the irrigation districts about the FERC process and anticipated schedule for FY 2014-15. Legal counsel is continuing to monitor ongoing activities very closely by attending specific meetings and tracking documents to see what can be expected next year.

Additionally, amending the Tier 1 drought allocation formula with San Francisco and looking at additional drought protection to protect member agencies from economic impacts of drought are activities Ms. Sandkulla expects to pursue next fiscal year.

Finally, completion of the Long-Term Reliable Water Supply Strategy and identification and an implementation plan to ensure that new water supplies or water transfers are brought on line to meet the needs of agencies that require additional water, and continuing to protect the water customers efforts from the efforts to drain Hetch Hetchy are important activities next fiscal year.

In response to Director O'Connell, Ms. Sandkulla reported that proponents are pushing the efforts to drain Hetch Hetchy at the State and Federal Level. An editorial written by former California Congressman Dan Lungren, and former State Attorney General, John Van de Kamp, supports amendments to the Raker Act that would stop the use of the Hetch Hetchy Valley as a municipal reservoir.

Director Weed suggested that BAWSCA look at the current contract with San Francisco and the ability to exchange water among member agencies. This may help address and lead to a resolution for the issue of Santa Clara and San Jose.

Ms. Sandkulla reported that there is some work in this regard by specific member agencies and BAWSCA has been participating in those discussions, however, BAWSCA's role is not clear. There is a fine line between supporting a market and being in the middle of negotiations for a market between two member agencies. The conclusion of the Strategy will be a finite point of identifying available alternative water supplies, and may help make BAWSCA's role in this aspect much clearer in making this idea work for the interests of BAWSCA and its member agencies.

Ms. Sandkulla emphasized that in developing next year's work plan, it is important to keep in mind that some of the critical items on BAWSCA's work plan have limited schedule flexibility because of deadlines driven by outside agencies and work products of others that BAWSCA must act upon. Examples are the FERC activities and the Tier 1 and Tier 2 drought allocation plans. Additionally, Ms. Sandkulla explained that BAWSCA needs to affect San Francisco's 2018 decisions early in the process. BAWSCA must also keep focus on the Strategy and the Pilot Water Transfer plan which are both on its critical phases, as well as the results that must be achieved next fiscal year to meet future deadlines. Most importantly, BAWSCA will continue to achieve results that are most cost effective for its member agencies in all aspects of the work plan.

Ms. Sandkulla explained that BAWSCA's challenges will continue through at least 2020 or until reliable supplies are secured for the service area. As a results driven agency, BAWSCA will continue to look into enforceable documents such as agreements and

legislation. While these documents are not guarantees, they are the best things BAWSCA can stand upon. BAWSCA has, and will continue to focus on rigorous technical investigations to support negotiations. The agency will also continue its coordination with outside agencies as appropriate to achieve the best results.

The work plan and budget will be developed in the next five months. Ms. Sandkulla explained that she will present the same information to the full Board in January. Based on the Board's discussions, a preliminary FY 2014-15 Work Plan and Budget, which will include a full analysis of the General Reserve and alternatives for funding the budget, will be presented to the Committee in February, and to the Board in March. A recommended work plan and budget will be presented to the Committee in April, and to the Board in May.

Director Pierce asked who was the driver behind San Francisco's initial decision to defer action on water supply until 2018 and whether there is someone on BAWSCA's side who watches San Francisco's efforts to prepare for its upcoming 2018 decisions related to water supply. Nicole explained that the drivers of the decisions that San Francisco has to make by 2018 are the environmental agencies. BAWSCA maintains successful relationships with many of these entities. Additionally, BAWSCA is applying strong pressure to SFPUC to prepare for the 2018 decisions now, and is closely monitoring all progress being made by the SFPUC in its planning work.

Director Breault asked if there are advantages to having a 2-year budget. Ms. Sandkulla stated that while she is able to list the results that need to be achieved over a long-term period, and the anticipated challenges the agency needs to address, the resources needed to achieve the results and address the challenges are not as easy to identify. She therefore does not think a 2-year budget would be helpful to the agency's effectiveness.

Director Weed suggested expanding the scope and functions of BAWSCA, specifically in two areas: greater role in emergency planning to include, among other things, the potential benefit of increasing the regions ability to access FEMA funds and acquiring a line of credit through the ACWA JPIA that could then be made available to member agencies.

Director Guzzetta commented that ongoing maintenance of the Regional Water System is something BAWSCA should stay on top of because deferred maintenance can be costly and it is critical that this system is maintained for future generations.

This was an informational report and no action was requested from the Committee

6. Reports:

- A. Pilot Water Transfer Plan – Status Report: Ms. Sandkulla reported that work has begun in preparing the agreements needed between BAWSCA, East Bay Municipal Utility District (EBMUD), Hayward and SFPUC to implement the pilot water transfer.

BAWSCA is taking the lead in drafting the agreements. Ms. Sandkulla is pleased with BAWSCA's record of success in writing agreements alongside Hanson Bridgett. She

added that BAWSCA's agreements are well-received by other public agencies and that taking the lead puts BAWSCA in the driver's seat. A recent meeting that was held with EBMUD and a potential seller was successful and confirmed each agency's respective interests in a successful pilot water transfer.

BAWSCA will be closely monitoring the water supply outlook over the next few months. Ms. Sandkulla explained that EBMUD's supply situation is different from the SFPUC's. EBMUD's Sierra supply is from a lower elevation, and therefore they have the potential to be more impacted by the dry spell in the last 2 years than San Francisco. In addition, EBMUD's demand has not experienced as much depression as the water demand on the San Francisco Regional System. Because the initial trigger of the pilot water transfer is that EBMUD is in a drought condition, BAWSCA will be monitoring the developments very closely.

Director Mendall commented that he was pleased with the Committee and Board discussions back in October and November, but noted that the outline to the agreement still does not include acknowledgment of the non-monetary impacts on Hayward's users.

Ms. Sandkulla explained that the agreements are in the initial stage of development and the draft outline talks about what to do to address the concern raised by Hayward, and what options might be available. She anticipates a recital on what the partnership entails, specifically the purpose of the pilot and what the partners are experiencing.

The Committee further discussed the topic of Hayward's concern and the following comments were stated during the discussions:

Director Breault believes the Board agrees that if there are potential negative impacts to Hayward, BAWSCA and its team will work with Hayward to identify the things that ought to be looked at as the transfer is done. "We'd want a decision to be fact-based."

Ms. Sandkulla stated that while the operation will result in differing quality levels, it is unknown to what extent the difference will be in comparison to the changes in water quality when San Francisco deliveries water from the local watersheds. Often times, there are different qualities being served from the San Francisco Regional Water System under varying circumstances. Ms. Sandkulla stated that BAWSCA and the team are open to looking at the options to address Hayward's concern. No specifics as to what can and would be done to address Hayward's concern are identified yet as staff of both agencies are actively working on this area. She, however, stated that as a water supplier, Hayward will be delivering water that far exceeds potable quality.

Director O'Connell stated that one of the reasons this is a pilot program is to find out what differences takes place, and suggested that a paragraph be included to state that BAWSCA recognizes that Hayward may experience negative impacts. She noted caution in addressing water quality variations.

Director Mendall noted that when San Francisco uses local water supplies, the impact is equally shared among the member agencies. Director Mendall then noted that while the

extent of the impacts of the pilot water transfer are unknown, there will be impacts that are going to be unique to Hayward, meaning they will not be experienced by other member agencies as Hayward will be the sole recipient of the water supply from EBMUD's system. Director Mendall added that there are differences in water quality that are outside of our control. But the impacts to water quality as a result of the water transfer are within our control. These changes would come as a result of a decision that Hayward and BAWSCA make to implement the pilot water transfer. As such, some considerations need to be given for the impacts that Hayward is going to have from the transfer, and there needs to be answers to these and other important questions when Hayward constituents ask.

Ms. Sandkulla and the committee agreed that there should be answers, however, the answers are not yet known. Ms. Sandkulla further explained that just like San Francisco, in a drought situation, chemistry changes, and EBMUD is not entirely sure what their water quality will be during the exact moment of a potential water transfer. BAWSCA and EBMUD are doing an investigation to look at what these differences are so that this information can be more fully understood. In addition, BAWSCA is also working closely with Hayward staff to determine what they are looking for in response. At this time, the answers are not yet known. BAWSCA and the team are gathering as much water quality data as possible to understand the differences, the potential impacts, and how to mitigate those impacts.

Ms. Sandkulla stated that the agreement must satisfy Hayward. As a signatory to the existing 3-way intertie agreement that operates the facilities proposed to be used as part of the pilot water transfer, Hayward has a separate and distinct role in authorizing the pilot water transfer. Therefore, Hayward must be satisfied with the proposed approach to address the stated concerns given that its approval is necessary to move forward with the pilot water transfer.

Committee Chair Guzzetta stated that there is consensus among the Board that any negative impacts to Hayward will be recognized. The direction to staff is to present the facts and a recommendation on how to address the concern.

- B. Water System Improvement Program – Status Report: Ms. Sandkulla reported that BAWSCA meets with SFPUC's WSIP Program Manager and team of project managers following release of the WSIP Quarterly Reports to discuss BAWSCA's questions on the program's progress. The most recent meeting was held on December 3rd.

Ms. Sandkulla reported that she will be meeting with the new Program Manager, Dan Wade, in January. In that meeting she plans to address the schedule and cost increases for the Calaveras Dam Project and other projects that are projected to go beyond their currently adopted schedule. She also plans to follow up on the letter Julie Labonte verbally committed to in response to BAWSCA's recommendations made in September 2013 as she has yet to receive a letter. Finally, she intends to establish BAWSCA's relationship with Mr. Wade, and encourage his focus on the successful direction of the WSIP.

Ms. Sandkulla was pleased to report that the Commission directed SFPUC staff to include specific reporting on water supply projects and water supply Level of Service goals in

upcoming Quarterly Reports. She explained that the six water supply projects in the WSIP, including the Calaveras Dam Replacement Project and the Alameda Creek Recovery Project, are struggling and are directly related to water certainty from the San Francisco Regional Water System. For this reason, BAWSCA continues to press the issue of water supply reliability and certainty related to its oversight on the WSIP and the Water Supply Level of Service goal.

Director Weed suggested that BAWSCA review the two reports expected by the SFPUC at the beginning of the year related to the Calaveras Dam Replacement Project: GEI Consultants' independent review of the work done by the URS on Calaveras Dam's geological conditions, and the 4-person peer review of the Calaveras Dam Project progress and issues experienced to date. Ms. Sandkulla confirmed that those reports are included in BAWSCA's list of follow ups.

In response to Director Pierce's question about the monitoring of SFPUC's system maintenance, Ms. Sandkulla explained that BAWSCA is working closely with the SFPUC, specifically its Local and Regional System Manager Dave Briggs, on SFPUC's transition from a WSIP to a CIP, and in developing a system that best works for the SFPUC and the wholesale customers. Ms. Sandkulla explained that Christina will be reviewing what shows up on SFPUC's Annual Operating Budget, as done in previous years.

- C. System Tours: BAWSCA and the SFPUC will work together in arranging a 2-day overnight system tour to Hetch Hetchy for BAWSCA Board members. The 2-day system tour will have limited space and as such, will hopefully be offered twice, in the Spring and Summer of 2014, depending on the interests. The Board will be notified of the details as soon as dates are selected.
 - D. Board Policy Calendar: Ms. Sandkulla expects the SFPUC to release in January the draft report being prepared for the FERC process that identifies the economic impacts of water supply shortages in the service area. With that information, the Board can prepare itself to look at a decision on a regional drought level of service goal as part of the Strategy
7. **Comments by Committee Members**: Director Vella stated that local newspapers have published the Governor's declaration for drought and for a Federal emergency on the water supply conditions. He also asked if BAWSCA has experienced a LAFCO review, and whether it should be informed about these reviews?

Ms. Sandkulla stated that BAWSCA has been contacted by LAFCO for factual information in the past but only to that extent.

Director Weed announced that ACWD finalized its Integrated Regional Water Management Plan and that it is available online.

He also noted that in ACWD's meeting with the CEO/General Manager, it was suggested that BAWSCA look into expanding its role and mission to include contingency planning and funding. Given its focus on water supply and coordination with Santa Clara, San Mateo and Alameda counties, BAWSCA may be able to play an important role in contingency planning

with the potential to access FEMA monies more effectively for the region. On the financing side, BAWSCA, through the RFA, may have the ability to acquire and work with the Association of California Water Agencies (ACWA) Joint Powers Insurance Authority (JPIA), and become a financial institution that can acquire a source of funding, along the lines of a line of credit, at a nominal cost, and that does not have California exposure. This could allow the agencies to leverage its existing reserves significantly

8. **Adjournment:** The meeting was adjourned at 3:04pm. The next meeting is February 12, 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 – December 11, 2013

Roster of Attendees:

Committee Members Present

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

BAWSCA Staff:

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

Public Attendees:

Marilyn Mosher	City of Hayward
Michelle Novotny	San Francisco Public Utilities Commission

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

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

Summary:

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

Fiscal Impact:

None.

Recommendation:

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

Background:

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

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

In implementing the trust, CalPERS raised an issue regarding disposition of Agency assets that requires Board action. Neither the Bay Area Water Supply and Conservation Agency Act nor any other applicable law specifically provides how Agency assets will be distributed upon its dissolution. However, Article 10 of the bylaws of the predecessor agency, the San Francisco

Bay Area Water Users Association, included a provision regarding asset distribution upon dissolution that prohibited asset distribution to private individuals.

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

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

Attachment:

1. Resolution No. 2014 - 01

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

ADOPTING POLICY GOVERNING DISTRIBUTION OF
BAWSCA'S ASSETS UPON DISSOLUTION

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

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

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

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

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

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

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

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

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

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

AYES:

NOES:

ABSENT:

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

ATTEST:

Secretary

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

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

Summary:

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

Fiscal Impact:

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

Recommendation:

That the Board Policy Committee recommend Board adoption of Resolution No. 2014-02 to meet the requirements of DWR.

Discussion:

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

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

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

As a condition of the Round 1 grant agreement, DWR requires that each recipient of Prop 84 IRWM funding adopt the revised IRWMP. Adoption of the Bay Area IRWMP Update does not

entail a direct commitment of resources or implementation of each project, and there is no joint commitment or responsibility by the Bay Area IRWM Plan Update participants to implement any or all of the projects

Attachments:

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

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

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

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

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

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

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

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

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

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

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

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

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

AYES:

NOES:

ABSENT:

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

ATTEST:

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

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

Summary:

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

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

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

Recommendation:

That the Committee provide:

- 1) Comments and suggestions concerning the results to be achieved, the preliminary Operating Budget estimate, alternatives for funding the budget and managing the General Reserve, and**
- 2) Suggestions concerning presentation of the preliminary Work Plan and Operating Budget to the Board of Directors in March.**

Preliminary Work Plan:

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

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

- Ongoing oversight of the San Francisco's WSIP and 10-Year Capital Improvement Program (CIP);
- Pursuing legislation to extend State oversight of San Francisco's progress implementing the WSIP;
- Administering BAWSCA's bonds;

- Actively participating in the relicensing of New Don Pedro Reservoir to protect regional water supplies;
- Completing the Long-Term Reliable Water Supply Strategy; and
- Completing initial actions to improve drought reliability including the examination of a pilot water transfer with Santa Clara Valley Water District.

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

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

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

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

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

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

At this time, while EBMUD is experiencing similar drought conditions as elsewhere in the State, EBMUD has not made a decision regarding water supply reductions or use of its Freeport Facilities. This decision will occur by mid-April. The SFPUC has requested voluntary water use reductions of 10% at this time due to current hydrologic conditions and available water supplies. Water supply conditions will continue to be reviewed in the coming months in anticipation of potential consideration by the BAWSCA Board at its May 2014 meeting to implement a pilot water transfer with EBMUD.

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

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

RELIABLE SUPPLY - WATER SUPPLY MANAGEMENT PROGRAM

1. Long-Term Supply Solutions: Ensure a Reliable, High Quality Supply of Water is Available Where and When Needed.

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

2. Near-term Supply Solutions: Water Conservation

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

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

- a. Monitor WSIP scope, cost, and schedule as San Francisco continues an aggressive construction schedule through 2019 - Press the SFPUC and the city's political leadership to meet the city's adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. Focus resources on monitoring project and program performance during construction.
- b. Pursue legislation to modify current sunset clause and extend State oversight on WSIP implementation to 2022.
- c. Review and monitor SFPUC’s Regional 10-Year Capital Improvement Program to ensure that identified projects and programs meet the needs of the BAWSCA member agencies in a cost-effective and appropriate manner. Some of the consultant resources currently being utilized as part of BAWSCA’s WSIP review will aid in this effort.

4. Protect Members’ Interests in a Reliable Water Supply

- a. Proponents of draining Hetch Hetchy Reservoir – Continue to assess potential significance and risks associated with “legal and congressional” actions that might be taken by proponents.
- b. FERC – Ensure resources for legal and technical monitoring and intervention in the FERC re-licensing of New Don Pedro Reservoir are sufficient to protect the customers’ long-term interests in Tuolumne River water supplies.
- c. SFPUC Water Supply Level of Service Goal – Protect members’ water supply and financial interests as SFPUC addresses actions needed to meet its adopted Water Supply Level of Service Goal

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

- a. Pursue amendment of the Tier 1 drought allocation formula with SFPUC.
- b. SFPUC Interim Supply Decisions – Protect members’ water supply and financial interests as SFPUC initiates new planning effort (Water Management Action Plan “MAP”) to support Commissions’ upcoming 2018 water supply decisions.

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

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

7. Reporting and Tracking of Water Supply and Conservation Activities

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

FAIR PRICE

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

- a. Administer the Water Supply Agreement with SF to protect interests of members and their customers in a fair price for water purchased.
- b. Administer bonds issued by BAWSCA to retire capital debt owed to San Francisco.
- c. Coordinate input to goals and objectives for future examination of alternative wholesale water rate structures and potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues.

HIGH QUALITY WATER

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

- a. Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs.
- b. Review and act on, if necessary, State legislation affecting water quality regulations.

AGENCY EFFECTIVENESS

10. Maintain Community Allies and Contacts with Environmental Interests

- a. Maintain close relationships with BAWSCA's powerful allies (state legislators, business, labor, local government, water customers, and the media) and activate them if necessary to safeguard the health, safety, and economic well-being of residents and communities. Respond to requests from local legislators. Maintain a dialogue with responsible environmental and other groups, who will participate in the project permitting and approval process for rebuilding the system.
- b. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants.

11. Manage the Activities of the Agency Professionally and Efficiently

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

Reliable Supply

1. Implement a pilot water transfer with EBMUD in FY 2014-15, following completion of the pilot transfer plan.
2. Engage in extended or complex applications for grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council, or other agencies.
3. Introduce major new legislation or supporting/opposing legislation initiated by others. If needed, the agency could support major legislative efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval.

Fair Price

4. Evaluate potential economic or water supply impacts of State efforts to fix the Delta and other State water management projects.
5. Develop alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to facilitating communication with SFPUC, development of goals and objectives relevant to Wholesale Customers, and addressing the potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues.
6. Arbitrate issues related to the 2009 Water Supply Agreement.

High Water Quality

7. Perform technical studies of water quality or San Francisco's treatment of the water it delivers to the BAWSCA agencies.
8. Advocate changes to water quality regulations or the manner in which San Francisco treats water for drinking and other purposes.

Agency Efficiency

9. Add resources to support additional Board, Board committee, or technical committee meetings.
10. Conduct tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions, other than through co-sponsoring tours with San Francisco.

Table 3. Future Challenges Facing BAWSCA, Member Agencies, and Their Customers

Year or Period	Major Challenges or Issues
2014 to 2015	<ul style="list-style-type: none"> • Protect health and safety through legislation that amends the California Water Code to extend State oversight of the WSIP until completion of the WSIP. • Monitor WSIP implementation to protect interests of member agencies and take steps necessary to ensure all adopted Level of Service goals are achieved. • Administer repayment and reporting of BAWSCA’s 2013 bonds • Complete development of BAWSCA’s Long-Term Reliable Water Supply Strategy (December 2014). • Represent member agencies in Federal relicensing of New Don Pedro and to protect SFPUC supplies (2015-16). • Amend Tier 1 drought allocation formula with San Francisco. • Provide additional drought protection to protect BAWSCA member agencies from excessive economic impacts. • Ensure new water supplies or transfers are brought on line to meet the needs of agencies that require additional water. • Protect customers from legal and legislative efforts to draining Hetch Hetchy that disregard their interests in reliability, quality and cost. • SF elects Mayor in 2015.
2016 to 2020	<ul style="list-style-type: none"> • Continue representing members’ interests in reliable supplies through FERC issuance of a new license for New Don Pedro in 2016. • Conduct investigations and advocate appropriate positions prior to San Francisco deciding whether or not to make San Jose and Santa Clara permanent Wholesale Customers by 2018. • Conduct investigations and advocate appropriate positions prior to San Francisco deciding whether to provide more than 184 mgd to Wholesale Customers and whether or not to increase the perpetual Supply Assurance by 2018. • Ensure San Francisco maintains its Tuolumne River water rights. • Enforce the Water Supply Agreement to ensure San Francisco meets its water supply, quality, maintenance and reporting commitments. • Assist member agency negotiation of a new Tier 2 drought allocation formula by preparing and analyzing alternatives, facilitating agreement and producing legal documents before the existing one expires at the end of 2018. • SF elects Mayor in 2019.
2021 to 2035	<ul style="list-style-type: none"> • Ensure new water supplies are on line to meet future needs that are not met by San Francisco. • Extend or renegotiate the Water Supply Agreement before it expires in 2034. • SF elects Mayor in 2023, 2027, 2031, and 2035.

Recommended Preliminary FY 2014-15 Operating Budget:

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

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

Cost Category	Approved FY 2013-14 Budget, dollars*	Preliminary FY 2014-15 Budget, dollars	Difference, dollars
Consultants/ Direct Expenditures			
Reliability	1,217,662	770,162	(447,500)
Fair Pricing	227,500	287,000	59,500
Administration	74,000	85,300	11,300
<i>Subtotal</i>	1,519,162	1,142,462	(376,700)
Administration			
Employee Salaries & Benefits	1,308,527	1,343,406	34,879
<i>Other Post-Employment Benefits (net)</i>	98,000	95,918	(2,082)
Operational Expenses	290,500	295,000	4,500
BAWUA	1,100	1,100	0
<i>Subtotal</i>	1,698,127	1,735,424	37,297
Total Operating Expenses	3,217,288	2,877,886	(339,403)
Capital Expenses	4,000	2,500	(1,500)
Budgeted Contingency	57,500	57,500	(0)
Regional Financing Authority	1,400	1,400	0
Grand Total	3,280,189	2,939,286	(340,903)

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

Explanation and Alternatives for Salaries and Benefits:

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

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

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

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

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

Funding the Preliminary Operating Budget:

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

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

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

Status of General Reserve

Each year, unspent funds are moved to the General Reserve to fund special needs and future year's budgets. The funding plan for the adopted FY 2013-14 budget included use of \$762,188 from the General Reserve and assumed a deposit of unspent funds from FY 2012-13 to the General Reserve of approximately \$250,000.

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

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

Alternatives Examined for Funding the Preliminary Operating Budget

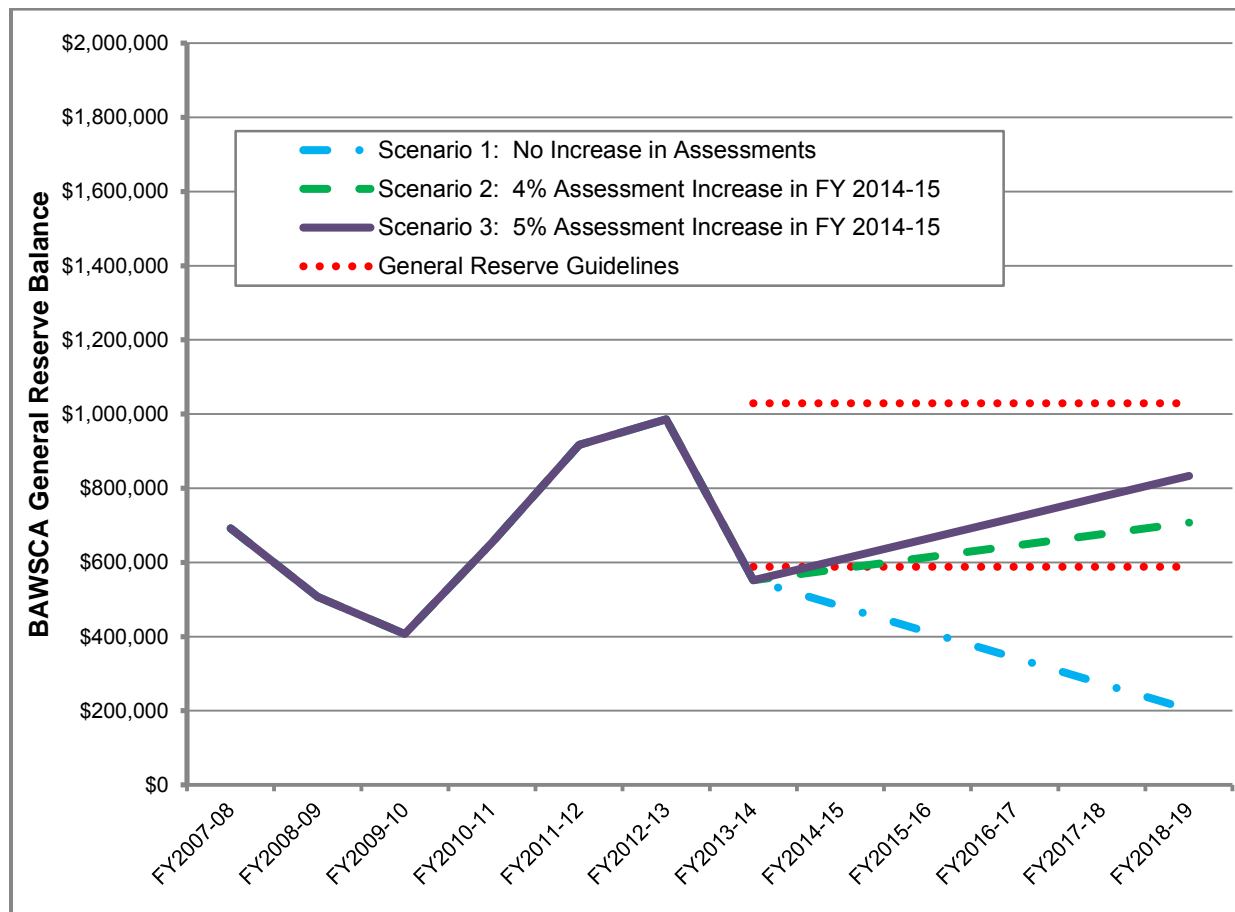
Several alternatives to funding the Preliminary Operating Budget were examined and are presented below and depicted in Figure 1:

- Scenario 1: Fund the FY 2014-15 Preliminary Operating Budget with no increase in assessments. This scenario results in a decreasing General Reserve balance for the upcoming 5 years.

- Scenario 2: Fund the FY 2014-15 Preliminary Operating Budget with a one-time 4% increase in assessments and difference withdrawn from the General Reserve. This scenario results in a General Reserve balance that is less than the minimum budgetary guideline adopted by the Board.
- Scenario 3: Fund the FY 2014-15 Preliminary Operating Budget with a 5% increase in assessments in FY 2014-15. This scenario results in achieving the minimum General Reserve target in FY 2014-15 and staying below the maximum budgetary guidelines through FY 2018-19.

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

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



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

- Scenario 1 results in an estimated General Reserve balance in FY 14-15 below the minimum budgetary guideline established by the Board, and the balance would continue to decline in subsequent years.

- Scenario 2 results in an estimated General Reserve balance slightly below the minimum budgetary guideline established by the Board.
- Scenario 3 results in the estimated FY 2014-15 General Reserve balance within the established budgetary guidelines, at 21% of the preliminary Operating Budget.

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

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

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

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

APPENDICES

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

Appendix A: Funding for Subscription Conservation Programs

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

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

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

Appendix C: Value for the Cost

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

Appendix D: Historical Assessments

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

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

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

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

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

Appendix F: Preliminary Budget for the Regional Financing Authority Budget

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

Appendix G: History of Salary and Benefits Adjustments

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

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

Appendix H: Uses of Professional Services

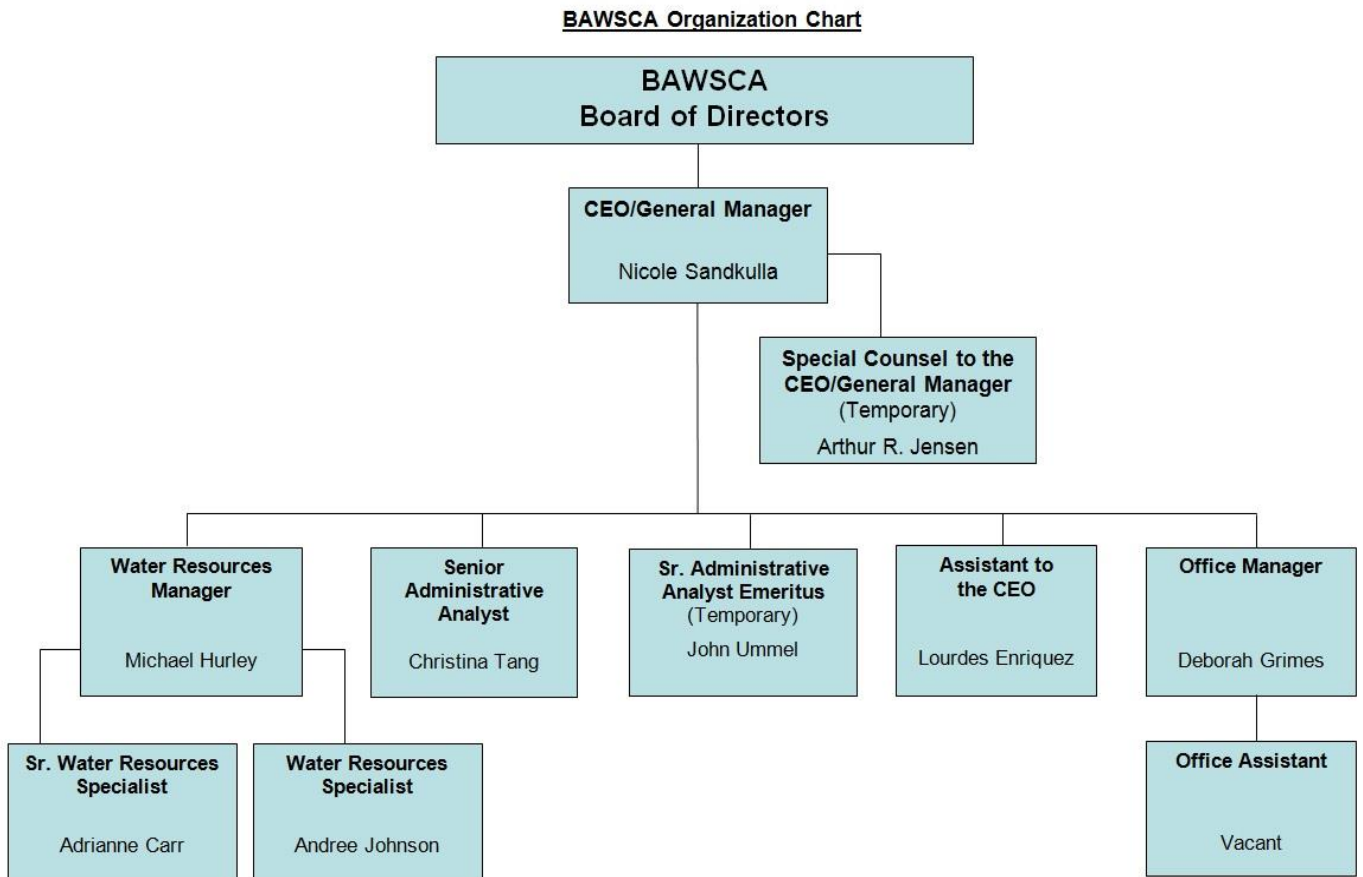
Outside professional services are used to provide specialized services and augment staff.

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

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

Appendix I: Current Organization and Staffing

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



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

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

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

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

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

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

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 the current activities, costs and benefits, and potential deal points associated with implementing the Pilot Water Transfer.

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

Fiscal Impact:

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

Recommendation:

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

Discussion:

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

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

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

Benefits of a Pilot Water Transfer

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

Elements of the Pilot Water Transfer

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

Agreements Necessary to Implement the Pilot Transfer

BAWSCA staff is currently working with staff from EBMUD, SFPUC and the COH to develop the following five key agreements necessary to conduct the Pilot Water Transfer and wheel water through the Freeport Facilities; EBMUD's raw water, treatment, and distribution system; the SFPUC-Hayward-EBMUD Intertie (Hayward Intertie); and the San Francisco Regional Water System (SF RWS) for in-lieu delivery to BAWSCA member agencies:

- **Water Purchase Agreement:** Agreement for the purchase of water from willing seller;
- **BAWSCA-EBMUD Wheeling Agreement:** Agreement outlines the terms and conditions for EBMUD to wheel the transfer water, secured and purchased by BAWSCA, through EBMUD and US Bureau of Reclamation facilities to the Hayward Intertie;
- **Hayward Intertie Pilot Transfer Agreement:** Four-party agreement that defines the terms for the use of Hayward Intertie for the Pilot Water Transfer among EBMUD, SFPUC, COH, and BAWSCA;
- **BAWSCA-Hayward Agreement:** Agreement (1) outlines the procedures for documenting and reimbursing COH for appropriate costs incurred to implement the transfer and (2) identifies terms of use for COH's system beyond the point of delivery from EBMUD;
- **BAWSCA-SFPUC Agreement:** Agreement outlines the operational and water accounting guidelines between BAWSCA and the SFPUC for conveying the purchased water to BAWSCA member agencies by in-lieu means through the SFRWS.

Estimated Pilot Transfer Related Costs

As proposed, BAWSCA will be responsible to pay all costs associated with acquisition and delivery of the transferred water supply. Costs for purchase of the water, moving water to the Hayward Intertie, and through the COH will be shared by the BAWSCA member agencies. Costs for moving the water through the SF RWS to the member agencies shall be recovered through provisions of the 2009 Water Supply Agreement between the Wholesale Customers and

the SFPUC (WSA) in proportion to use at the time. Phase 1 identified estimated costs for the pilot transfer including water purchase, wheeling, operations and maintenance, and administrative cost associated with a potential transfer. BAWSCA staff continues to work with the pilot transfer partners to refine the cost estimates. Table 1 presents a summary of the estimated costs.

Table 1: Estimated 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	≈ \$275	\$ 275,000
Wheeling	EBMUD, USBR	\$348 - \$471	\$348,000 - \$471,000
Hayward Facilities ⁽¹⁾	COH	\$78-\$138	\$78,000-\$138,000
SF Regional Water System ⁽²⁾	SFPUC	\$0	\$0
Total Estimated Costs		\$700 - \$900/AF	\$700,000 - \$900,000

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

(2) *No additional costs beyond the full costs recovered by the WSA have been identified at this time.*

Conditions Necessary to Implement the Pilot Water Transfer

In addition to the identified agreements above and necessary board approvals, hydrologic and water supply conditions will have a critical role in determining whether BAWSCA can act to execute the Pilot Water Transfer. Specifically, water supply conditions would have to be sufficiently challenging to cause the following two specific actions by BAWSCA’s partners, EBMUD and SFPUC, in order to make the implementation of a pilot transfer cost effective:

1. **EBMUD must decide to initiate the operation of its Freeport Facilities**, which would likely occur in conjunction with the delivery of EBMUD’s own water transfer supplies during drought conditions. It is cost prohibitive for EBMUD to operate the Freeport Facilities solely for the delivery of water transfer supplies to BAWSCA. Based on discussions with EBMUD staff, there is currently a high likelihood that EBMUD will operate these facilities in 2014 to deliver water transfer supplies.
2. **SFPUC must determine that a water shortage condition exists**. This action is required in order to establish the annual allocations to the wholesale customers that allow for the tracking of the delivery of SFPUC and transfer supplies separately for billing and water accounting purposes. On January 31, 2014, the SFPUC announced its call for a voluntary curtailment of water use by 10%, which may be sufficient to meet the requirements of this second trigger.

Schedule and Next Steps

Over the next few months, BAWSCA will work with EBMUD, COH, and SFPUC to finalize the agreements and taking the steps necessary to implement the Pilot Water Transfer. During this time, EBMUD and BAWSCA will be planning Phase III of the pilot water transfer plan, the implementation phase. Also during this time, EBMUD will be monitoring their water supply conditions.

A drought declaration and concurrent decision to operate the Freeport Facilities could occur at the EBMUD Board meeting on April 8th or April 22nd. On May 1st, EBMUD could formalize their request to the Bureau of Reclamation for operation of the Freeport Facilities.

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

