

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

**Foster City Community Building – 1000 E. Hillsdale Blvd., Foster City
Wind Room
(Directions on Page 2)**

**Thursday, January 15, 2015
7:00 P.M.**

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page</u>
1. Call to Order/Roll Call/Salute to Flag	(O’Connell)	
2. Special Order of Business – Election of Officers for Calendar year 2015 (Attachment) <ul style="list-style-type: none">• Election of Chair• Election of Vice Chair <i>(The terms of the new Chair and Vice-Chair commence at the end of the meeting at which they are elected)</i>	(O’Connell)	<i>Pg 3</i>
3. Break for the San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting	(O’Connell)	
4. Reconvene following San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting	(O’Connell)	
5. Comments by the Chair	(O’Connell)	
6. Board Policy Committee Report (Attachment)	(Mendall)	<i>Pg 5</i>
7. SFPUC Report	(Ritchie)	
8. Public Comments <i>Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(O’Connell)	
9. Consent Calendar (Attachments)	(O’Connell)	
A. Approve Minutes of the November 20, 2014 Meeting		<i>Pg 25</i>
B. Receive and File Budget Status Report – As of November 30, 2014		<i>Pg 29</i>
C. Receive and File Investment Report – as of December 31, 2014		<i>Pg 31</i>
D. Receive and File Directors’ Reimbursement Report – As of December 31, 2014		<i>Pg 33</i>

10. Action Calendar

(Sandkulla) Pg 35

A. Mid-year 2014-15 Work Plan and Budget Review (*Attachment*)

Recommendation:

That the Board approve the following revision to the FY 2014-15 Work Plan:

1. Defer item 8C “Coordinate input to goals and objectives for future examination of alternative wholesale water rate structures and potential relationship to alternative retails rate structures Member Agencies might consider to stabilize water rates and water revenues” for consideration in FY 2015-16 Work Plan;
2. Board review and discussion related to managing the General Reserve balance at the March 2015 and May 2015 Board meetings.

The Committee voted unanimously to recommend approval of the proposed Board actions.

11. Reports and Discussion Items

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

(Sandkulla) Pg 43

B. Long-Term Reliable Water Supply Strategy (*Attachment*)

(Hurley) Pg 47

12. Reports

(Sandkulla)

A. CEO/General Manager’s Letter (*Attachment*)

Pg 61

B. Correspondence Packet ([Under Separate Cover](#))

C. Board of Directors Policy Calendar (*Attachment*)

Pg 65

13. Directors’ Discussion: Comments, Questions and Agenda Requests

(O’Connell)

14. Date, Time and Location of Future Meetings

(O’Connell) Pg 67

(See attached schedule of meetings)

15. Adjourn to next meeting scheduled for March 19, 2015 at 7pm

(O’Connell)

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

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

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

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Election of Officers for Calendar Year 2015**

Summary:

The State Water Code (Division 31, Section 81401) requires the Board to elect a chair and vice chair each year at the January meeting. The term of officers of the Board commences at the close of the meeting at which they are elected.

Discussion:

The suggested process for electing the chair is as follows:

1. Call for nominations for the position of chairperson.
2. Call for a motion to close nominations once no further names are offered.
3. If there is only one nominee, call for the vote.
4. If there is more than one nominee, then proceeding alphabetically:
 - a. Ask each nominee to give a brief statement on his/her qualifications and interest in the position.
 - b. Ask if other directors would like to comment on behalf of the nominee.
 - c. Call for a vote of those in favor of each nominee, by a show of hands.

Following the election of the chair, proceed to the election of vice chair using the same process.

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BAWSCA

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MEMORANDUM

TO: BAWSCA Board Members

FROM: Nicole Sandkulla, Chief Executive Officer/General Manager

DATE: January 9, 2015

SUBJECT: Summary of Board Policy Committee meeting held December 10, 2014

1. **Call to Order:** Committee Chair Al Mendall called the meeting to order at 1:30 pm. A list of Committee members who were present (7), absent (3) and other attendees is attached.

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

2. **Comments by the Chair:** Director Mendall welcomed the Committee members, and stated that he is looking forward to the Long-Term Reliable Water Supply Strategy report.
3. **Public Comments:** There were no public comments.
4. **Consent Calendar:**

Director O'Connell made a motion, seconded by Director Breault, that the minutes from the October 8, 2014 Board Policy Committee meeting be approved.

The motion passed unanimously.

5. **Action Items:**

- A. **Proposed Fiscal Year 2015-16 Bond Surcharges:** Christina Tang reported that BAWSCA is required to set bond surcharges annually as part of the revenue bonds BAWSCA issued in February 2013. The bond issuance prepaid the prior capital debt of \$356.1 million member agencies owed San Francisco. The bond issuance provides member agencies approximately \$62.3 million in net savings over the term of the bonds.

The surcharges are used to make debt service payments on the bonds. They are required to be set by the Board annually, and are collected as a separate item on the monthly water bills from SFPUC.

Ms. Tang reported that the FY 2015-16 surcharges includes that first "true-up" adjustment based on the actual percentage of water purchases in FY 2013-14. The true-up is the difference between the surcharge collected in FY 13-14, which was based on FY 2011-12

purchases, and the actual surcharge for FY 2013-14, which was based on FY 2013-14 purchases.

Moving forward, a true-up calculation is anticipated every year as part of the annual bond surcharge setting.

Ms. Tang reported that FY 2015-16 marks the 3rd year of bond surcharge collection. The bond surcharge amount is a fixed amount for each agency each year.

The proposed bond surcharges for FY 2015-16 are calculated by multiplying the annual obligated debt service for BAWSCA's bond in FY 2015-16 by each agencies' percentage total wholesale water purchase in FY 2013-14, the most recent purchase data available, and adding the "true-up" adjustment for the FY20 13-14 surcharges.

Ms. Tang noted that the true-up adjustment for FY 2015-16 will be included in the surcharge setting for FY 2017-18 bond surcharge setting. There will always be a two-year lag period.

The total annual bond surcharge for FY 2015-16 is \$24,671,995. This is \$500 less than the total bond surcharges for FY 2014-15 in accordance with the bond debt service schedule.

Ms. Tang presented a table to show the actual member agency savings in FY 2013-14. The total savings for BAWSCA member agencies as a whole is \$3,525,185, which is greater than BAWSCA's annual budget.

Director Weed commented that BAWSCA member agencies should be cognizant of "true-ups" for budget development purposes. For ACWD's case, it was an amount of \$590,850.

Ms. Sandkulla noted that the first two years of bond surcharge setting didn't include "true-ups". In addition, water use among the member agencies changed significantly in FY 2013-14 with unanticipated reduced water usage along with a drought year. In particular, ACWD had a significant change in its water use pattern in FY 2013-14 due to the drought and availability of other supplies.

Director Breault made a motion, seconded by Director O'Connell, to recommend Board approval of the proposed FY 2015-16 bond surcharges as presented in the staff memorandum.

The motion carried unanimously.

- B. Mid-Year 2014-15 Work Plan and Budget Review: Ms. Sandkulla reported that the mid-year work plan and budget review is a critical step that BAWSCA takes every year to closely examine progress half-way through the year.

Following her review, Ms. Sandkulla was pleased to report that BAWSCA will achieve the planned work plan results within the approved budget of \$2,939,286.

The recommendation for committee action includes one change to the work plan, which is a deferral of work for future consideration in FY 2015-16. The work is specifically item #8C of the Work Plan under Fair Price and is the 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.

The SFPUC had previously expressed interest in pursuing this work. However, with the internal transitions in the SFPUC's finance department, Ms. Sandkulla does not anticipate this work to be SFPUC's priority this fiscal year. She recommends the Board's consideration to defer the effort to FY 2015-16.

The recommendation for committee action also includes ongoing review and discussion of managing the General Reserve balance at the March and May 2015 Board Meetings.

Ms. Sandkulla reported that the current work plan continues to align with BAWSCA's three goals of ensuring reliable supply of high quality water at a fair price. Critical and time sensitive items including the Strategy, implementation of conservation programs, management of the bonds and administration of financial aspects of BAWSCA's relationship with San Francisco are on schedule.

Work being re-scheduled due to the progress of outside agencies include efforts associated with the FERC process. Staff is closely monitoring developments in the possibilities of having a revised relicensing date. Ms. Sandkulla does not anticipate completion of the FERC process by 2016, the current official date for re-licensing completion. Work associated with it will continue to be re-scheduled.

The budget for legal counsel for the remainder of the fiscal year may need to be increased as a result of the high level of legal activities that occurred in the beginning of this fiscal year that resulted in the September 2014 settlement with the SFPUC. Ms. Sandkulla reported that the increase can be accommodated within the existing operating budget by taking advantage of some savings from other areas. She noted that this is not included in the recommendation for action presented to the committee at this time because this is a matter that can be monitored continuously through the fiscal year, as done last year. The Committee and the Board will be kept updated of any necessary actions.

Ms. Sandkulla reported that the work plan and operating budget does not include the implementation of the dry year pilot water transfer with EBMUD. It includes all the activities of the pilot water transfer up to the implementation. The implementation will be a separate and distinct action of the BAWSCA Board.

Director Breault expressed his concern with the potential change to the FERC re-licensing date. He asked at what point should discussions begin with San Francisco about whether they will continue to serve San Jose and Santa Clara beyond 2018. The SFPUC may not have all the information needed to make that decision.

Ms. Sandkulla reported that there has been several discussions, where she has argued that the wholesale customers' projected purchases, including San Jose and Santa Clara, are well below the 184 mgd Interim Supply Limitation. She has emphasized with the SFPUC General Manager and Deputy General Manager that the trigger for the 2018

decision is when the projected total system purchases exceed 265 mgd, which is currently not planned to occur until well after 2018.

Ms. Sandkulla noted that San Jose and Santa Clara have temporary and interruptible contracts, which San Francisco can interrupt at any time under certain rules for notice, regardless of the 2018 Interim Supply Limitation decision.

She added that San Francisco has been working towards the 2018 decision and has indicated their review will consider the question of whether to make San Jose and Santa Clara permanent customers. BAWSCA is working with SFPUC staff on their analysis, which they refer to as Water Management Action Plan (WMAP). Ms. Sandkulla further stated that San Francisco recognize the implications of FERC on the WMAP, however, the WMAP is not tied to the FERC action.

Director Weed stated that EBMUD authorized its General Manager to operate the Freeport Facility as early as January 2015. He asked whether BAWSCA will have enough time to put the Pilot Water Transfer in place when Freeport is put in operation as early as January?

Ms. Sandkulla explained that the work plan includes the preparation of all the required agreements with the necessary agencies to implement a pilot water transfer. What is not included in the work plan is the budget to purchase the water from the supplier and other costs associated with implementation of the transfer. The actual execution of the contract with the supplier is not included in the work plan because it is a distinct action by the Board that should be made after negotiation has been completed.

Ms. Sandkulla reported that BAWSCA's work plan is written around critical results, which keeps the agency and staff focused and on track. She presented a list of results achieved to date to show a clear picture of the activities in the past 6 months.

The list includes oversight of the progress and making recommendations to changes made to SFPUC's WSIP, and monitoring SFPUC's 10-year CIP which includes the Mountain Tunnel.

In September, BAWSCA secured the legislation that extends the State's oversight of SFPUC's implementation of the WSIP when the Governor signed the legislation.

BAWSCA continues to administer the BAWSCA bonds, which saves member agencies approximately \$1.75 million over a six-month period, and the 2009 WSA, which protects member agencies' water supply and financial interests as evidenced by the settlement agreement with San Francisco.

BAWSCA will complete the Strategy at the end of 2014 and will distribute the final report to the Board in January.

BAWSCA continues its work on projects to improve drought reliability, including monitoring and documenting water use in the BAWSCA service area. Ms. Sandkulla explained that this effort proved valuable when BAWSCA was successful in re-analyzing

the member agencies' water use consumption to support the SFPUC's decision to continue with only a 10% voluntary water use reduction in Summer 2014.

Two new regional conservation programs were launched this fiscal year which will benefit from grant funds awarded as a result of a regional application effort with the IRWM grant program. BAWSCA will be submitting applications for new grant funds and will continue to be watchful of opportunities that come up.

BAWSCA worked with San Francisco on holding several facility tours for the BAWSCA Board and key consultants, including two Hetch Hetchy tours during a critical period for understanding the conditions of facilities up country and at Hetch Hetchy.

Ms. Sandkulla emphasized that the capacity to accommodate unanticipated issues is why the review of the work plan and budget at mid-year is important. While she does not see unexpected issues arising, she anticipates efforts associated with the drought will continue. The Board will be informed of any issues that arise, and any resulting budget implications will be presented to the Board as necessary. She re-stated that one major item that can affect the budget is the implementation of the pilot water transfer in the Winter/Spring of 2015.

In response to Director Guzzetta, Ms. Sandkulla explained that a Water Management Charge will be the recommended funding resource for the implementation of the Pilot Water Transfer. It will be collected the same way it was collected for the Strategy, through the bill from San Francisco.

Ms. Sandkulla reported that the current year budget relies upon the use of \$296,436 from the General Reserve. The current budget also relied upon BAWSCA's historical trend of not fully expending its budget, an assumed expenditure of the budget by 88%, and a transfer of \$328,000 of surplus funds to the General Reserve at the end of FY 2014-15.

At this time, Ms. Sandkulla reported that the operating budget is anticipated to be fully expended at year's end, and the assumed transfer of \$328,000 will not occur.

The expected General Reserve balance, therefore, at June 30, 2015 is estimated at \$225,461, or 8% of the approved Operating Budget. BAWSCA's adopted General Reserve guideline is 20%-35% of the adopted budget.

Ms. Sandkulla stated that future budget discussions with the Board will include a thorough review and consideration of options to replenish and manage the General Reserve. She emphasized that the consideration of increasing assessments will need to be included in the budget planning for FY 2015-16.

The final Board decision will depend upon the expenditures for the remainder of the year. BAWSCA will closely monitor the budget and do a thorough examination of alternatives. There may be some savings from the Strategy work that could potentially be used towards the efforts for the development of the Pilot Water Transfer. The legal expenses on the Pilot Water Transfer will be reviewed closely to confirm that it falls within the definitions of what the Water Management Charge can fund.

In response to Director Keith's questions, Ms. Sandkulla stated that the last assessment increase was 5% in FY 2014-15. Prior to last year's increase, the assessments were increased 9% in FY 2009-10.

Ms. Sandkulla further explained that BAWSCA's budget has continued to grow due to increased efforts. BAWSCA's budget includes specific items and work such as fully funding the OPEB, increased work by legal on the administration of the new WSA, and the addition of a staff person in FY 2013-14.

Ms. Sandkulla clarified that decisions about the increase in assessments will be a part of the budget development for FY 2015-16, which is a 5-month process. Action by the Board will not be until May 2015. The matter is being brought to the Committee now and will be brought to the Board in January for discussion because it is a critical issue that both the Board and the agencies should be aware of. Most importantly, the agency staff need to be informed of the potential assessment increase so that they can include the information in their own budget process.

Ms. Sandkulla stated that if the budget stays the same, assessments will need to be increased by 11% to fund the operating budget. An increase of 25% will be necessary to fund the budget and bring the General Reserve up to 20% within a single year.

The Committee will be presented with recommendations for review and discussion at its meeting in March.

Director Guzzetta asked if the idea of using lines of credit could be a consideration. It might be expensive in the short-term, but it could help build the reserve.

Director Weed reported that the JPIA's assessment shows that using lines of credit was not financially viable for water agencies. However, its consideration put forward the thought of having pre-approved loans for public agencies so funds from major financial institutions can be made available in case of emergencies.

Ms. Sandkulla stated that BAWSCA is scheduled to meet with its banker who she's had conversations with about funding mechanisms for the Pilot Water Transfer. The bank was open to and intrigued by the idea of lines of credits.

Director Guzzetta stated that 25% is a significant increase in assessments and BAWSCA needs to be clever with developing options for the Board to consider.

Director Weed commented that San Francisco has had great success with commercial paper for funding the WSIP, and stated that it's a matter of accessing the financial resources that are available for public agencies.

Director Mendall stated that he anticipates the recommendations to include options with practical combinations of how to best meet BAWSCA's financial provisions.

Ms. Sandkulla agreed and stated her concern with the reality of a 25% increase in assessments. She stated that it is critical that the decision the Board makes is meticulously thought through with all the possible options available.

Director Mendall asked for a motion for the recommendation on the General Reserve.

Director Keith made a motion, seconded by Director O’Connell, to recommend Board approval for the following revision to the FY 2014-15 Work Plan:

- a. Defer item 8C “Coordinate input to goals and objectives for future examination of alternative wholesale water rate structures and potential relationship to alternative retail rate structures Member Agencies might consider to stabilize water rates and water revenues” for consideration in FY 2015-16 Work Plan.**
- b. Board review and discussion related to managing the General Reserve balance at the March 2015 and May 2015 Board meetings.**

Discussion:

Director Guzzetta asked if there were expenditures that could be cut for the remainder of the year, or deferred for one year to help buffer the shortfall. While there may not be, the Board should do that analysis before making a conscious decision.

Director Keith agreed, and asked the CEO/General Manager to include an analysis on the agency’s staff addition.

Ms. Sandkulla stated that she will show her analysis in her report to the Board in January. She explained that the major expenditures are for consultants in the critical areas of legal, engineering and financial. Based on her review, she sees no areas of expenditures that she would recommend cutting.

Ms. Sandkulla added that BAWSCA has had the history of not fully expending its budget, which she does not expect to be replicated moving forward.

She looked at what changed in the dynamics of the agency and its spending patterns and stated that she believes BAWSCA’s first year of having a full staff has enabled it to achieve the results scheduled in the work plan.

In years past, staff has come back to the Board for authorization to defer work even though the funds have been made available.

Director Guzzetta commented that the increased activity from the settlement with San Francisco contributed to the increased total expenditures. While the benefits from the settlement do not affect the BAWSCA budget, it provides long-term benefits to the water rates.

Director Breault commented that in the past, it seems the financial resources provided in the operating budget exceeded the human resources available to accomplish the work. Therefore, the work plans were more aspirational.

He added that it is important for the CEO/General Manager to present the increased work that was achieved this year, compared to past years when the agency did not have a full staff. It is also valuable to present the long-term savings achieved as a result of the work that was completed.

The motion carried unanimously.

7. Reports and Discussion Items

- A. Fiscal Year 2015-16 Work Plan and Budget Preparation: Ms. Sandkulla reported that BAWSCA's work plan development begins with compiling the major challenges anticipated in future years all the way up to 2040. The long-term perspective has helped the agency identify the critical results that need to be achieved for the next fiscal year.

While there are inevitable changes, there are critical steps far into the future that impact what needs to be addressed in the short term. The long-term perspective allows BAWSCA to put the agency in a position to deal with anticipated challenges and identify the tough decisions that need to be made and prepare accordingly.

BAWSCA's work plan essentially prioritizes the vital results needed to meet BAWSCA's goal of ensuring reliable supply of high quality water at a fair price. Ms. Sandkulla emphasized that the Board will have important discussions in the coming months to identify what results need and can be achieved, and the tough choices that might need to be made.

As discussed during the mid-year report, the Board's consideration of increasing the assessment level will be critical in developing the FY 2015-16 work plan and budget.

Ms. Sandkulla noted that the Board approved a 5% increase in assessments in FY 2014-15, which was the first increase in assessments since FY 2009-10. A refund from the General Reserve was provided to the agencies in 2012 to maintain a balance that was within the Board adopted General Reserve guidelines. For several years now, BAWSCA's General Reserve has partially funded the operating budget as well as some special studies, and it is at a point where it has to be replenished.

Ms. Sandkulla presented BAWSCA's major challenges every 20 years beginning with the period of 2021 – 2040.

The Water Supply Agreement negotiated in 2009 will expire in 2034, and efforts to extend or re-negotiate the contract should begin a few years before the expiration date. While the contract is not between BAWSCA and San Francisco, BAWSCA is the agency that puts out the resources to negotiate that contract on behalf of, and to the benefit of the member agencies.

Director Weed commented that in talking about new water supply, he reported that Santa Clara Valley Water District (SCVWD) is investing on and working with private companies to put recycled water online.

Ms. Sandkulla reported that BAWSCA has an MOU with SCVWD on a potential pilot water transfer or the movement of water through the County. It is at a slow pace, but it is an effort that can provide significant results for the region.

Major challenges for the time span of 2016 – 2020 includes BAWSCA's representation of the member agencies in the FERC process, and in San Francisco's 2018 decisions which involves San Jose and Santa Clara's contracts, the 184 mgd limitation, and whether or not to increase the perpetual supply assurance. This time span also includes ensuring that San Francisco maintains its Tuolumne River water rights, and potentially negotiating a new Tier 2 drought allocation formula before the existing one expires in 2018.

In response to Director Mendall, Ms. Sandkulla explained that the Tier 2 drought allocation formula is applied on an individual agency basis; however, BAWSCA is the driver in setting the objectives of what Tier 2 should be. BAWSCA has a neutral role in facilitating the negotiations between the agencies and San Francisco because it is the individual agencies that will adopt the formula as opposed to the BAWSCA Board.

Ms. Sandkulla stated that the negotiation process can potentially take one to two-and-a-half years with a third or a quarter of staff's time

Director Breault stated that the BAWSCA Board can adopt Tier 2 if the agencies do not come to an agreement. He added that he suspects the process being more complicated this time around because of the potential discussions following the drought cutbacks all agencies had to enforce.

For FY 2015-16, Ms. Sandkulla stated that monitoring the 10-year CIP will be of equal weight with monitoring the WSIP moving forward. The 10-year CIP is growing, as it should be to ensure that the system is maintained. However, the growth of the 10-year CIP also means that it will be a significant area of financial activity. BAWSCA member agencies would want to track, and have the confidence with, all the projects in the 10-year CIP, therefore BAWSCA has been increasing its role in working with San Francisco on this effort.

Director Mendall commented that the WSIP was a catch up effort to improve the system. The 10-year CIP is the maintenance, which should be ongoing at a steady rate and tracked closely by BAWSCA.

Ms. Sandkulla agreed and explained that there are two water supply CIPs. One is the Water Enterprise CIP, and the other is the Hetch Hetchy Enterprise CIP. Each CIP deals with different facilities, and they are each at different levels of development. However, they are both moving and growing.

BAWSCA is working on getting San Francisco to recognize that from the wholesale customers' perspective, it is important to know the adopted budgets for the CIP's, what CIP is incorporated in the wholesale revenue, and whether the wholesale customers are confident with the CIP projects that they are paying for.

Director Weed commented that San Francisco has been deferring projects from the 10-year CIP to fund the Mountain Tunnel. There is a list of projects of which only a few remain in the current 10-year CIP, but are still on the books.

Director Mendall suggested to have monitoring of the CIP on the major challenges for all years moving forward.

Challenges in FY 2015-16 will include BAWSCA's administration of the WSA to protect the member agencies interests, administration of payment and reporting of BAWSCA's 2013 bonds, representing member agencies in the FERC process, and addressing efforts to drain Hetch Hetchy reservoir.

Ms. Sandkulla stated that FY 2015-16 will also include the implementation of critical actions for the Strategy. She further explained that if the drought continues in 2015 and beyond, BAWSCA should be expected to act on the member agencies' behalf to potentially identify additional drought supplies and implement the drought allocation plan.

The examination of additional drought protection for member agencies against excessive economic impacts, and ensuring new water supplies or transfers to meet the needs of agencies that require additional supply will be in the work plan for FY 2015-16.

Ms. Sandkulla explained that there are critical factors that are outside of BAWSCA's control. Therefore, BAWSCA carefully looks at the deadlines that are driven by outside entities and the work products of others to identify what the agency has to act upon. Affecting San Francisco's decisions early has always been a critical part of BAWSCA's work, and will remain a priority. Future deadlines for the agency will depend upon internal and external developments next year. But the goal is to save the agencies money and leverage their staff.

The long-term perspective in developing the goals for the agency helps prioritize its resources to the level of work. Ms. Sandkulla anticipates challenges that will require rigorous technical investigations and skilled negotiations to address the agreements, legislations, and other legally enforceable products that might be required. These efforts prove most effective and successful when they are done well in advance, and in a coordinated effort by all member agencies versus individually. This reflects the need for determining schedule flexibility and long-term perspective.

The work plan and budget will be developed in the next five months beginning with the review of the anticipated major challenges with the Board in January. The feedback received from the Board will be critical given the consideration of how the General Reserve balance can be replenished and managed moving forward.

The preliminary work plan and budget will be presented to the Committee in February and to the Board in March. Analysis and discussions will include the review of the General Reserve and alternatives to funding the budget. A proposed work plan and budget will be presented to the Committee in April and to the Board in May with recommended alternatives to funding the budget.

Director Guzzetta expressed his concerns with tracking the 10-year CIP. As water purveyors, he stated that asset management is the most effective way to keep rates reasonable. Because BAWSCA pays two-thirds of costs to the system, BAWSCA needs to work closely with San Francisco and find out if there is an asset management plan. If not, there needs to be a program in place so that BAWSCA is able to track asset management. The system is new and there is time for developing a plan. However, it is important to note that San Francisco is talking about maintaining assets now, and it is even more critical for BAWSCA to be involved in the process.

Director Mendall concurred.

Ms. Sandkulla agreed and reported that the WSA includes a commitment from San Francisco to provide BAWSCA an annual report of the Regional Water System. In this document, San Francisco reports the state of the system, the asset management plans and activities from the prior 2-years, forecasting for the following two years, and an assessment of all the facilities.

Ms. Sandkulla reported that BAWSCA will review the draft report and provide comments to SFPUC. The report was due in September 2014, but is being re-written to respond to BAWSCA's initial feedback that the Regional Water System refers to facilities upstream and downstream of Sunol Valley. The September 2014 draft of the report only addressed facilities from Sunol and west. The revised draft is due to BAWSCA at the end of December and will include the asset management plan for all Hetch Hetchy facilities.

Director Guzzetta stated that the report should show the assets, what their projected lives are, and what will be done to extend the life span of the facilities so that decisions that need to be made along the way can be made.

Director Mendall suggested that when San Francisco's draft report is received, there should be a discussion about how BAWSCA is going to oversee San Francisco's asset management plans. He stated that it could be a part of the discussion for developing the work plan. Whether the discussion is among a sub-group of the Board or by technical experts, it should be a deliberate decision by the Board to have the discussion.

Director Guzzetta added that it would be an enhancement to what BAWSCA is doing as far as monitoring San Francisco. It would be a more rigorous effort to address the oversight of SFPUC's management of the WSIP that is discussed every year during the work plan and budget development.

Director Weed noted concerns during the WSA negotiations that San Francisco was putting short asset and service lives on the systems and facilities that resulted to additional costs due to rapid depreciation.

Ms. Sandkulla explained that they were concerns in the old contract where wholesale customers paid for assets on a utility basis, or only once the projects are put into place. In the new WSA, wholesale customers pay on a cash basis, where wholesale customers pay cash as San Francisco spends the money to build the projects or repair the system.

Depreciation is not in the equation. There is no depreciation built into the current wholesale rates.

Ms. Sandkulla offered to circulate San Francisco's final report to the Board and invite San Francisco to make a specific presentation on the report to the BAWSCA Board.

Director Mendall agreed and stated that the presentation can initiate the Board's discussion.

Mr. Hurley reported that in BAWSCA's meetings with the project managers of the 10-year CIP, San Francisco has indicated their willingness to work with BAWSCA in developing new metrics that are more appropriate for tracking the progress of the 10-year CIP, while reflecting the most positive aspects of the WSIP reporting.

In response to Director Guzzetta's question, Ms. Sandkulla confirmed that San Francisco does have an asset management program.

8. Reports

A. Water Supply Update:

Ms. Sandkulla reported that collectively, BAWSCA member agencies are doing well in responding to the request for water use reduction.

Using charts from San Francisco, Ms. Sandkulla reported that total system storage as of December 7th is at 56%. Total storage without the water bank is 63.6%, which typically is at 70% at this time of the year.

Cumulative precipitation for the new water year starting in October is below median, but it could be above median after the current storm system.

Ms. Sandkulla presented a chart of historic precipitation in the facilities up-county and the Bay Area to show what months are the most productive. The months of December through March are the most productive with 4 to 6.5 inches of rain.

Ms. Sandkulla reported that the Hetch Hetchy reservoir and watershed typically gets the benefit of both the southern and northern storms and historically does well. But the current storm systems have been going north, so the Hetchy system is not doing as well as the other parts of the State so far. The effects of the storm have been seen more locally rather than up-country (in the Hetch Hetchy watershed).

Total deliveries continue to decrease, and remains below the 5-year average. Total water system savings continue to surpass the 8 billion gallon target.

Ms. Sandkulla emphasized that water saved today stays in the reservoirs and it is the extra savings today that could keep the region out of a mandatory rationing if conditions continue to stay dry.

The December precipitation has been a good start, but Ms. Sandkulla stated that the system has a long way to go to catch up. San Francisco continues to ask for the 10% water use reduction into 2015, and until further notice.

Director Weed noted that SCVWD is having a meeting on its recycled water project on December 11th in Palo Alto.

Ms. Sandkulla reported that Adrienne Carr will be attending that meeting representing BAWSCA.

B. Pilot Water Transfer Progress Report:

Mr. Hurley reported that the key elements of the Pilot Water Transfer are unchanged. The transfer amount is 1,000 AF over a 22-day period through the Hayward Intertie.

BAWSCA is working with Yuba County Water Agency (YCWA) as the potential seller. As part of recent State Water Board settlements, YCWA has a well-developed water transfer program with an annual water sales schedule and a supply allocation for the year, depending on the water year conditions. The existing program relies on significant environmental documents already in place. The supply will be a combination of pre-1914 water rights and other rights.

The initial point of diversion will be north of the Delta at East Bay Municipal Utility District's (EBMUD) Freeport Facility at the Sacramento River. The timing of the transfer is targeted in the Spring of 2015, but the windows are both the Spring and Fall of 2015, subject to the operation of the Freeport Facility and contributing factors.

Mr. Hurley presented a map showing the course of the water, and highlighting the key points of the transfer, which are the operation of EBMUD's Freeport Facility, wheeling through EBMUD's system to the BAWSCA service area via the Hayward Intertie.

Mr. Hurley reported that one of the issues that has developed as part of EBMUD's transfer with Placer County is the limitation of moving water through its upper San Leandro treatment facility given some operational factors and the capacity of the reservoir. Ultimately, water for the transfer has to be delivered in this facility for treatment.

Mr. Hurley further explained how the pilot water transfer is contingent upon outside actions. Implementation of the transfer is dependent on EBMUD's decision to operate the Freeport Facility. In early December, the EBMUD Board of Directors authorized the General Manager to initiate Freeport Operations as early as January 2015. That action also included the associated 14% rate increase. The approved rate increase is to operate the Freeport Facility and the January operational window will allow EBMUD to take delivery of their remaining CVP contract water for water year 2014. But, Mr. Hurley explained that EBMUD's ability to move the imported water will depend on demands and the capacity of upper San Leandro treatment facility.

Mr. Hurley explained that EBMUD has to move the remainder of their 2014 CVP water year deliveries before the end of February 2015, therefore, EBMUD will potentially be operating Freeport during January and February 2015. If local supplies feed into the reservoirs and take capacity, the ability to take water from outside sources will be limited.

If dry conditions continue, EBMUD will have to make a decision whether to take their 2015 water year supplies from CVP early in the Spring. If so, the period of operation for the Freeport Facility could continue after February 2015 and can be anticipated to continue through April 2015.

Furthermore, Mr. Hurley reported that other agencies have approached EBMUD about potential water transfers similar to BAWSCA's. This further provides a potential extension for operation of the Freeport Facility.

BAWSCA will continue to monitor developments in demands and local precipitation, which have become critical driving forces for how long the operation of the Freeport Facility extends.

Additional contingencies for the Pilot Water Transfer are San Francisco's water shortage condition, and availability of supplies from YCWA. Mr. Hurley reported that the supplies may be available in March, but with much more certain in April through May. He explained that the YCWA accord has scheduled releases along the Yuba River that vary depending on water year conditions. In addition, CVP and the State Water Project must be in operation to meet specific water quality targets. These are the key factors that will determine supply availability in the Spring and Fall of 2015.

BAWSCA continues to work with the SFPUC, YCWA and EBMUD to finalize the necessary agreements. Mr. Hurley noted that while the agreement with San Francisco is near completion, it will be finalized upon completion of all the other agreements.

Meetings have been held with YCWA and EBMUD to discuss the risks associated with the transfer, essentially in the wheeling. Bi-weekly meetings continue with the City of Hayward to better understand the city's operational and system concerns as well as the benefits to the city from the pilot transfer. The meetings have been helpful in realizing the complexity of the transfer and the issues that come with the transfer under a controlled environment as opposed to forced conditions.

The pilot water transfer will have impacts on the pressures and flows in Hayward's system, particularly with the fire flows, which is of concern due to liability issues. High pressure areas under normal conditions will have low pressure during the pilot water transfer, and vice versa. Water quality differences may also occur during the pilot water transfer.

The meetings between Hayward and BAWSCA have been focused on understanding those impacts and have resulted to the execution of a cooperative agreement between the two agencies. The agreement documents the benefits to both agencies, as well as the roles and responsibilities of both parties under preliminary planning work.

Prior to execution of the pilot water transfer, BAWSCA and Hayward have agreed to conduct a planning analysis of Hayward's system hydraulics and fire flows during the pilot water transfer. The cost of this study will be shared by both parties. Continued discussions and the results of the technical analysis will be critical to reaching mutual understanding and the level of comfort necessary to developing an agreement.

Activities leading to the potential implementation of the Pilot Water Transfer include the operation of the Freeport Facility beginning January 3, 2015. The SFPUC will review the drought conditions during the months of January as BAWSCA continues its work to finalize the necessary agreements and environmental documents between December and February 2015.

Provided that all necessary documents and conditions are in place, the BAWSCA Board and each of the agency's governing body can potentially consider authorization of the Pilot Water Transfer in March for implementation in the Spring window. Assessment of conditions for execution in the Fall window will continue.

Director Mendall asked if there was a preference between the Spring and Fall windows.

Ms. Sankdulla explained that it is more a matter of timing. The April window is dependent on water conditions that are developing, and therefore will be a rapidly changing window. The Fall window is a bit more controlled, with more known information on water supply conditions. However, Spring should not be missed if all conditions allow for the execution.

Mr. Hurley stated that one of the things that BAWSCA is learning with the Pilot Water Transfer and the Strategy is the benefit to BAWSCA's member agencies if there was a storage mechanism that will provide some flexibility over the available supply, and alleviate the dependency on the operations of multiple outside entities.

As BAWSCA completes the Strategy and puts focus on dry year supplies, a groundwater storage program, surface water storage program, or other a mechanism by which BAWSCA can control water when it is available, will be investigated. He added that BAWSCA's MOU with SCVWD and discussions with EBMUD have included considerations for potential options water storage.

Director Weed noted the Dumbarton Quarry as a potential reservoir that can store 2500 to 3000 AF of water. He hopes that the Water Quality Control Board can re-consider their determination for the use of the quarry.

In response to Director O'Connell's question, Ms. Sandkulla stated that March will be the soonest the Board can make a decision to authorize the execution of the Pilot Water Transfer. Critical factors are still developing and parameters will not be finalized by the January Board meeting.

C. Long-Term Reliable Water Supply Strategy:

Mr. Hurley stated that the goal for the presentation is to prepare the Committee for reviewing the final Strategy document, which will be ready by the end of December.

The presentation was prepared to put focus on the analysis and findings, and the prioritization of the different projects examined. This approach is to provide the basis for discussion and to initiate the thought process for considering the implementation factors of the plan. Staff anticipates input from the Committee and from the Board when the presentation is given to the Board in January.

The review of projects has been comprehensive and thorough with Phase I, Phase IIA, and Phase II Final.

To describe the framework for evaluating the potential projects in the final report, Mr. Hurley briefly reviewed the development of the Strategy and how it got to its current form.

He stated that Board discussions guided the development of what the project or suite of projects should achieve under what criteria and metrics. The objectives developed were broad. An example was to increase water supply reliability. But the criteria were specific, to have the ability to meet drought year supply needs. The metrics developed to measure the potential benefits of a project were both quantitative and qualitative, each with a scale of 1-5, with “5” being best.

Mr. Hurley explained that the score of “5” can reflect a minimum impact or a maximum contribution.

Mr. Hurley stated that it is important to understand what factors were considered at the beginning, and how some of them played out in affecting the scoring.

Six objectives provided a diverse set of criteria that were used to evaluate projects. The objectives include increased supply reliability, high level of water quality, minimized cost of new supplies, reduced potable demand, minimized environmental impacts of new supplies, and increased implementation potential of new supplies.

Following evaluation of various projects, projects under consideration fall into five types which include recycled water, groundwater desalination, water transfers, and local capture and reuse via graywater and rainwater capture.

Mr. Hurley explained that given the relatively small yields, recycled water shows no significant role in meeting dry year demands for BAWSCA member agencies at this time. Additionally, Redwood City’s existing recycled water line currently has no project analysis or demand for extension. The lack of data makes it difficult to compare that project on the same basis as other potential projects. This is similar with the local capture and reuse project. There is not enough data available to include in a quantitative metric to score it against other alternatives. Those projects will continue to be monitored, however, and will remain in the list of potential projects for future analysis.

Under an equal weighted analysis, projects were evaluated using all 13 criteria, and given a score of 1-5 for each criteria. The maximum score of any project is 100. Based on the assumption that all criteria are equal, no project appeared superior to others in this analysis.

A sensitivity analysis provided more clarity in identifying strong projects that can perform highly across a range of criteria. The analysis compared the projects across a range of priorities and preferences. All criteria were used, but each criterion was weighted so that they are not of equal importance. The weighting factors were developed based on different criteria or groups of similar objectives.

The objectives for the seven sensitivity analyses included 1) drought supply, 2) cost, 3) drought supply and cost, 4) environmental issues, 5) local control, 6) drought supply, cost, environmental issues, and local control, and 7) drought supply, cost, and regulatory vulnerability.

The results of the analysis shows Water Transfers as the highest scoring project to meet the objectives of drought supply, cost, environmental issues, local control, and regulatory vulnerability. Sunnyvale’s groundwater project is the high scoring project for meeting the objective of cost. Graywater reuse meets the objective of environmental issues, and open bay desalination meets the objective of local control.

Committee discussions ensued.

Mr. Hurley reminded the Committee that the analysis of the projects was to evaluate and determine what existing or potential projects provided a regional benefit in which BAWSCA can play a significant role in implementing on behalf of the member agencies. More than 65 existing and potential projects were submitted by the member agencies. These projects were evaluated based on the objectives, criteria and metrics developed in the past 3 years.

Ms. Sandkulla added that there are recycled projects that agencies were not interested in expanding outside of their local areas, and therefore, were not evaluated in the Strategy. However, if agencies have interest in expanding their recycled projects in the future for the benefit of the region, those projects can always be included in the mix. This is anticipated for any project even after the release of the final report.

Director Weed suggested to have a clarification of the parameters for the projects, and describe what projects were not included. He appreciates the recognition of the variable on the seasonal demand in a drought year, and that the drought may be the new normal. Lastly, he commented that contingency water supply may be worth some element of discussion at the end of the report to address prolonged outage of the San Francisco Water system.

Ms. Sandkulla stated that it was a deliberate decision not to include contingent water supply in the scope of the analysis for the Strategy given the significant investment into the SF Regional Water System and achieving the resulting level of service which the critical and necessary reliability following an earthquake or other disaster.

Director Mendall asked about the inclusion of the time it takes to implement a project as a criteria, and noted the importance of knowing how the various projects scored on all the criteria. It is important to present all the information for the board to collectively decide about what projects are important to consider.

Ms. Sandkulla stated that the final report will include all the projects that were evaluated. She stated that not all the projects evaluated meet the region's needs. The intention is to have a portfolio of projects that shows what projects continue to rank high and why, under the different combinations of the criteria.

Director Guzzetta expressed his concern with how rainwater harvesting showed up at the top in the equal weighting analysis. He questions the methodology because rainwater harvesting does not need a threshold of scalability or being feasible. Secondly, the analysis is dynamic. Projects are being analyzed as they are developing. The biggest change during the process is the change in demand, which moved from normal year supply to dry year supply. Director Guzzetta asked if it make sense to look at the grouping of projects and consider them as the items to classify in the graphs.

Ms. Sandkulla stated that the purpose of the graphs is to present how each projects rank by themselves.

Director Breault expressed his concern that the presentation leads to a conclusion that the group of projects are the best group of projects and the primary concern is the environment.

Ms. Sandkulla explained that none of the projects will be the single best answer in meeting the region's needs. As evidenced by the pilot water transfer, water transfers are not an easy thing to do. The solution will be some combination of several projects. A preview of what the recommended action for the board might be may include moving forward with the pilot water transfer with SCVWD, looking for a partner on brackish water desalination, and encouraging agencies to do graywater and rainwater harvesting. Ms. Sandkulla noted that if local capture and reuse is what the agencies' customers will respond to, the agencies may choose to support that.

In the interest of continuing the discussion, the Committee voted unanimously to extend the meeting by 30 minutes. Director Breault made a motion, seconded by Director O'Connell.

Director Guzzetta questioned why groundwater was preferred for cost but not drought supply.

Ms. Sandkulla explained that the board agreed to not overtake individual agency's projects or do a project that an agency did not want to do. In searching for projects, every agency that has groundwater expressed no interest in putting their project in the mix, except for the City of Sunnyvale. Sunnyvale's project, however, is a small project of 2 mgd. This small yield does not address the drought supply need significantly and therefore, scored poorly in this area. This makes the development with the potential pilot water transfer with SCVWD so critical.

Director Breault stated that the development of a portfolio from the various projects evaluated is key. The presentation of the projects is to describe the projects considered, which projects ranked high, and which combination of projects show potential for meeting the needs of the region.

Ms. Sandkulla stated that in putting the final recommendations, staff will identify what actions will address the critical issue and provide benefit. Graywater and rainwater is an area where many agencies have welcomed a regional voice to push the effort. While it will not solve the problem, it has the interest and can provide benefit to the region.

Director Mendall closed the discussion by re-stating the importance of presenting the detailed information that leads to the final recommendations. Going directly to the recommendations will initiate questions from board members about how point B was reached.

He further stated that the Strategy has been in development for 3 years, and the point was to provide the Board with enough information to make an intelligent decision, force the Board to debate, and come to a collective decision. By those criteria, BAWSCA is on the right track. The committee discussions had a thorough debate over a good foundation of information.

D. CEO/General Manager's Letter:

Ms. Sandkulla stated that she has no addition to what was reported on the CEO's letter.

E. Board Policy Committee Calendar:

Ms. Sandkulla reported that the next several months will focus on the budget, the strategy and potentially implementation of the pilot water transfer.

9. **Comments by Committee Members**. There were no comments by Committee members.

10. **Adjournment**: The meeting was adjourned at 4:13pm. The next meeting is February 11, 2015.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – December 10, 2014

Roster of Attendees:

Committee Members Present

Al Mendall, City of Hayward (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
John Weed, Alameda County Water District

Committee Members Absent

Charlie Bronitsky, City of Foster City (Vice Chair)
Barbara Pierce, City of Redwood City
Louis Vella, Mid-Peninsula Water District

BAWSCA Staff:

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

Public Attendees:

Michele Novotny San Francisco Public Utilities Commission

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

**November 20, 2014 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:05 pm

BAWSCA Vice-Chair, Randy Breault, called the meeting to order and led the salute to the flag. Nicole Sandkulla called the roll. Sixteen (16) members of the Board were present, constituting a quorum. A list of Directors present (16) and absent (10) is attached.

2. Comments by the Chair: There were no comments by the Vice-Chair.**3. Board Policy Committee (BPC) Report:** Director Mendall reported the discussions and actions taken by the Board Policy Committee at its meeting on October 8, 2014.**4. Public Comments:** There were no public comments.**5. Consent Calendar:**

Director Richardson made a motion, seconded by Director Quigg, to approve the September 18, 2014 Minutes, authorize the CEO/General Manager to negotiate and execute a contract amendment with PG&E for the washing machine rebate program and offer participation in the program to BAWSCA member agencies through December 31, 2015, authorize the agreement to implement grant funding for regional water conservation program, receive and file financial reports including the Budget Status Report, Directors' Reimbursement Report, Investment Report, and Bond Surcharge Collection, Account Balance and Payment Report as of September 30, 2014, the annual audit report for BAWSCA and compilation report for BAWUA for FY 2013-14.

The motion carried unanimously.

6. Action Calendar:**A. Annual Review and Consideration of BAWSCA's Statement of Investment Policy**

Director Quigg made a motion, seconded by Director Mendall, that the Board re-affirm the current Statement of Investment Policy.

The motion carried unanimously.

B. Annual Review and Consideration of BAWSCA's General Reserve Policy

Director Laporte made a motion, seconded by Director Chambers, that the Board re-affirm the current General Reserve Policy.

The motion carried unanimously

7. SFPUC Report:

SFPUC General Manager Harlan Kelly addressed the Board. He thanked BAWSCA Chair Irene O'Connell for attending and speaking at the October 28th SFPUC meeting. He noted that the Commissioners appreciated her statement, and that Commission President Ann Caen hopes to attend the next BAWSCA Board meeting to address the Board as Chair. O'Connell addressed the Commissioners.

Mr. Kelly noted the importance of SFPUC and BAWSCA's partnership, and reported that a recent article in the Municipal Water and Sewer Magazine about the Water System Improvement Program (WSIP) did not provide a clear history of the program drivers. As a result, he and Ms. Sandkulla discussed how the SFPUC and BAWSCA can have, moving forward, a coordinated effort to provide inquiring reporters information intended for publication.

Dan Wade, Water System Improvement Program Director, presented a progress report on the WSIP, including status of 2 pre-construction projects, the Regional Groundwater Storage and Recovery Project, the Calaveras Dam Replacement Project, and 4 regional projects that remain in construction (the Peninsula Pipeline Seismic Upgrade, the Bay Tunnel, the Seismic Upgrade of Bay Divisions #3 and #4, and the Irvington Tunnel).

Steve Ritchie, Assistant General Manager of Water Enterprise, provided a water supply conditions and drought update. He reported that the customers of the regional water system exceeded the 8 billion gallons of targeted water savings.

Mr. Ritchie talked about the significance of the Don Pedro water bank. He clarified that only the irrigation districts can withdraw from the water bank, and how the water bank was key to fulfilling San Francisco's obligations to the irrigation districts water supply needs during the 2014 water year.

The 10% voluntary water use reduction will continue into 2015. San Francisco evaluated three hydrologic modeling scenarios to determine the types of actions and measures necessary to get through on-going dry conditions. The scenarios were based on an average year, and the historical dry years of 2007 and 1977. A hydrology model based on 2007 would maintain a 10% demand reduction, while the 1977 hydrology would require a 20% demand reduction with considerations of alternative water supply options.

Mr. Ritchie stated that extremely dry conditions can result in potential State and Federal declarations of emergency, Statewide mandatory rationing, widespread diversion curtailments and water re-allocation, suspension of certain environmental protection laws, and significant development of projects converting non-potable water to potable.

8. Reports:

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

Ms. Sandkulla reported that the January Board meeting will include the final report on the Strategy, a report on the mid-year budget review and an analysis of the General Reserve. She reported that several areas of work have expanded beyond the work plan for the current

year and will result to the budget being fully expended. This will have an impact on the balance of the General Reserve at the end of the fiscal year.

BAWSCA continues to work with San Francisco and its member agencies on water conservation programs and a cohesive message that water saved today is water for the future.

Ms. Sandkulla reminded Board Members that BAWSCA will host an AB1234 training on December 15th.

9. Directors' Discussion: There were no comments from the Board Members.

10. Date, Time and Location of Next Meeting: The next meeting is scheduled on January 15, 2015 in the Wind Room, Foster City Community Center.

11. Adjournment: The meeting adjourned at 8:55pm.

Respectfully submitted,

Nicole M. Sandkulla
Chief Executive Officer/General Manager

NMS/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
November 20, 2014

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
Charlie Bronitsky	City of Foster City
Tom Chambers	Westborough Water District
Rob Guzzetta	California Water Service Company
Kirsten Keith	City of Menlo Park
Marty Laporte	Stanford
Jerry Marsalli	City of Santa Clara
Al Mendall	City of Hayward
Chris Mickelsen	Coastside County Water District
Rosalie O'Mahony	City of Burlingame
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Sepi Richardson	City of Brisbane
John Weed	Alameda County Water District

Absent:

Ruben Abrica	City of East Palo Alto
Armando Gomez	City of Milpitas
Michael Guingona	City of Daly City
Mike Kasperzak	City of Mountain View
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
Gustav Larsson	City of Sunnyvale
Irene O'Connell	City of San Bruno
Chuck Reed	City of San Jose
Louis Vella	Mid-Peninsula Water District

BAWSCA

Bay Area Water Supply & Conservation Agency

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

TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes

DATE: January 7, 2015

SUBJECT: Budget Status Report as of November 30, 2014

This memorandum shows fiscal year budget status for FY 2014-15. It includes major areas of spending, provides an assessment of the overall budget, and summarizes reserve fund balances. This report covers the budget and expenses for BAWSCA. The BAWSCA budget includes necessary resources for the RFA and BAWUA.

Operating Budget Summary:

For the five month period ending November 30, 2014, 42 percent into the fiscal year, total expenditures were \$1,293,538 or 44 percent of the total budget of \$2,939,286.

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

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	770,162	196,192	25%
Fair Pricing	287,000	278,001	97%
Administration	85,300	45,706	54%
Subtotal	1,142,462	519,899	46%
Administration and General			
Salary & Benefits	1,439,324	661,492	46%
Other Expenses			
BAWSCA	295,000	111,854	38%
BAWUA	1,100	0	0%
Subtotal	2,877,886	1,293,245	45%
Capital Expenses	2,500	0	0%
Budgeted Contingency	57,500	0	0%
Regional Financing Authority	1,400	293	21%
Grand Total	2,939,286	1,293,538	44%

Overview:

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

Consultants

The \$125,000 budget for technical review and tracking of the SFPUC's Water System Improvement Program was 33 percent expended. The Operating Budget allocation of \$150,000 for strategic counsel was 37 percent expended. The Operating Budget allocation of \$524,000 budget for legal counsel was 62 percent expended, reflecting the significant efforts at the beginning of this fiscal year and the successful settlement negotiation of the FY 2010-11 Wholesale Revenue Requirement. The \$148,162 budget for water management and conservation-related activities was 28 percent expended.

Administration and Other Expenses

Budgets for salaries and other expenses were 46 and 38 percent expended, respectively.

Use of CEO's Discretionary Spending Authority:

In December, the CEO entered into two agreements. One agreement was with the City of Hayward in the amount of \$12,500, which is BAWSCA's share for technical investigation work related to the Pilot Water Transfer Plan. The other agreement in the amount of \$12,000, was with the City/County Association of Governments of San Mateo County (C/CAG) for conservation outreach activities. Funds for the two agreements were included in the adopted FY 14-15 budget.

Use of Reserve and Reserve Fund Balance:

Though expenditures in FY 2013-14 were within the approved budget, revenue realized by June 30, 2014 was less than actual expenses. The net result is such that no funds were available to deposit into the General Reserve with the close of FY 2013-14. This information became available upon completion of BAWSCA's audited financials for FY 2013-14. There have been no accretions or deletions to the General Reserve Fund for the period 9/30/14 – 11/30/14.

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 09/30/14)	Account Balance (As of 11/30/14)
General Reserve	\$521,897	\$521,897

Long-Term Reliable Water Supply Strategy and Use of Water Management Charge:

Phase 2 of the Long-Term Reliable Supply Strategy (Strategy) began FY 2010-11. Funding is provided through the Water Management Charge, approved by the Board in July 2010. All Water Management Charge revenue, totaling \$2,321,998 has been collected by the SFPUC and received by BAWSCA. Expenditures for strategic and legal support of the Long-Term Reliable Water Supply Strategy are within their respective budgets. Consultant invoices received and paid through November 30, 2014 total \$1,723,261.



Bay Area Water Supply & Conservation Agency

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(650) 349-3000 tel. (650) 349-8395 fax

MEMORANDUM

TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes, Office Manager

DATE: January 8, 2015

SUBJECT: Investment Report – As of December 31, 2014

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

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

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

<u>09/30/14</u>	<u>12/31/14</u>
\$1,777,661	\$1,591,661

Of the total in the BAWSCA LAIF account as of December 31, 2014, \$521,897 represents BAWSCA's General Reserve Fund, equivalent to approximately 18 percent of FY 2014-15 Operating Budget. This amount is subject to any final changes to the General Reserve that were previously authorized by the Board for FY 2014-15 but not yet executed. The remaining amount consists of Subscription Conservation Program funds, Water Management funds and unrestricted funds.

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

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

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Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes, Office Manager

DATE: January 6, 2015

SUBJECT: Directors' Reimbursement Quarterly Report for the Period Ending
December 31, 2014

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

There were no director expenses reimbursed for the quarter ending December 31, 2014.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

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

Summary:

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

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

Fiscal Impact:

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

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

Board Policy Committee Action:

The Committee voted unanimously to recommend the proposed Board action.

Recommendation:

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

Prior Board Approved Budget Actions for FY 2014-15

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

The existing budget for the Long-Term Reliable Water Supply Strategy funded by the Water Management Charge, remains sufficient to complete that study. With the completion of the Final Strategy report this month, it is anticipated that surplus funds will remain from the Water Management Charge. An estimated fund balance and alternatives for board consideration of use of these funds will be presented and discussed as part of the FY 2015-16 Work Plan and budget adoption process. The subscription water conservation programs are separately funded with revenues from participating member agencies.

Discussion:

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

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

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

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

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

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

- Table 1 presents progress toward selected FY 2014-15 projected results.
- Table 2 presents progress on the complete Work Plan, and identifies the single recommended Work Plan change.

Recommended Work Plan Modification

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

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

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

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

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

The budget review resulted in projected expenditures being on target with the approved budget with some areas of slower than anticipated or otherwise reduced work load being offset by increases in other areas. This review included a thorough evaluation of Salaries and Benefits. At this time, it is estimated that the Operating Budget will be fully spent this fiscal year.

Legal Counsel's expenses to date are higher than planned due to significant effort in the last several months to secure the recent settlement with the SFPUC. It is possible that a budget increase for the contract with Hanson Bridgett will be necessary to accomplish the critical work necessary for this fiscal year. The CEO will work closely with legal counsel to closely manage the available budget and minimize any budget increase that might be necessary. The CEO will report to the Board in March 2015 and May 2015 on this item.

Capacity to Accommodate Potential or Unanticipated Issues

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

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

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

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

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

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

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

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

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

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

line of credit as an alternative for providing financial reserves for the agency if needed. Consideration of such action will be included in the FY 2015-16 budget adoption and funding process.

Alternative Modifications to FY 2014-15 Adopted Work Plan to Reduce Current Year Costs to Benefit Overall General Reserve Balance

During the Board Policy Committee, further detail was requested concerning the potential for eliminating or deferring work this fiscal year to reduce this fiscal year's overall expenses. For this analysis, consultant expenses not otherwise tied to a binding agreement between BAWSCA and some other entity (e.g. legal and other expenses related to recent settlement with SFPUC, administration of BAWSCA bonds), were evaluated. The possible areas where consultant expenses can be reduced for the balance of this fiscal year are the following:

- Eliminate technical expertise and support provided by Terry Roberts in reviewing SFPUC's WSIP, including review of Calaveras Dam and other WSIP projects. Potential cost savings \$48k.
- Eliminate technical expertise and support provided by Terry Roberts in reviewing SFPUC's 10-Year CIP including the Mountain Tunnel Project, currently the single largest capital project in the 10-year CIP. Potential cost savings \$21k.
- Eliminate BAWSCA's participation in the FERC proceeding on New Don Pedro project for FY 2014-15, including elimination of legal support for this item. Potential cost savings \$40k.
- Eliminate Spring 2015 Residential Landscape Classes. Potential cost savings \$18k

These reductions are not recommended at this time given the significant impact these reductions would have on the overall results that will be completed this fiscal year and the long-term negative impact to critical issues that BAWSCA addresses on behalf of the member agencies.

Attachments:

- Table 1. Work-Plan Progress Toward Selected FY 2014-15 Projected Results
- Table 2. FY 2014-15 Work Plan and Results to be Achieved: Changes and Progress

Table 1. Work-Plan Progress Toward Selected FY 2014-15 Projected Results

Task	Status
1. Completion of BAWSCA's Long-Term Reliable Water Supply Strategy Phase II Final Report.	✓
2. Projects to improve drought reliability, including monitoring and documenting water use in the service area.	★
3. Support members efforts to develop required 2015 Urban Water Management Plans.	●
4. Implementation and measurement of regional water conservation programs.	★
5. Monitoring progress and making recommendations for the WSIP and 10-Year CIP.	★
6. Legislative extension of state oversight for the WSIP.	✓
7. Legal and technical monitoring and intervention in FERC re-licensing of New Don Pedro.	●
8. Additional protections for constituents' water supply and financial interests in administration of the 2009 WSA.	★
9. Pursuit and use of awarded California grants for conservation programs and applications for new ones.	★
10. Administration of BAWSCA's bonds to prepay capital debt to San Francisco.	★
11. Coordinate input to goals and objective for future examination of alternative wholesale water rate structures.	!
12. Tours of member agencies' facilities to explain potential supply projects.	★
13. Professional management of BAWSCA.	★

✓ Complete	★ Ongoing & On Schedule	● Experiencing Delay	! Needs attention
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Table 2. FY 20-14-15 Work Plan and Results to be Achieved

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

RELIABLE SUPPLY - WATER SUPPLY MANAGEMENT PROGRAM

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

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

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

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

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

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

7. Reporting and Tracking of Water Supply and Conservation Activities

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

FAIR PRICE

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

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

HIGH QUALITY WATER

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

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

AGENCY EFFECTIVENESS

10. Maintain Community Allies and Contacts with Environmental Interests

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

11. Manage the Activities of the Agency Professionally and Efficiently

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Fiscal Year 2015-16 Work Plan and Budget Preparation**

Summary:

The development of the preliminary work plan for fiscal year 2015-16 begins by compiling a list of major challenges that BAWSCA, its member agencies, and their water customers will face next fiscal year, and between now 2040. This long-term perspective helps anticipate and identify the results that must be achieved during FY 2015-16. A preliminary list of challenges as updated for the FY 2015-16 budget process appears as Table 1.

Recommendation:

This item is for Board discussion only. There is no action requested at this time. The CEO/General Manager will discuss the list of challenges with the Board, as done with the Board Policy Committee, to clarify issues and receive their advice prior to Work Plan and budget development.

Discussion:

As in prior years, the preliminary budget will be developed to provide the resources needed to achieve necessary results. Emphasis is placed on the most vital results that need to be achieved in order to provide reliability and high quality water at a fair price. Activities that are secondary to those goals may be noted but are not incorporated into the budget.

A preliminary list of challenges appears in Table 1. Some of the challenges may affect BAWSCA or its members directly. Other challenges will have indirect, but nonetheless important consequences, and require action by BAWSCA to protect the interests of BAWSCA, its member agencies and their customers.

Some of the items listed are not locked to a specific year. While the schedules for those items may be shifted forward or backward, the changes should not be made arbitrarily.

Funding Considerations for the FY 2015-16 Operating Budget

BAWSCA assessments were increased by 5% (or \$125,841) in FY 2014-15 following 5 years of no assessment increases. During that same period, the General Reserve was used to fund specific, one time projects as well as a portion of the operating budget.

Given the estimated General Reserve balance at the end of FY 2014-15, a full analysis of the General Reserve will be included in FY 2015-16 budget development and approval process. Funding the FY 2015-16 budget will need to include consideration of an assessment increase to ensure recovery of the General Reserve to within the adopted guideline.

For example, assuming a zero increase in the Operating Budget of \$2,939,286 in FY 2015-16,

- the FY 2015-16 assessments would need to increase by 11.2% (or \$296,633) just to fully fund the operating budget; and

- an additional increase in the FY 2015-16 assessments of 12.3% (or \$362,396) would be required to replenish the General Reserve to meet the minimum guideline.

Alternatives to solely increasing the assessments to fund the Operating Budget are being investigated and will be presented as part of the budget development discussions. For example, with the completion of the Long Term Reliable Water Supply Strategy and release of the final report in January 2015, there will be cost savings realized in the overall planning effort as a result of the scope revisions adopted in Fall 2013. One consideration is to use the available remaining funds from the Water Management Charge, collected separately by the SFPUC from the member agencies as authorized by the Board in July 2010, to repay other Strategy expenses, e.g. the Regional Demand Study, that were previously funded via the BAWSCA Operating Budget and General Reserve.

In addition, BAWSCA has initiated discussions with its bank regarding the potential for the agency to secure a line of credit as an alternative for providing financial reserves for the agency if needed. Consideration of such action will be included in the FY 2015-16 budget development, adoption, and funding process.

Table 1. Future Challenges Facing BAWSCA, Member Agencies and Their Customers (Preliminary)

Year or Period	Major Challenges or Issues
FY 2015 - 2016	<ul style="list-style-type: none"> • Protect BAWSCA member agencies from severe supply shortages and resulting excessive economic impacts. • Amend Tier 1 drought allocation formula with San Francisco. • Assist agencies during drought to achieve necessary reductions and meet regulatory and other obligations. • 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. • Represent member agencies in Federal relicensing of New Don Pedro and to protect SFPUC supplies (2016). • Monitor WSIP implementation to protect interests of member agencies and take steps necessary to ensure all adopted Level of Service goals are achieved. • Monitor SFPUC's development and implementation of its 10-Year CIP to ensure protection of water supply and financial interests of the water customers. • Monitor SFPUC's asset management program to ensure ongoing maintenance and protection of RWS assets. <p>1</p> <ul style="list-style-type: none"> • Enforce the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting commitments. • 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 2019	<ul style="list-style-type: none"> • Protect BAWSCA member agencies from severe supply shortages and resulting excessive economic impacts. • 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. • Ensure new water supplies are on line to meet future needs that are not met by San Francisco. • 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

	<p>Customers and whether or not to increase the perpetual Supply Assurance by 2018.</p> <ul style="list-style-type: none">• Represent member agencies in Federal relicensing of New Don Pedro and to protect SFPUC supplies (2016).• Monitor WSIP implementation to protect interests of member agencies and take steps necessary to ensure all adopted Level of Service goals are achieved. Scheduled completion March 2019.• Monitor SFPUC's development and implementation of its 10-Year CIP to ensure protection of water supply and financial interests of the water customers.• Monitor SFPUC's asset management program to ensure ongoing maintenance and protection of RWS assets.• Ensure San Francisco maintains its Tuolumne River water rights.• Protect customers from legal and legislative efforts to draining Hetch Hetchy that disregard their interests in reliability, quality and cost.• Enforce the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting commitments.
2019 to 2025	<ul style="list-style-type: none">• Protect BAWSCA member agencies from severe supply shortages and resulting excessive economic impacts.• Ensure new water supplies are on line to meet future needs that are not met by San Francisco.• Monitor SFPUC's development and implementation of its 10-Year CIP to ensure protection of water supply and financial interests of the water customers.• Monitor SFPUC's asset management program to ensure ongoing maintenance and protection of RWS assets.• Ensure San Francisco maintains its Tuolumne River water rights.• Protect customers from legal and legislative efforts to draining Hetch Hetchy that disregard their interests in reliability, quality and cost.• Enforce the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting commitments.• SF elects Mayor in 2019 and 2023.
2026 to 2040	<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.• Enforce the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting commitments.• SF elects Mayor in 2027, 2031, 2035, and 2039.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

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

Summary:

BAWSCA has completed the Long-Term Reliable Water Supply Strategy Phase II Final Report (Report), which identifies potential water management projects and programs to meet the projected water reliability needs of its member agencies through 2040. This memo, along with the attached Report Executive Summary, provide a summary of the Report's findings and recommended actions, plus an overview of the Board's review process in the coming months as the recommended actions are considered for inclusion in BAWSCA's FY 2015-16 Work Plan and Budget.

This item is for discussion only and is intended to provide the Board with an initial opportunity to comment on and ask questions about the Report's findings and recommended actions. The presentation to the Board will (1) convey key Report findings and recommended actions, (2) prepare the Board as it begins its review of the Report and considers the recommended actions, and (3) present next steps for Board action.

Recommendation:

This item is for discussion purposes only. No action is recommended, however Board members are invited to comment on and ask questions about the Report's findings and recommended actions.

Discussion:

In 2009, BAWSCA launched the Long-Term Reliable Water Supply Strategy (Strategy) to provide a comprehensive, regional assessment of the BAWSCA member agencies' water supply reliability needs, complete an evaluation of potential water management actions that could be implemented to meet these needs, and identify potential actions for consideration by the BAWSCA Board to achieve an increased level of regional reliability.

Key Findings in the Strategy Phase II Final Report

Based on previous analysis and BAWSCA member agency input, 10 viable projects were selected for extensive evaluation during the final stage of Phase II. These projects were chosen based on their ability, either individually or in combination, to address the identified reliability needs of the BAWSCA service area.

The Report identifies the following key findings from the demand analysis and the project evaluation analysis:

- There is no longer a normal year supply shortfall.
- There is a drought year supply shortfall of up to 43 mgd.
- Water transfers consistently score high and should represent a high priority for BAWSCA activities going forward;
- Desalination provides sizable yield, but its high costs and extensive permitting requirements make it a poor option to meet only dry year needs and thus would require a program partner to make such a project cost effective; and
- Other projects provide tangible, though limited regional benefits in reducing dry year shortfalls.

Recommended Actions

Based on these findings, the Report recommends the following five actions for BAWSCA:

1. Lead water transfer development and implementation including identifying and evaluating water storage options;
2. Facilitate desalination partnerships and pursue outside funding for related studies;
3. Support agency-identified projects (i.e., recycled water and groundwater) and local capture and reuse;
4. Participate in regional planning studies in cooperation with others; and
5. Continue monitoring regional water supply investments and policies.

These five recommended actions are consistent in scale and cost with previous BAWSCA activities.

Next Steps:

The following is an overview of the proposed Board process to review the Report's findings and consider the recommended actions:

January

- Presentation of results at January Board Meeting
- Board initial review of findings and recommended actions

January/February

- Incorporation of recommended actions into FY2015-16 Work Plan and Budget
- Presentation of preliminary Work Plan and Budget to BAWSCA Board Policy Committee

March

- Board feedback on recommended actions and proposed level of effort

April/May

- Incorporation of recommended actions into proposed FY2015-16 Work Plan and Budget
- Possible separate action by Board adopting recommended actions

Attachment:

1. Executive Summary, Long-Term Reliable Water Supply Strategy Phase II Final Report

Long-Term Reliable Water Supply Strategy

Phase II Final Report: Executive Summary

The Bay Area Water Supply and Conservation Agency's (BAWSCA's) water management objective is to ensure that a reliable, high-quality supply of water is available where and when people within the BAWSCA member agency service area need it. The purpose of the Long-Term Reliable Water Supply Strategy (Strategy) is to quantify the water supply reliability needs of the BAWSCA member agencies through 2040, identify the water supply management projects and/or programs (projects) that could be developed to meet those regional water reliability needs, and develop an implementation plan for the Strategy. Successful implementation of the Strategy is essential to ensuring that there will be reliable water supplies for the BAWSCA member agencies and their customers in the future. The Strategy findings and five recommended actions are presented in this Executive Summary and the report.

ES.1 Strategy Initiated to Address Key Water Reliability Issues

BAWSCA initiated work on the Strategy in 2009 in response to the following:

1. Demand forecasts by the BAWSCA member agencies, as part of their 2005 Urban Water Management Plans (UWMPs) and other planning documents, suggested that additional water management actions (i.e., increased supplies and/or reduced demands) would be needed to meet then-projected normal and drought year demands.
2. In October 2008, the San Francisco Public Utilities Commission (SFPUC) made the unilateral decision to establish a 184 million gallon per day (mgd) limitation on what the BAWSCA member agencies could purchase collectively from the San Francisco Regional Water System (SF RWS) through at least 2018.
3. In October 2008, SFPUC adopted an 80 percent level of service (LOS) goal for the SF RWS. Based on the rules for drought allocation between SFPUC and the Wholesale Customers, this results in up to a 26 percent cutback, in aggregate, to the BAWSCA member agencies during droughts. This could reduce annual business sales in the BAWSCA and SFPUC service areas by \$2.0 billion (B) per year of drought.

In this Executive Summary:

- ES.1 Strategy Initiated to Address Key Water Reliability Issues
- ES.2 While Normal Year Supply is Adequate to 2040, Drought Year Shortfalls are Significant
- ES.3 SFPUC Supply Shortfalls Can Have Significant Economic Impacts to the BAWSCA Member Agencies and Region
- ES.4 Several Viable Projects Have Been Identified That Together Can Reduce the Drought Year Shortfall
- ES.5 Analysis of Individual Projects and Portfolios Converge on Identical Priorities
- ES.6 Evaluation Results Identify the Need to Balance Risks and Invest in Further Information
- ES.7 Recommendations

4. The reliability of the SFPUC supply could also be adversely affected by climate change and future regulatory actions or policy changes. As such, the BAWSCA member agencies expressed an interest in developing a source of supply that was independent of the SFPUC.

Throughout development of the Strategy, the BAWSCA Board of Directors (Board) has provided direction on scope and policy issues as shown in Figure ES-1.

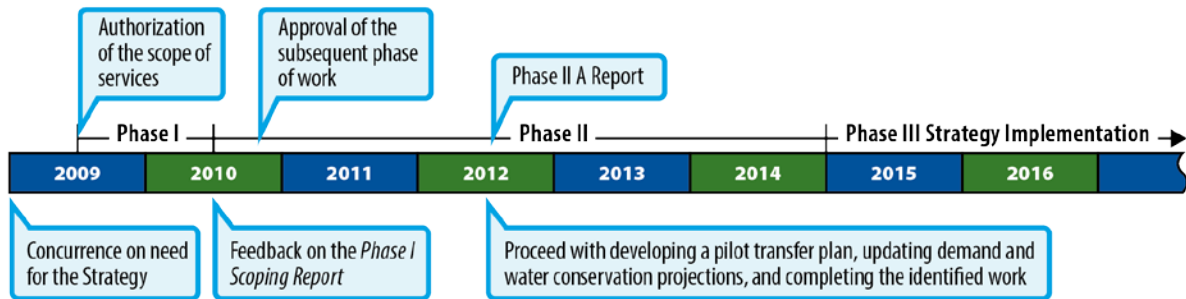


Figure ES-1
Strategy Development Informed by Board Direction

ES.2 While Normal Year Supply is Adequate to 2040, Drought Year Shortfalls are Significant

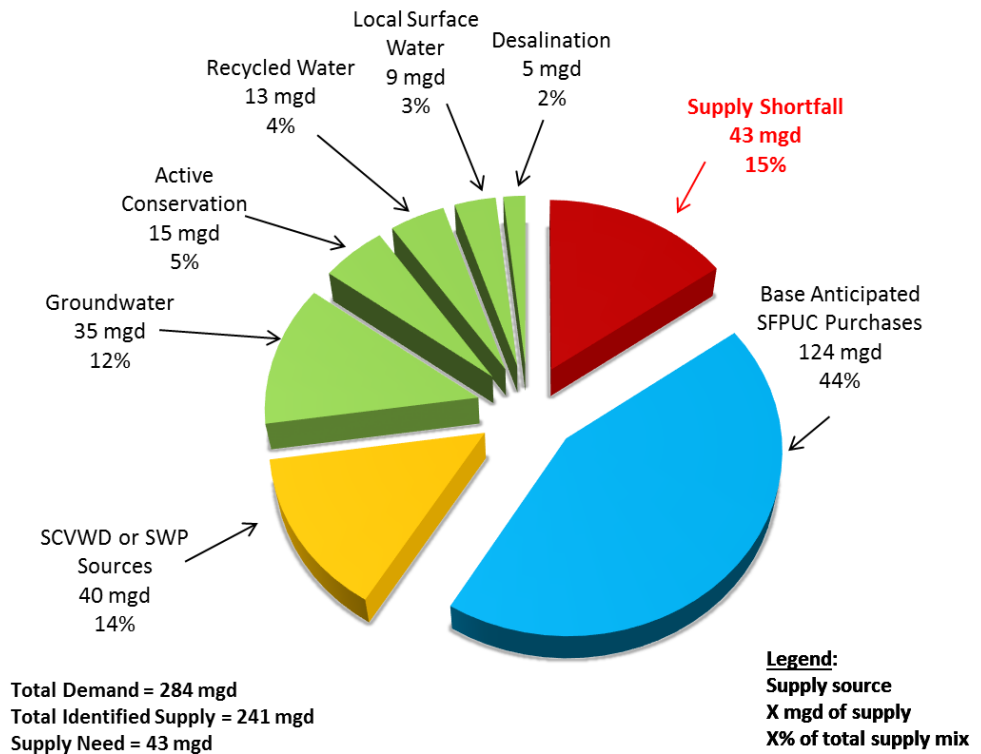
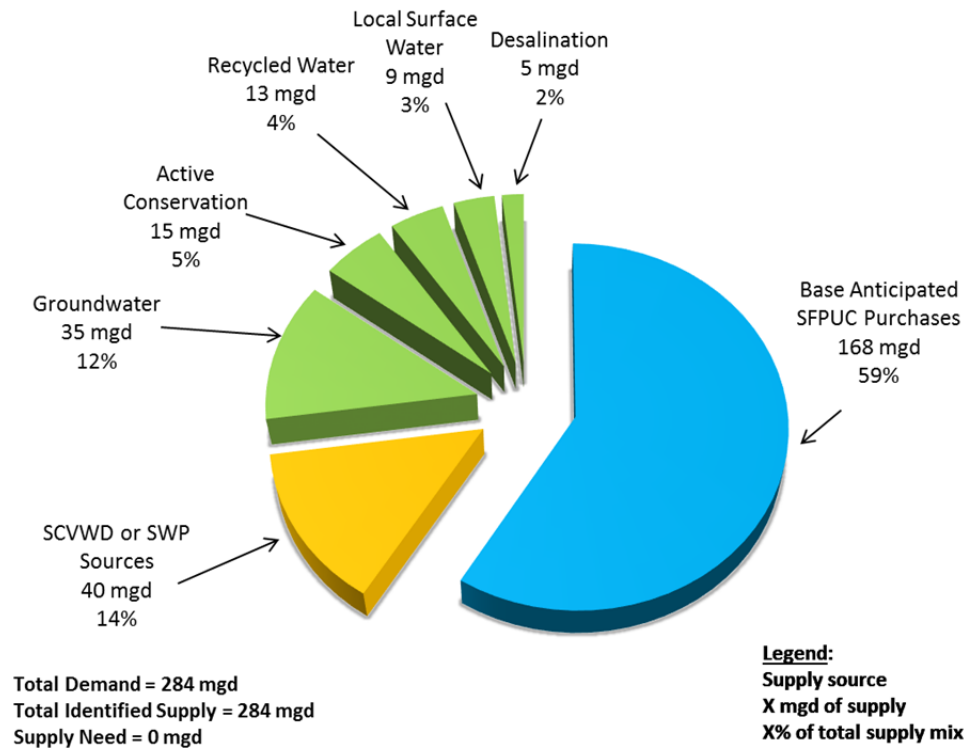
The 2014 Regional Demand and Conservation Projections Project, undertaken based on recommendations in the *Phase II A Report*, identified changed water demands and has shaped the Strategy analysis. The analysis showed that the projected reliability need of the BAWSCA member agencies through 2040 will be negligible after accounting for passive and active conservation (as shown in Figure ES-2). In

addition, with projected purchases from the SFPUC of 153 mgd in 2018 and 168 mgd in 2040, the short-term adverse impacts of the SFPUC-imposed Interim Supply Limitation of 184 mgd are no longer an immediate concern in normal years due to decreases in demand and increased development of other available supplies.

However, during the same planning period, reliability shortfalls on the SF RWS of up to 43 mgd (approximately 48,000 acre-feet per year [AFY]) are forecast in dry years, resulting in system-wide SFPUC cutbacks of to 20 percent (as shown in Figure ES-3). The reliability need is spread throughout the BAWSCA service area, with individual member agency shortfalls ranging from 0.1 to 10.7 mgd.

The demand analysis resulted in the following key findings:

- There is no longer a normal year supply shortfall.
- There is a drought year supply shortfall of up to 43 mgd.



Based on the 2040 demand assumptions and using 91 years of historical hydrologic data and the SFPUC's Hetch Hetchy/Local Simulation Model, drought year shortages of 10 percent to 20 percent on the SF RWS are estimated to occur up to 8 times during the 91-year historical hydrologic sequence (i.e., 1920 through 2011) that the SFPUC uses for water supply planning purposes. This is the equivalent of a drought event on the SF RWS approximately every 11 years.

Based on the existing agreements that allocate drought year water supplies between San Francisco and the Wholesale Customers (i.e., the Tier 1 Plan), a drought event that creates a 10 percent system-wide shortfall corresponds to an average 15 percent cutback to the Wholesale Customers, while a 20 percent system-wide shortfall corresponds to an average 26 percent cutback to the Wholesale Customers. In addition, the allocation varies for each BAWSCA member agency (i.e., under a 20 percent system-wide shortfall scenario, some agencies could receive a cutback of up to 40 percent to their SFPUC supply, while some receive less than a 26 percent cutback).

The drought year need may be somewhat greater than estimated above for the following reasons:

- Drought frequency over the historical record may increase when including hydrology through 2014;
- Climate change could impact SFPUC supply reliability; and
- There could be shortfalls to other imported and local supplies during drought years that were not accounted for when determining drought year need based solely on the SF RWS historic reliability.

Further study of all these areas is suggested as part of the recommended actions.

ES.3 SFPUC Supply Shortfalls Can Have Significant Economic Impacts to the BAWSCA Member Agencies and Region

SFPUC commissioned an economic impact analysis to estimate the economic effect to the region from potential future droughts through 2035. In the SFPUC study it was estimated that a 10 percent system-wide supply shortfall would reduce annual business sales in the BAWSCA and City and County of San Francisco service areas by as much \$0.4B in Fiscal Year 2010-11, and by as much as \$2.0B for a 20 percent supply shortfall, based on the 91-year historical record. These impacts could be compounded in the case of multi-year droughts and because per capita demand in the BAWSCA member agency service area is already low compared to other portions of the Bay Area and the State of California.

Drought Impacts:

- Droughts occur 1 in every 11 years on the SF RWS.
- Some BAWSCA agencies could receive cutbacks of up to 40%.
- Regional business sales impacts up to \$2.0B annually.

The potential impacts to the BAWSCA member agencies are regional and not just limited to the individual cities or water districts. For example, the severity of the potential drought's impact to commercial and industrial sectors could cause relocation of businesses for which a reliable water supply is critical. The loss of this commercial and industrial base would undoubtedly weaken the regional economy. Furthermore, the residents and voters in one community often work or own businesses in another community within the BAWSCA member agency service area or neighboring

communities. Therefore, a drought year reliability shortfall in one BAWSCA member agency that results in loss of jobs or other impacts could have a detrimental effect on the customers of another BAWSCA member agency, even if that agency itself is not facing a supply shortfall.

ES.4 Several Viable Projects Have Been Identified That Together Can Reduce the Drought Year Shortfall

Over 65 individual water supply management projects were evaluated that could be developed by BAWSCA and the BAWSCA member agencies to meet identified drought year reliability needs through 2040. Projects were not retained as part of the Strategy for any of the following reasons:

1. An agency chose to independently implement a project;
2. An agency was not interested in being a proponent of the project as a part of the Strategy;
3. The project did not provide additional supply;
4. Regulatory restrictions impeded implementation;
5. No regional benefit was found;
6. The project implementation schedule did not fit within the timeline of the Strategy; and
7. The project was deemed infeasible due to water quality issues.

Eleven specific projects were evaluated in greater detail encompassing five project types (i.e., recycled water, groundwater, local capture and reuse, desalination, and water transfer projects), and nine are evaluated and scored in this report. Two projects were not scored given limited data on key criteria.

The projects offer a wide range of potential dry year yield, from small projects that can be implemented individually by member agencies, to large yield projects that would require direct involvement by BAWSCA. These projects, and a summary of their characteristics, are presented below in Table ES-1. Two items are particularly important to note:

1. If all these projects were implemented, and achieved the average anticipated project yield, they would almost meet the 43 mgd (48,000 AFY) dry year supply need.
2. The combined average anticipated yields of two projects - water transfers and desalination - account for meeting over 80 percent of the average projected dry year need.

Even though all projects may be needed to meet BAWSCA's dry year needs, an evaluation of projects was conducted to gain insights on how the projects perform against the Strategy objectives, highlight key tradeoffs between the projects, and identify where more information is needed. This information can then be used to prioritize recommended actions and inform their sequencing.

Table ES-1. Summary of Strategy Projects

Strategy Project Type	Strategy Project	Yield (AFY)	Range of Unit Cost (\$/AF)	Schedule
Agency Identified Projects – Recycled Water (RW)	City of Daly City- Colma Expansion Project	1,060	\$3,310	3-4 years
	City of Mountain View- Increase Recycled Water Supply from Palo Alto Regional Water Quality Control Plant	429	\$1,950-\$2,450	3-4 years
	City of Palo Alto- Recycled Water Project to Serve Stanford Research Park	950	\$2,680	3-4 years
	City of Redwood City- Regional Recycled Water Supply ¹	Up to 3,200	Not determined	3-4 years
Agency Identified Projects – Groundwater (GW)	City of Sunnyvale Groundwater Project	1,880-2,350	\$1,230-\$1,350	4 years
Regional Projects – Local Capture and Reuse	Rainwater Harvesting	210-680	\$2,900- \$4,800	On-going
	Greywater Reuse	1,240-3,000	\$550-\$4,530	On-going
	Stormwater Capture ¹	Not determined	Not determined	Not determined
Regional Projects – Desalination	Open Bay Intake Desalination	16,800	\$2,100-\$4,950	5-12 years
	Brackish Well Desalination	780-7,280	\$1,400-\$7,090	5-12 years
Regional Projects – Transfers	Water Transfers	10,000-31,800	\$950-\$1,750	2-5 years

¹ The Redwood City Regional Recycled Water Supply project and stormwater capture were dropped from further consideration due to limited information currently available on key criteria of cost and potential demand.

ES.5 Analysis of Individual Projects and Portfolios Converge on Identical Priorities

An analysis was performed to identify those projects and combination of projects, or portfolios, which emphasized significant objectives of the Strategy.

For the project analysis, detailed scoring for each project was created on a normalized scale where the highest possible score was 100 points. The evaluation criteria and metrics were developed with input from the Board and the BAWSCA member agencies. The project scores and weightings were developed using the Strategy objectives and Strategy findings.

To reflect that not all objectives and criterion are of equal importance, a sensitivity analysis was conducted with different sets of weighting factors on the various objectives and criteria to evaluate project performance. Figure ES-4 presents the results of the project analysis when emphasizing drought supply, cost, regulatory vulnerability, local control, and institutional complexity evaluation criteria. The bar representing each project combines the individual criterion scores for that project to provide a comparison of the relative contribution of each criterion score across the Strategy projects. The total length of the bar represents the overall performance of the project.

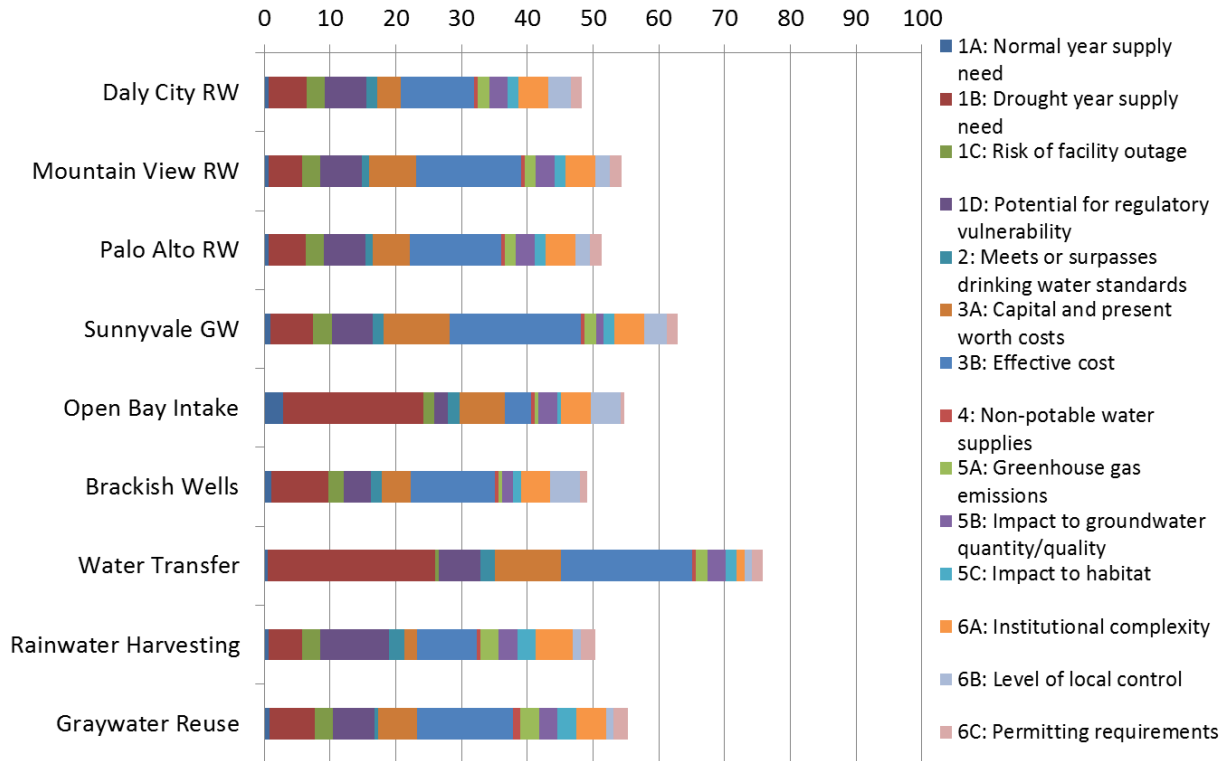


Figure ES-4
Cumulative Score for the Strategy Projects under Sensitivity Emphasizing Drought Supply, Costs, Regulatory Vulnerability, Local Control, and Institutional Complexity

The key findings of the project evaluation analysis were:

1. Water transfers score consistently high across the various performance measures and within various portfolio constructs and thus represent a high priority element of the Strategy.
2. Desalination also potentially provides substantial yield, but its high effective costs and intensive permitting requirements make it a less attractive drought year supply alternative. However, given the limited options for generating significant yield for the region, desalination warrants further investment in information as a hedge against the loss of local or other imported supplies.
3. The other potential regional projects provide tangible, though limited benefit in reducing dry year shortfalls given the small average yields in drought years.

For the portfolio analysis, the individual projects were combined into several different portfolios reflecting different priorities and also analyzed using the same sensitivity weightings. The performance of projects through the sensitivity analysis described above was used to help determine which projects comprised each portfolio. The following observations can be made based on the portfolios analysis:

- Water transfers are a component of all top scoring portfolios.

- The greatest certainty for dry year yield would be the Local Control portfolio, which contains desalination. It represents the highest cost and previous desalination projects have encountered delays in their implementation.
- The Least Stranded Costs portfolio was the highest scoring portfolio. This portfolio consists only of water transfers, which provide a very high dry year yield for no capital costs and a low cost per acre-foot.
- The Local Control and Least Environmental Impact portfolios have the highest number of projects, but the lowest scoring portfolios on average and do not score as well on yield and cost criteria.
- The Least Cost and Fastest Implementation portfolios contain the same projects.
- Each portfolio provides an average dry year yield of over 20,000 AFY, which is almost half of the 2040 dry year need of 48,000 AFY (assuming a 100 percent LOS). Or, put another way, each of the portfolios would reduce rationing significantly. While no formal decision was made by BAWSCA regarding a preferred LOS, it is recognized that achieving 100 percent LOS was not required.

ES.6 Evaluation Results Identify the Need to Balance Risks and Invest in Further Information

As discussed above, the demand analysis done during Phase II of the Strategy resulted in the following key findings:

- There is no longer a normal year supply shortfall.
- There is a drought year supply shortfall of up to 43 mgd.

In addition, the project evaluation analysis done during Phase II of the Strategy resulted in the following key findings:

- Water transfers score consistently high across the various performance measures and within various portfolio constructs and thus represent a high priority element of the Strategy.
- Desalination also potentially provides substantial yield, but its high effective costs and intensive permitting requirements make it a less attractive drought year supply alternative. However, given the limited options for generating significant yield for the region, desalination warrants further investment in information as a hedge against the loss of local or other imported supplies.
- The other potential regional projects provide tangible, though limited, benefit in reducing dry year shortfalls given the small average yields in drought years.

Given that the total average water supply yield of the identified Strategy water management projects is approximately equivalent to the dry year need and the uncertainty around the potential yield and ability to implement the Strategy projects, actions should be taken to implement each of the identified projects.

The evaluation of the Strategy projects against the water management objectives has provided information that will be used to prioritize and define sequencing of implementation actions. As evidenced above, water transfers consistently perform higher on most of the objectives than any other project.

The evaluation has also indicated the need to further examine potential risks and tolerance to risk. There are still unknowns surrounding the projects. For example, water transfers may not be able to be secured due to a number of factors and the brackish desalination project yield could vary up to an order of magnitude due to uncertain geological conditions.

The Strategy, therefore, must proceed on all fronts, pursuing actions on each project, to balance different risks so as to maximize the likelihood that BAWSCA can provide the water when and where it is needed.

The recommended actions have been broadly classified into two categories, depending on the stage of development of the project, degree of risk, level of uncertainty, and level of financial investment required for the action. Figure ES-5 provides a conceptual overview of these two types of actions. These actions are conceptually defined as:

- *Core Actions:* Low-cost, low-risk actions pursued in an early phase of project development that can provide critical information, identify partnerships, and reduce uncertainty for pursuing full-scale investments in water supply projects.
- *Implementation Actions:* Higher-cost and higher-risk actions pursued in later phases of water supply projects that more directly lead to development of new supplies.

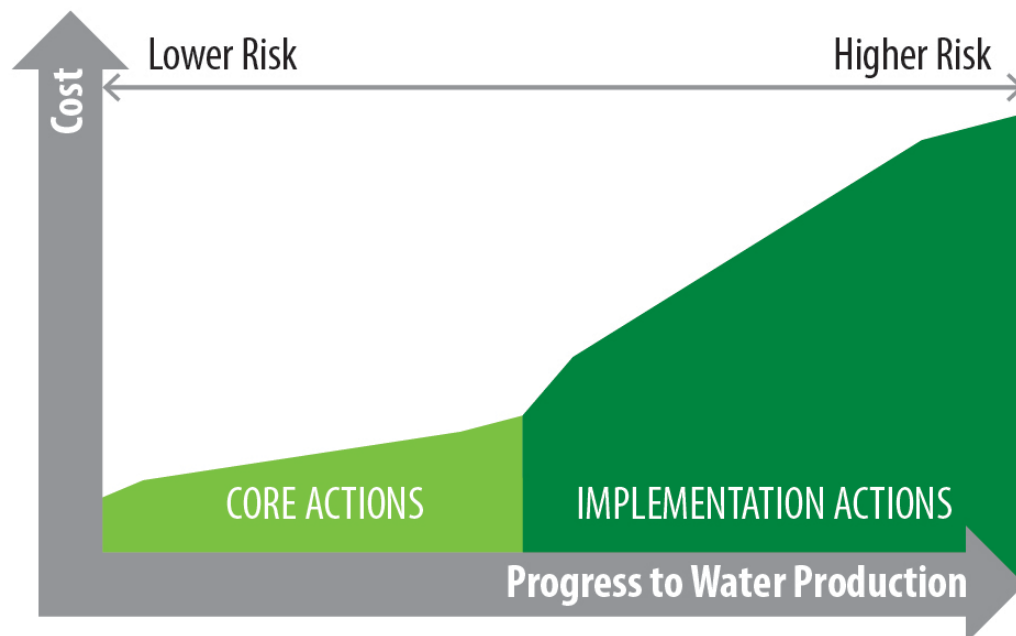


Figure ES-5
Defining Core and Implementation Actions

Figure ES-5 illustrates that Core Actions occur when there is much progress needed before water supply is produced, and Implementation Actions occur closer to the realization of a new water supply.

Also, as illustrated in Figure ES-5, Core Actions have lower costs and risks, while implementation actions have higher costs and risks, comparatively.

ES.7 Recommendations

Details on the recommended Core Actions and Implementation Actions are presented in Table ES-2 and can be summarized as the following five recommended actions:

1. Lead water transfer development and implementation including identifying and evaluating water storage options;
2. Facilitate desalination partnerships and pursue outside funding for related studies;
3. Support agency-identified projects (i.e., recycled water and groundwater) and local capture and reuse;
4. Participate in regional planning studies in cooperation with others; and
5. Continue monitoring regional water supply investments and policies.

The actions arise from on-going work by BAWSCA and also represent new work for BAWSCA. Of these recommended actions, executing the East Bay Municipal Utility District (EBMUD) Pilot Transfer will have the most immediate financial impact. In addition, some new work has been identified as a priority. For example, identification of potential water storage options could reduce the risks of the water transfers, the highest performing project. Acquiring and storing these surplus supplies during non-drought periods for withdrawal and delivery during drought years would strengthen water transfers as a viable water management action.

Table ES-2. Range of Recommended Actions

Action	Core	Implementation
On-going	Santa Clara Valley Water District (SCVWD) Pilot Transfer Plan: complete plan	EBMUD Pilot Transfer: execute a pilot water transfer
	Recycled Water: facilitate partnerships	Local Capture and Reuse: implement rain barrel program; pursue funding
	Groundwater: facilitate partnerships	
	Planning Studies: examine impacts of non-SFPUC shortfalls; evaluate hydrology under the current drought and climate change; participate in the Bay Area Regional Reliability process	
New	Water Storage Options: identify and evaluate storage options	SCVWD Pilot Transfer: execute a pilot water transfer*
	Recycled Water: monitor policy; pursue funding	Water Storage: develop agreements*
	Local Capture and Reuse: evaluate new programs; pursue funding	Desalination: conduct aquifer testing*
	Desalination: facilitate partnerships; pursue funding	
	Planning Studies: review lessons learned; consider development pattern impacts	

*Contingent on findings from earlier activities

Some of the recommended actions reflect that the Strategy is not static and needs to be informed by changes in planning assumptions, impacts, and actions of others. This includes refining estimates of

supply need that reflect updated hydrology, shifts in demands associated with development and climate change, and mining insights from other agencies that have made significant investments against future extended droughts. Other recommended actions will either be addressed under proposed work plan activities or will be contingent on findings from proposed work plan activities.

For example, desalination development actions will be contingent on both identifying partners and obtaining funding through existing and new outside funding channels (e.g., California Proposition 84, the California Water Bond, and Federal funding).

Finally, continued monitoring of other agencies' policy decisions and supply investments is important for the Strategy as changing policy or supply conditions could alter activities related to Strategy implementation and its fundamental objective of assuring reliability for BAWSCA. A summary of the major policy decisions and supply investments that should be monitored as part of the Strategy is presented in Table ES-3.

Table ES-3. Policy Decisions and Supply Investment Activities to Monitor

Element	Entity	Activities to Monitor
Policy	State and Federal	Federal and State decisions that may further limit supply availability from the Tuolumne River.
	SFPUC	Decision on 2018 interim supply limitation which will impact supply availability from the SF RWS. Determination on role as regional provider.
Supply Investments	BAWSCA Member Agencies	Progress on implementing planned projects will impact supply need. 2015 UWMPs will reflect changes in near-term projections.
	SFPUC	Performance of projects in construction and projects under consideration may impact the magnitude of the supply need.
	SCVWD	Development of various potable reuse projects which may indirectly or directly create additional water supply.

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BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
DATE: January 9, 2015
FROM: Nicole Sandkulla, CEO/General Manager
SUBJECT: Chief Executive Officer/General Manager's Letter

Note: To provide the Board monthly updates on key issues to BAWSCA and its member agencies, the correspondence packet and Chief Executive Officer/General Manager's letter will be included in both the Board Policy Committee (BPC) and the Board of Directors meeting packets beginning immediately.

Water Supply Conditions

The SFPUC has been asked to provide an updated water supply condition report at the January Board meeting.

Water customer response to the SFPUC's call for a 10% voluntary reduction continues to increase with water deliveries reducing an additional 8.5 mgd between December 24 and December 31, 2014. From February 1 to December 31, 2014, cumulative water savings were 9.9 billion gallons, exceeding the target of 8 billion gallons saved.

On December 29, 2014, the SFPUC notified the BAWSCA member agencies of the continued request for a 10% water use reduction. The SFPUC will revisit its request for water use reductions in the late spring to determine if the 10% voluntary reduction is sufficient, and whether it will continue.

Regional Drought Campaign

BAWSCA is coordinating with SFPUC to continue the regional drought campaign through 2015 as needed. SFPUC has added \$100,000 to the current media buyer contract to continue messaging through the winter. The campaign materials and messaging are currently being revised, with a key focus on turning off irrigation systems for the winter. BAWSCA is also coordinating with SFPUC on the procurement process for a new media buyer contract to extend the campaign through 2015 if needed. The new media buyer contract is expected to be in place by early April.

Pilot Water Transfer

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

BAWSCA has continued regular meetings with Hayward to further examine technical and operational concerns. A technical analysis of Hayward system hydraulics and flows during the pilot water transfer is underway, and completion of this work is critical prior to the execution of the pilot water transfer. The work has been slower than anticipated, and so BAWSCA will not be ready to implement the pilot during a potential Spring 2015 window.

In December, the EBMUD board authorized the operation of the Freeport Facilities for a potential January to April 2015 window to deliver drought supplies. EBMUD has delayed delivery of those supplies to at least January 19, to further consider 2015 weather conditions. Sufficient storage must be available in EBMUD's local reservoirs to accommodate the delivery of the Freeport supplies. EBMUD has indicated that they may begin operations again in October, depending upon the precipitation received over the next few months.

BAWSCA will continue its work on finalizing the agreements and environmental documentation required to execute a pilot water transfer during the fall of 2015.

Regional Groundwater Storage and Recovery Project

On December 16, 2014, the SFPUC, the cities of Daly City and San Bruno, and Cal Water signed the Operating Agreement for the Regional Groundwater Storage and Recovery Project (Project). The Project, being developed by the SFPUC as part of the WSIP, is located in San Mateo County and will utilize the Westside Groundwater Basin by increasing water storage during wet and normal years for subsequent recapture during dry years. The Project will benefit both the Wholesale Customers and San Francisco, by providing up to 60,500 acre-feet of total water storage to be available during dry years to the Regional Water System. The Project was authorized by the SFPUC in August 2014, construction bids were received in November, and construction is slated to begin in the Spring of 2015.

The Wholesale Customers and the SFPUC anticipated the Project when they entered into the 2009 Water Supply Agreement (WSA), however, as Project details have been finalized, several changes to the WSA are required to protect the interests of the Wholesale Customers. BAWSCA and San Francisco are developing an amendment to the WSA (Amendment), which addresses water-supply reliability, water quality, and cost allocation.

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

Don Pedro Hydroelectric Project FERC Relicensing

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

Over the past 3 months, informal discussions have taken place among many of the participants in the Relicensing Process regarding a separate negotiated settlement process (Settlement Process) that is intended to allow the parties to reach agreement on any conservation measures that might be included in the FERC license.

Recently, the Tuolumne Settlement Group was formed and has selected Lee Lamb and Susan Driver of Negotiation Guidance Associates to serve as facilitators for the Settlement Process. BAWSCA has taken the necessary steps to participate in this effort directly.

FERC Licensing of the La Grange Project

In July 2013, the Federal Energy Regulatory Commission (FERC) ordered Turlock Irrigation District and Modesto Irrigation District (the Districts) to commence an Integrated Licensing Process (ILP) for the La Grange Project, a small diversion dam on the Tuolumne River located 2.3 mi downstream from the Don Pedro Dam. The La Grange Project was built in 1883, with hydroelectric facilities added in 1923. The purpose of the dam is to raise the water level in the Tuolumne River enough to enable the flow of water into the Districts' irrigation systems. The pool storage behind the dam is less than 100 acre-feet of water.

The SFPUC and BAWSCA are participating in the ILP because of the potential for impacts to Tuolumne River supplies, similar to the Don Pedro Project proceeding. The Districts are scheduled to file a Final License Application to FERC in June 2016. BAWSCA and its attorneys are closely monitoring developments in the La Grange Project ILP and its interplay with the Don Pedro Project Relicensing.

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

Pursuant to Section 7.06A of the 2009 Water Supply Agreement (WSA), BAWSCA conducted its review of SFPUC's calculation of the annual Wholesale Revenue Requirement and the changes in the balancing account for FY 2012-13, which was submitted by the SFPUC on February 10, 2014. BAWSCA's questions and concerns were sent to the SFPUC on April 10. After reviewing the SFPUC's responses provided on September 10, BAWSCA followed up with further questions on October 3. BAWSCA is currently reviewing the SFPUC's responses provided on January 5, 2015. The deadline for both parties to enter into a settlement agreement for FY 2012-13 or for the wholesale customers to file a demand for arbitration on any unsolved issues is February 10, 2015.

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

Board of Directors

Policy Calendar for FY 2014-15

Board Meeting	Purpose	Issue or Topic
Jan. 2015	R&D D&A R&D R	Review Water Supply Forecast & Decide if a Transfer Should be Pursued Mid-Year Review of FY 2014-15 Work Plan and Budget Work Plan and Budget Planning for FY 2015-16 Presentation of Final Strategy Report and Recommendations
March 2015	D&A D&A D&A D	Review Water Supply Forecast & Decide if a Transfer Should be Pursued Consideration of BAWSCA Bond Surcharges for FY 2015-16 Discussion of Possible Actions to Implement the Strategy Presentation of Preliminary FY 15-16 Work Plan and Budget
May 2015	D&A	Adoption of Proposed FY 15-16 Work Plan and Budget

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

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

Meeting Schedule through December 2015

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

Schedule for RFA Board Meetings (Meeting time will be announced)	
<u>Date</u>	<u>Location</u>
Thursday – January 15, 2015	Wind Room, Foster City Community Center
Thursday – July 16, 2015	Wind Room, Foster City Community Center

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

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