

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

February 11, 2015

1:30 p.m.

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

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page#</u>
1. <u>Call To Order, and Roll Call</u> Roster of Committee Members (<i>Attachment</i>)	(Bronitsky)	Pg 3
2. <u>Comments by Chair</u>	(Bronitsky)	
3. <u>Public Comment</u> <i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Bronitsky)	
4. <u>Consent Calendar</u> A. Approval of Minutes from the December 10, 2014 meeting (<i>Attachment</i>)	(Bronitsky)	Pg 5
5. <u>Action Items</u> A. Proposed Fiscal Year 2015-16 Bond Surcharges (<i>Attachment</i>) <u>Issue:</u> How much will the Bond Surcharges be for FY 2015-16? <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> That the Committee recommend Board approval of the proposed FY 2015-16 bond surcharges as presented in the staff memorandum.	(Tang)	Pg 25
B. Adjustments to Staff Top Step Position Compensation (<i>Attachment</i>) <u>Issue:</u> Is compensation for BAWSCA staff positions consistent with comparable positions in the Bay Area market? <u>Information to Committee:</u> Memorandum presenting results of a compensation survey by Koff and Associates, comparing current top step compensation to comparable positions in other Bay Area agencies. <u>Committee Action Requested:</u> Recommendation that the Board of Directors approve adjustments to the top step compensation for specified positions.	(Sandkulla)	Pg 31
6. <u>Reports and Discussion Items</u> A. Preliminary Fiscal Year 2015-16 Work Plan and Operating Budget (<i>Attachment</i>) <u>Issue:</u> What critical results need must be achieved next year and what resources will be required? <u>Information to Committee:</u> A memo and oral report on challenges that must be considered in preparing the FY 2015-16 preliminary Work Plan and Budget.	(Sandkulla)	Pg 33

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

7. Reports

(Sandkulla)

- A. Water Supply Update
- B. CEO's Letter (*Attachment*) Pg 53
- C. Board Policy Committee Calendar (*Attachment*) Pg 57
- D. Correspondence Packet (*Under Separate Cover*)

8. Comments by Committee Members

(Bronitsky)

9. Adjournment to the next meeting on April 8, 2015 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo. (Bronitsky)

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Directions to BAWSCA

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

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Committee Roster:

Charlie Bronitsky, Estero MID (Chair)

Kirsten Keith, City of Menlo Park (Vice-Chair)

Randy Breault, City of Brisbane/GVMID (BAWSCA Chair)

Rob Guzzetta, California Water Service Company

Gustav Larsson, City of Sunnyvale

Jerry Marsalli, City of Santa Clara

Al Mendall, City of Hayward (BAWSCA Vice-Chair)

Irene O'Connell, City of San Bruno

Barbara Pierce, Redwood City

Louis Vella, Mid-Peninsula Water District

John Weed, Alameda County Water District

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

December 10, 2014 – 1:30 p.m.

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

MINUTES

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

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

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

- 2. Comments by Chair:** Director Mendall welcomed the Committee members, and 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:** Approval of Minutes from the December 10, 2014 meeting.

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 2013-14, 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 FY 2013-14 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 (WMAAP). Ms. Sandkulla further stated that San Francisco recognize the implications of FERC on the WMAAP, however, the WMAAP 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.

6. Reports and Discussions:

- 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

7. 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.

8. **Comments by Committee Members:** There were no comments from the Committee members

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

Respectfully submitted,

Nicole Sandkulla, CEO/General Manager

NS/le

Attachments: 1) Attendance Roster

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 POLICY COMMITTEE

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

Summary:

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

BAWSCA's Revenue Bond Series 2013A and Series 2013B (Taxable) were issued to prepay the capital debt that the agencies owed San Francisco. The bond transaction and the prepayment program will generate approximately \$62.3 million in net present value savings over the term of the bonds, or about 17% of the \$356.1 million in principal prepaid from bond proceeds to San Francisco at the end of February 2013.

In July 2013, BAWSCA began collecting the bond surcharge from member agencies through the SFPUC as a separate item on their monthly water bills to member agencies. FY 2015-16 will be the third year for BAWSCA to collect the bond surcharge payments that are used to make debt service payments on BAWSCA's revenue bonds. FY 2015-16 is the first year that a "true- up" adjustment reflecting actual purchases in FY 2013-14 and expenses incurred by BAWSCA in administering the bonds, is included in the calculation of the bond surcharge..

Recommendation:

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

Discussion:

The bond surcharge for each member agency is a fixed amount each fiscal year as adopted by the BAWSCA Board, being collected since FY 2013-14. Consistent with the Indenture, the FY 2015-16 bond surcharge setting includes a "true up" adjustment included in the calculation. This "true up" adjustment is used to reflect each agency's actual percentage of water purchases in FY 2013-14 and to reimburse BAWSCA for some expenses incurred in FY 2013-14 in connection with the bond administration that were paid through BAWSCA's FY 2013-14 operating budget. Those expenses include the fees to Bank of New York for its Trustee services and the costs of legal, financial advisor, and investment advisor. Moving forward, a "true up" adjustment is anticipated every year as part of the calculation of the Annual Bond Surcharge.

Calculating the "True Up" Adjustment

The annual surcharges collected from the member agencies in FY 2013-14 were calculated by multiplying the obligated debt service in 2014 by each agency's percentage of total wholesale customer purchases in FY 2011-12. FY 2011-12 purchases were used as a surrogate for FY 2013-14 purchases, which were not known when the FY 2013-14 bond surcharges were adopted.

Now that the actual wholesale customer purchases for FY 2013-14 and the actual expenses incurred in FY 2013-14 in connection with the bond administration are available, the actual

surcharges for FY 2013-14 are calculated again by multiplying a sum of the obligated debt service in 2014 and the actual expenses incurred in FY 2013-14 by each agency’s percentage of total wholesale customer purchases in FY 2013-14. The difference between the surcharges that were actually collected in FY 2013-14, which were based on the surrogate purchase values, and the actual surcharges for FY 2013-14, which are based on actual FY 2013-14 purchases, are the “true up” adjustments to be included in the annual surcharge setting for FY 2015-16. The actual expenses incurred in FY 2013-14 in connection with the bond administration is \$12,115, which represents 0.04% of the annual debt service of the bonds in 2016. Pursuant to the Prepayment and Collection Agreement between BAWSCA and San Francisco, BAWSCA shall reimburse San Francisco for specific expenses incurred for compliance with tax-exempt regulations. These charges have not been billed at this time.

Calculating the FY 2015-16 Bond Surcharge

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

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

Table 1. Proposed BAWSCA FY2015-16 Bond Surcharges

Agency	FY 2015-16		Agency	FY 2015-16	
	Annual Bond Surcharge	Monthly Bond Surcharge		Annual Bond Surcharge	Monthly Bond Surcharge
Alameda County WD	\$2,563,451	\$213,621	Mid Pen WD	\$461,260	\$38,438
Brisbane Water	\$69,623	\$5,802	Millbrae	\$347,250	\$28,937
Burlingame	\$642,071	\$53,506	Milpitas	\$1,134,488	\$94,541
Coastside County WD	\$343,955	\$28,663	Mountain View	\$1,484,049	\$123,671
CWS - Bear Gulch	\$2,254,227	\$187,852	North Coast WD	\$457,171	\$38,098
CWS - Mid Peninsula	\$2,333,539	\$194,462	Palo Alto	\$1,787,289	\$148,941
CWS - South SF	\$928,692	\$77,391	Purissima Hills WD	\$349,469	\$29,122
Daly City	\$547,664	\$45,639	Redwood City	\$1,467,424	\$122,285
East Palo Alto WD	\$156,231	\$13,019	San Bruno	\$189,392	\$15,783
Estero Municipal ID	\$647,666	\$53,972	San Jose (North)	\$782,560	\$65,213
Guadalupe Valley	\$35,168	\$2,931	Santa Clara	\$376,972	\$31,414
Hayward	\$2,342,733	\$195,228	Stanford University	\$378,758	\$31,563
Hillsborough	\$568,755	\$47,396	Sunnyvale	\$1,277,818	\$106,485
Menlo Park	\$615,037	\$51,253	Westborough WD	\$141,396	\$11,783
Total				\$24,684,108	\$2,057,009

Table 2. Proposed BAWSCA FY2015-16 Bond Surcharge Breakdowns

Agency	FY 2013-14			FY 2015-16	
	Annual Surcharge Estimated Based on FY 2011-12 Actual Purchase	Annual Surcharge Should Be Based on FY 2013-14 Actual Purchase	True-up Amount for FY 2013-14	Annual Surcharge Estimated Based on FY 2013-14 Actual Purchase	Annual Surcharge plus True-ups
Alameda County WD	\$1,381,008	\$1,972,826	\$591,818	\$1,971,633	\$2,563,451
Brisbane Water	\$51,307	\$60,483	\$9,176	\$60,447	\$69,623
Burlingame	\$710,442	\$676,461	(\$33,981)	\$676,052	\$642,071
Coastside County WD	\$281,454	\$312,799	\$31,345	\$312,610	\$343,955
CWS - Bear Gulch	\$1,997,787	\$2,126,651	\$128,864	\$2,125,364	\$2,254,227
CWS - Mid Peninsula	\$2,417,837	\$2,376,407	(\$41,430)	\$2,374,969	\$2,333,539
CWS - South SF	\$1,202,618	\$1,065,977	(\$136,640)	\$1,065,332	\$928,692
Daly City	\$617,148	\$582,582	(\$34,566)	\$582,229	\$547,664
East Palo Alto WD	\$332,523	\$244,451	(\$88,072)	\$244,303	\$156,231
Estero Municipal ID	\$692,518	\$670,294	(\$22,223)	\$669,889	\$647,666
Guadalupe Valley	\$47,084	\$41,138	(\$5,945)	\$41,114	\$35,168
Hayward	\$2,658,912	\$2,501,579	(\$157,333)	\$2,500,066	\$2,342,733
Hillsborough	\$552,293	\$560,694	\$8,400	\$560,355	\$568,755
Menlo Park	\$549,156	\$582,273	\$33,117	\$581,921	\$615,037
Mid Pen WD	\$500,087	\$480,819	(\$19,268)	\$480,528	\$461,260
Millbrae	\$361,319	\$354,392	(\$6,927)	\$354,177	\$347,250
Milpitas	\$1,057,528	\$1,096,340	\$38,812	\$1,095,677	\$1,134,488
Mountain View	\$1,492,817	\$1,488,883	(\$3,934)	\$1,487,982	\$1,484,049
North Coast WD	\$502,034	\$479,748	(\$22,286)	\$479,458	\$457,171
Palo Alto	\$1,942,943	\$1,865,680	(\$77,263)	\$1,864,551	\$1,787,289
Purissima Hills WD	\$314,145	\$331,907	\$17,763	\$331,707	\$349,469
Redwood City	\$1,544,344	\$1,506,340	(\$38,004)	\$1,505,429	\$1,467,424
San Bruno	\$340,700	\$265,126	(\$75,574)	\$264,966	\$189,392
San Jose (North)	\$747,164	\$765,094	\$17,929	\$764,631	\$782,560
Santa Clara	\$319,014	\$348,098	\$29,084	\$347,888	\$376,972
Stanford University	\$367,446	\$373,215	\$5,769	\$372,989	\$378,758
Sunnyvale	\$1,539,526	\$1,409,099	(\$130,428)	\$1,408,246	\$1,277,818
Westborough WD	\$153,661	\$147,573	(\$6,088)	\$147,484	\$141,396
Totals	\$24,674,815	\$24,686,930	\$12,115	\$24,671,995	\$24,684,108

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

Agency	FY 2013-14				
	SFPUC Capital Recovery Payment	Annual Surcharge Collected in FY 13-14	True-ups To Be Collected or Refunded in FY 15-16	BAWSCA Annual Surcharge Plus True-ups	Actual Savings
	A	B	C	D = B + C	E = A - D
Alameda County WD	\$2,253,569	\$1,381,008	\$591,818	\$1,972,826	\$280,743
Brisbane Water	\$69,091	\$51,307	\$9,176	\$60,483	\$8,607
Burlingame	\$772,724	\$710,442	(\$33,981)	\$676,461	\$96,264
Coastside County WD	\$357,312	\$281,454	\$31,345	\$312,799	\$44,513
CWS - Bear Gulch	\$2,429,283	\$1,997,787	\$128,864	\$2,126,651	\$302,633
CWS - Mid Peninsula	\$2,714,581	\$2,417,837	(\$41,430)	\$2,376,407	\$338,174
CWS - South SF	\$1,217,671	\$1,202,618	(\$136,640)	\$1,065,977	\$151,694
Daly City	\$665,486	\$617,148	(\$34,566)	\$582,582	\$82,904
East Palo Alto WD	\$279,237	\$332,523	(\$88,072)	\$244,451	\$34,787
Estero Municipal ID	\$765,681	\$692,518	(\$22,223)	\$670,294	\$95,386
Guadalupe Valley	\$46,993	\$47,084	(\$5,945)	\$41,138	\$5,854
Hayward	\$2,857,566	\$2,658,912	(\$157,333)	\$2,501,579	\$355,987
Hillsborough	\$640,483	\$552,293	\$8,400	\$560,694	\$79,789
Menlo Park	\$665,133	\$549,156	\$33,117	\$582,273	\$82,860
Mid Pen WD	\$549,242	\$500,087	(\$19,268)	\$480,819	\$68,423
Millbrae	\$404,823	\$361,319	(\$6,927)	\$354,392	\$50,432
Milpitas	\$1,252,354	\$1,057,528	\$38,812	\$1,096,340	\$156,014
Mountain View	\$1,700,758	\$1,492,817	(\$3,934)	\$1,488,883	\$211,875
North Coast WD	\$548,018	\$502,034	(\$22,286)	\$479,748	\$68,270
Palo Alto	\$2,131,175	\$1,942,943	(\$77,263)	\$1,865,680	\$265,495
Purissima Hills WD	\$379,139	\$314,145	\$17,763	\$331,907	\$47,232
Redwood City	\$1,720,699	\$1,544,344	(\$38,004)	\$1,506,340	\$214,359
San Bruno	\$302,855	\$340,700	(\$75,574)	\$265,126	\$37,729
San Jose (North)	\$873,970	\$747,164	\$17,929	\$765,094	\$108,877
Santa Clara	\$397,634	\$319,014	\$29,084	\$348,098	\$49,536
Stanford University	\$426,326	\$367,446	\$5,769	\$373,215	\$53,110
Sunnyvale	\$1,609,620	\$1,539,526	(\$130,428)	\$1,409,099	\$200,522
Westborough WD	\$168,574	\$153,661	(\$6,088)	\$147,573	\$21,000
Totals	\$28,200,000	\$24,674,815	\$12,115	\$24,686,930	\$3,513,070

Alternative FY 2015-16 bond surcharges

The alternative plan is to continue paying all expenses in connection with the bond administration from BAWSCA’s annual operating budget. BAWSCA will not get reimbursed for the expenses incurred in FY 2013-14 during the FY 2015-16 bond surcharge setting. As a result, the actual surcharges for FY 2013-14 are calculated by multiplying the obligated debt service in 2014 by each agency’s percentage of total wholesale customer purchases in FY 2013-14. The difference between the surcharges that were actually collected in FY 2013-14, which were based on the surrogate purchase values, and the actual surcharges for FY 2013-14, which are based on actual FY 2013-14 purchases, are the “true up” adjustments to be included in the annual surcharge setting for FY 2015-16. The alternative FY 2015-16 bond surcharge for each agency is shown in the Table 4.

Table 4. Alternative BAWSCA FY2015-16 Bond Surcharges

Agency	FY 2015-16		Agency	FY 2015-16	
	Annual Bond Surcharge	Monthly Bond Surcharge		Annual Bond Surcharge	Monthly Bond Surcharge
Alameda County WD	\$2,562,483	\$213,540	Mid Pen WD	\$461,025	\$38,419
Brisbane Water	\$69,594	\$5,799	Millbrae	\$347,076	\$28,923
Burlingame	\$641,739	\$53,478	Milpitas	\$1,133,951	\$94,496
Coastside County WD	\$343,801	\$28,650	Mountain View	\$1,483,318	\$123,610
CWS - Bear Gulch	\$2,253,184	\$187,765	North Coast WD	\$456,936	\$38,078
CWS - Mid Peninsula	\$2,332,373	\$194,365	Palo Alto	\$1,786,373	\$148,865
CWS - South SF	\$928,170	\$77,347	Purissima Hills WD	\$349,307	\$29,109
Daly City	\$547,378	\$45,615	Redwood City	\$1,466,686	\$122,224
East Palo Alto WD	\$156,111	\$13,009	San Bruno	\$189,262	\$15,772
Estero Municipal ID	\$647,337	\$53,945	San Jose (North)	\$782,185	\$65,182
Guadalupe Valley	\$35,149	\$2,929	Santa Clara	\$376,801	\$31,400
Hayward	\$2,341,505	\$195,126	Stanford University	\$378,575	\$31,548
Hillsborough	\$568,480	\$47,373	Sunnyvale	\$1,277,127	\$106,427
Menlo Park	\$614,752	\$51,229	Westborough WD	\$141,324	\$11,777
Total				\$24,672,000	\$2,056,000

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Agenda Title: Adjustments to Staff Position Top-Step Compensation

Summary:

A compensation survey was performed to determine whether BAWSCA's staff positions remains consistent with comparable positions in the Bay Area market.

Fiscal Impact:

The Board of Directors was informed during presentation of the FY 2013-14 Operating Budget that a compensation survey would be performed. A contract with Koff and Associates was executed for \$5,560 in FY 2013-14. There is no fiscal impact for FY 2014-15 from the recommended action. The potential impact to the FY 2015-16 budget is \$4,571.

Recommendation:

That the Board Policy Committee recommend that the board approve adjustments to top step compensation for specified positions.

Discussion:

Each year BAWSCA adjusts top step compensation by a factor approved by the Board of Directors as part of the annual budget process. These adjustments are made in an effort to maintain compensation ranges that are competitive with comparable positions in the Bay Area market.

Every two years a compensation survey is performed to ensure that comparability is in fact maintained. Historically, BAWSCA has used the median of the market to define the desired compensation level for its staff positions.

In January 2014, Koff and Associates completed a review of BAWSCA's position descriptions, the comparability of the positions with similar positions at other Bay Area agencies, and provided data on top step compensation in the form of salaries or hourly rates for exempt and non-exempt positions, respectively. Results of the compensation survey were not presented to the Board last January when the report was completed. It is now necessary to move forward with consideration of adjustments to the top step compensation as identified by the survey results.

Results

The survey confirmed that compensation levels for most BAWSCA positions are within 1.3 and 4.5 percent of the median of the market. The survey showed that the current top step for two positions are 7.9 and 9.8 percent below the market median.

The survey results appear in Table 1, together with the recommended adjustments.

Table 1. Comparison of FY 2013-14 Top Step Compensation for Each Staff Position to Survey Results Based on the Median of the Market for Comparable Positions*

Position Title	Current top step compensation (FY 2013-14), dollars per year	Market median (FY 2013-14), dollars per year	Difference, percent	Recommended change, percent
Assistant to the CEO/GM	92,733	93,912	+1.3	+1.3
Office Manager	92,940	95,628	+2.9	+2.9
Sr. Admin Analyst	108,216	113,112	+4.5	+4.5
Sr. Water Resources Specialist	119,640	131,316	+9.8	+9.8
Water Resources Manager	154,416	166,548	+7.9	+7.9
Water Resource Specialist	102,408	104,544	+2.1	+2.1
Office Assistant	62,904	62,820	-.1	0

*For exempt positions, “top step compensation” is equivalent to annual salary. For non-exempt positions, “top step compensation” is equivalent to one year of hourly wages without overtime.

Application of Results

Because the survey was completed in FY 2013-14, the salaries shown in the survey are for FY 2013-14.

If approved by the Board, the recommended adjustments would be made to the top step compensation for each position per the results of the January 2014 Salary Survey.

For FY 2015-16 budgeting purposes, any Board approved COLA adjustment would be applied to the adjusted top step compensation. The COLA adjustment maintains compensation in line with the market that will exist next year. The resulting approved compensation values would go into effect per board approval.

The resulting potential fiscal impact from adopting these recommended adjustments would be an increased cost of \$4,571 in FY 2015-16. Any adjustments to compensation paid to incumbent employees would be determined separately by the CEO following annual performance appraisals, but would necessarily remain at or below the approved top step, including any approved COLA adjustment, for each position.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Agenda Title: Preliminary Fiscal Year 2015-16 Work Plan and Operating Budget

Summary:

This memorandum presents the preliminary Fiscal Year 2015-16 Work Plan and results to be achieved, a preliminary Operating Budget, a preliminary assessment of how the work could be funded, and specific budget issues requiring input from the Committee before the preliminary budget can be presented to the Board of Directors. As was done last year, this memorandum summarizes the major conclusions, and places additional detail in appendices.

The preliminary Work Plan remains aligned with BAWSCA's legislated authority and its three goals: a reliable supply of high quality water at a fair price. Major new work areas include the first year in implementing the recommended Long-Term Reliable Water Supply Strategy (Strategy) recommended actions, and actions to support the members agencies in achieving necessary water use reductions in response to the ongoing drought conditions and the potential for mandatory reductions.

The preliminary estimate for the FY 2015-16 Operating Budget is \$3,165,202 which is about 8%, or \$225,916, above the current FY 2014-15 approved budget. This Operating Budget increase represents approximately a \$0.27 increase in assessments per water customer in the service area.

Given the projected balance in the General Reserve at the end of FY 2014-15, it will be necessary to increase assessments to fund the preliminary Operating Budget. A range of alternatives to fund the preliminary Operating Budget and bring the estimated General Reserve within the budgetary guidelines established by the Board were examined and are presented in this memo.

Recommendation:

That the Committee provide:

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

Preliminary Work Plan:

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

Major efforts included in the FY 2015-16 Work Plan and that affect the Operating Budget are:

- Implement the five recommended actions identified in Long-Term Reliable Water Supply Strategy (Strategy) Phase IIA Final Report (Report);
- Oversight of the San Francisco's WSIP, 10-Year Capital Improvement Program (CIP), and Regional Water System Asset Management Program;
- Actively participating in the relicensing of New Don Pedro Reservoir to protect regional water supplies;
- Administration of the 2009 Water Supply Agreement, including work related to the September 2014 settlement with San Francisco;
- Administering BAWSCA's bonds; and
- In cooperation with the member agencies, implement specific drought response actions to achieve necessary water use reductions and minimize likelihood of mandatory rationing. These specific projects are presented in detail in Appendix A and include development of a Watering Index and Irrigation Adjustment Notification System, an on-line conservation rebate application and tracking system, cost-share partnerships with others to promote conservation messaging and new resource development, regional drought response messaging using Google/YouTube, and an update to BAWSCA's website to provide better function and content to the water customers. Further details for these new drought response actions are provided in Appendix A.

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

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

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

Each year, BAWSCA's work plan development process starts by reviewing and updating the major activities over the next 20 years. These activities require coordinated action by BAWSCA and its member agencies to protect water reliability, quality and fair price. Table 3 lists these activities as they were updated as part of the FY 2015-16 preliminary Work Plan development. In each case, the results identified in Table 3 will take the form of agreements, legislation, or other legally enforceable work products. Development of these documents will result from skilled negotiations based on rigorous investigations of impacts and alternatives, costs, cost allocation, and other matters.

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

Alternatives to the Preliminary Work Plan: The Preliminary Work Plan contains five new activities related directly to the continuing drought conditions and BAWSCA's efforts to support its agencies and their water customers in achieving the necessary water use reductions requested by the SFPUC. These new activities are described in more detail in Appendix A and are recommended at this time given the critical water supply conditions that exists in the service area.

An alternative to the FY 2015-16 Preliminary Work Plan would be to not include these five new activities. This would result in a decrease of \$95,000 to the Operating Budget. This alternative is not recommended given that each of these activities is expected to directly impact customer water use and overall response to the continued water conservation message.

Table 1. Results to be Achieved in FY 2015-16

RELIABLE WATER SUPPLY

1. **Facility Reliability: Monitor the SFPUC’s WSIP, 10-Year CIP, and Asset Management 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.
 - b. 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.
 - c. Review and monitor SFPUC’s Asset Management Program to ensure maintenance and protection of the Regional Water System assets.
2. **Long-Term Supply Solutions: Ensure a Reliable, High Quality Supply of Water is Available Where and When Needed.**
 - a. Implement the actions recommended in the Long-Term Reliable Water Supply Strategy Phase II Final Report.
 - b. Support members’ efforts to develop required 2015 Urban Water Management Plans in order to ensure consistent and defensible regional planning.
3. **Near-term Supply Solutions: Water Conservation**
 - a. In cooperation with the member agencies, implement drought response actions to achieve necessary water use reductions and minimize likelihood of mandatory rationing.
 - b. Administer and implement core water conservation programs that benefit all customers.
 - c. Administer conservation rebate programs that benefit, and are paid for by, agencies that subscribe for these services.
4. **Take Actions to Protect Members’ Water Supply Interests in the Administration of the 2009 Water Supply Agreement**
 - a. Pursue alternative supply allocation approach with SFPUC to use this year, if necessary, as an alternative to the existing Tier 1 drought allocation formula.
 - b. Protect members’ water supply and financial interests in the SFPUC’s upcoming 2018 decisions and associated Water Management Action Plan (MAP) to support the Commissions’ upcoming 2018 water supply decisions.
 - c. Protect members’ water supply interests to ensure that the SFPUC meets its adopted Water Supply Level of Service Goals
5. **Protect Members’ Interests in a Reliable Water Supply**
 - a. Assess potential significance and risks associated with “legal and legislative” actions that might be taken by proponents of draining Hetch Hetchy Reservoir.
 - d. Ensure necessary legal and technical resources for 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.
6. **Pursue Grant Opportunities Independently and in Coordination with Regional Efforts**
 - a. Implement use of Proposition 84 grant funds awarded for water conservation programs.

- b. Secure new Proposition 84 grant funds as appropriate for water conservation programs.
- a. Investigate the potential for additional grant funds to support the implementation of the Strategy, including 2014 California Water Bond.

7. Reporting and Tracking of Water Supply and Conservation Activities

- c. Complete BAWSCA FY 2014-15 Annual Survey.
- d. Complete BAWSCA FY 2014-15 Annual Water Conservation Report.
- e. Implement BAWSCA Water Conservation Database.

HIGH QUALITY WATER

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

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

FAIR PRICE

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

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

AGENCY EFFECTIVENESS

10. Maintain Community Allies and Contacts with Environmental Interests

- a. Maintain close relationships with BAWSCA's local legislators and allies and activate them if necessary to safeguard the health, safety, and economic well-being of residents and communities.
- b. Maintain a dialogue with responsible environmental and other groups, who will participate in the permitting and approval process for efforts to maintain system reliability.
- c. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants.

11. Manage the Activities of the Agency Professionally and Efficiently

Table 2: Activities Not Included in Preliminary Work Plan and Operating Budget for FY 2015-16

Reliable Supply

1. Implement a pilot water transfer with EBMUD in FY 2015-16, following completion of the pilot transfer plan.
2. Engage in extended or complex applications for grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council, or other agencies.
3. Introduce major new legislation or supporting/opposing legislation initiated by others. If needed, the agency could support major legislative efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval.
4. Initiate litigation or support/oppose litigation initiated by others. If needed, the agency could support major litigation efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval.

Fair Price

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

High Water Quality

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

Agency Efficiency

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

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

Year or Period	Major Challenges or Issues
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 & 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. • 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 drain 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 not met by SF • 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 SF 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).

<p>2016 to 2019 (cont.)</p>	<ul style="list-style-type: none"> • 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.
<p>2019 to 2025</p>	<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.
<p>2026 to 2040</p>	<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.

Recommended Preliminary FY 2015-16 Operating Budget:

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

**Table 4. Preliminary FY 2015-16 Operating Budget
by Major Expenditure Category**

Cost Category	Approved FY 2014-15 Budget, dollars	FY 2015-16 Proposed Budget	Changes from FY 2014-15 Approved Budget
Consultants/ Direct Expenditures			
Reliability	770,162	807,450	37,288
Fair Pricing	287,000	415,000	128,000
Administration	85,300	85,000	(300)
<i>Subtotal</i>	1,142,462	1,307,450	164,988
Administration			
Employee Salaries & Benefits	1,343,406	1,385,252	41,846
Other Post-Employment Benefits(net)	95,918	111,000	15,082
<i>Benefits Subtotal</i>	1,439,324	1,496,252	56,928
Operational Expenses	295,000	299,000	4,000
BAWUA	1,100	1,100	0
Subtotal	1,735,424	1,796,352	60,928
Total Operating Expenses	2,877,866	3,103,802	225,916
Capital Expenses	2,500	2,500	(0)
Budgeted Contingency	57,500	57,500	(0)
Regional Financing Authority	1,400	1,400	0
Grand Total	2,939,286	3,165,202	225,916

Explanation and Alternatives for Salaries and Benefits:

The increase for salaries and benefits of \$65,099 shown in the preliminary budget is a result of a variety of changes. These changes include increases in health benefit costs, salary adjustments and an increase in OPEB (Other Post-Employment Benefits) The preliminary Operating Budget also includes the following:

- \$15,115 for a COLA adjustment to existing FY 2014-15 salaries
- \$15,502 merit allowance separate from COLA adjustment

A Cost of Living Allowance (COLA) adjustment of 2.09% to the top step of salaries has been included in the preliminary Operating Budget and is consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the

San Francisco-Oakland-San Jose area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit. The history of salary and benefit adjustments for BAWSCA is presented in Appendix H to this memo.

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

This preliminary Operating Budget does not yet include the results from potential action by the Board in adopting the compensation changes recommended in the January 2015 Salary Survey.

Funding the Preliminary Operating Budget:

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

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

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

Status of General Reserve

Each year, unspent funds are moved to the General Reserve to fund special needs and future year's budgets.

The 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. This results in an estimated General Reserve balance at the end of FY 2014-15 of \$221,461, or 8% of the approved FY 2014-15 Operating Budget, which is outside the adopted General Reserve Policy guideline. BAWSCA's General Reserve Policy, reaffirmed by the Board in November 2014, identifies a range of 20% to 35% of the budget year's operating expense as a budgetary guideline for the General Reserve balance.

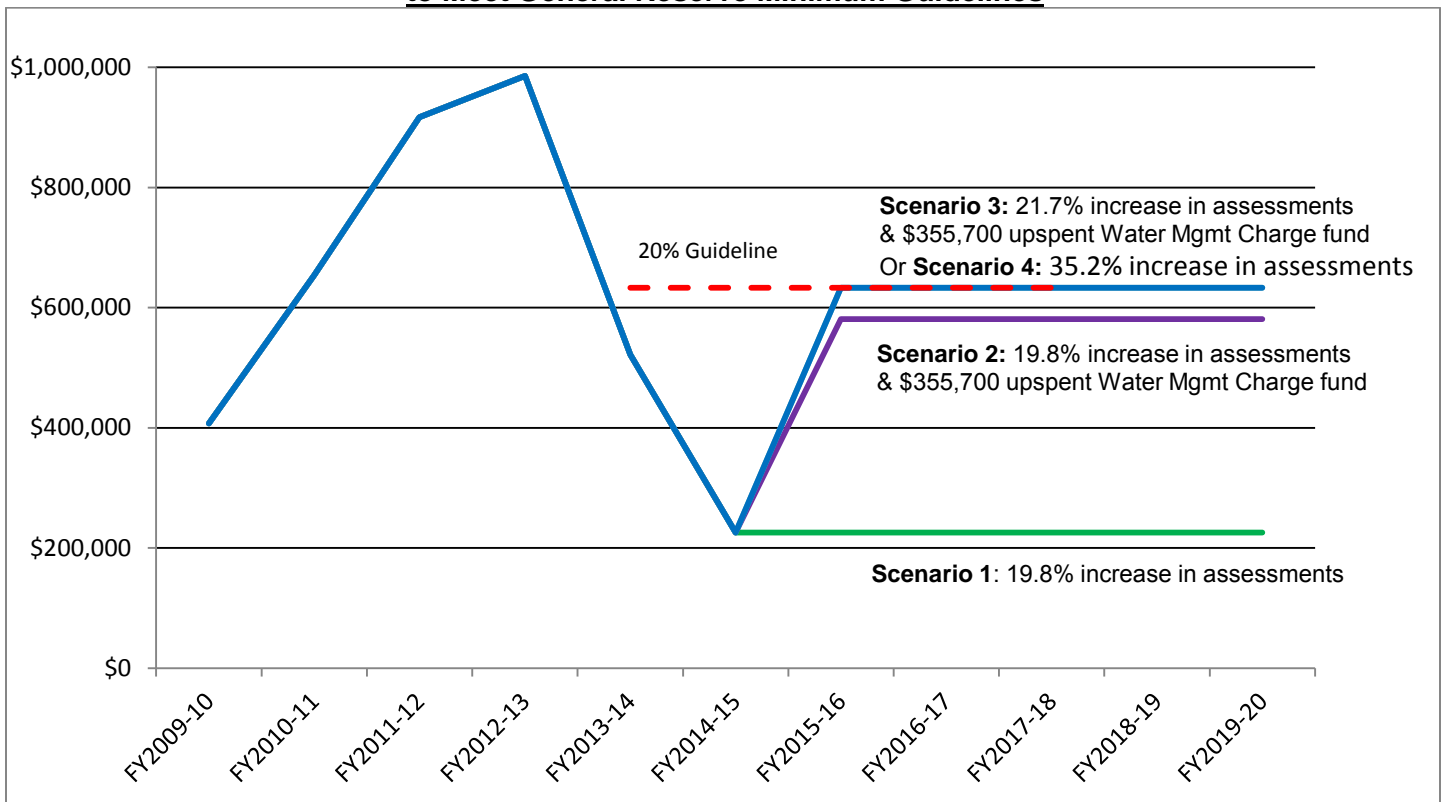
Alternatives Examined for Funding the Preliminary Operating Budget

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

- Scenario 1: Fund the FY 2015-16 preliminary Operating Budget with a one-time 19.8% increase in assessments that will only fully fund the preliminary Operating Budget. This scenario results in a General Reserve balance that is unchanged and remains less than the minimum budgetary guideline adopted by the Board.
- Scenario 2: Fund the FY 2015-16 preliminary Operating Budget with a one-time 19.8% increase in assessments and use of \$355,700 unspent funds that remain in the Water Management Charge fund following the completion of the Strategy to replenish the General Reserve. This scenario results in a General Reserve balance of \$581,161 as of June 30, 2016, which is \$51,879 less than the minimum budgetary guideline.
- Scenario 3: Use a combination of \$355,700 in unspent funds from the Water Management Charge Fund and a 21.7% increase in assessments in FY 2015-16 to fund the the FY 2015-16 preliminary Operating Budget and provide sufficient funding to return the General Reserve to the minimum budgetary guideline of \$633,040.
- Scenario 4: Fund the 2015-16 preliminary Operating Budget and provide sufficient funding to return the General Reserve to the minimum budgetary guideline of \$633,040 with a 35.2% increase in assessments. Surplus Water Management Charge Funds would remain available for future use in implementing Strategy actions.

All four scenarios assume the following: 1) full funding of the preliminary Operating Budget through assessments, 2) an Operating Budget of \$3,165,202 for five years, 3) 100% spending-to-budget ratio for FY 2015-16 and beyond, and 4) that unspent funds are deposited back into the General Reserve at year-end.

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



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

- Scenario 1 results in an estimated General Reserve balance in FY 15-16 significantly below the minimum budgetary guideline established by the Board.
- Scenario 2 results in an estimated General Reserve balance below the minimum budgetary guideline established by the Board.
- Scenario 3 and 4 result in an estimated FY 2015-16 General Reserve balance within the established budgetary guidelines, at 20% of the preliminary Operating Budget.

Based on these preliminary examinations, a 22% increase in assessments appears sufficient to bring the estimated General Reserve within the budgetary guidelines established by the Board. Last year was the first year BAWSCA raised assessments following five years of no assessment increase. The history of BAWSCA assessments is provided in Appendix E

A 22% increase in assessments represents a total increase of \$581,384. Table 5 presents the results of a 22% increase in assessments by member agency.

Table 5. Examination of a 22% Increase in BAWSCA Assessments

Members	Adopted FY 2014-15 Annual Assessment	Assessments with 22% Increase	Difference
ACWD	\$177,589.65	\$216,659	\$39,070
Mid Peninsula	\$54,138.00	\$66,048	\$11,910
Brisbane	\$5,531.40	\$6,748	\$1,217
Burlingame	\$73,511.55	\$89,684	\$16,173
Coastside	\$23,403.45	\$28,552	\$5,149
Cal Water	\$560,826.00	\$684,208	\$123,382
Daly City	\$68,623.80	\$83,721	\$15,097
E. Palo Alto	\$32,382.00	\$39,506	\$7,124
Estero	\$89,005.35	\$108,587	\$19,581
GVMID	\$6,901.65	\$8,420	\$1,518
Hayward	\$277,489.80	\$338,538	\$61,048
Hillsborough	\$57,643.95	\$70,326	\$12,682
Menlo Park	\$52,187.10	\$63,668	\$11,481
Millbrae	\$41,478.15	\$50,603	\$9,125
Milpitas	\$106,681.05	\$130,151	\$23,470
Mtn. View	\$167,986.35	\$204,943	\$36,957
North Coast	\$51,935.10	\$63,361	\$11,426
Palo Alto	\$208,439.70	\$254,296	\$45,857
Purissima Hills	\$33,020.40	\$40,285	\$7,264
Redwood City	\$178,084.20	\$217,263	\$39,179
San Bruno	\$36,919.05	\$45,041	\$8,122
San Jose	\$72,759.75	\$88,767	\$16,007
Santa Clara	\$61,868.10	\$75,479	\$13,611
Stanford	\$40,738.95	\$49,702	\$8,963
Sunnyvale	\$148,225.35	\$180,835	\$32,610
<u>Westborough</u>	<u>\$15,282.75</u>	<u>\$18,645</u>	<u>\$3,362</u>
Total	\$2,642,652.60	\$3,224,036	\$581,384

The potential for BAWSCA to secure a line of credit to use as a short-term backup alternative to fully replenish the General Reserve in a single year was examined at the direction of the Board. Following several conversations with BAWSCA's local bank about this issue, we were informed that the bank would be unable to provide such a service to BAWSCA for two reasons: it was against bank policy to provide a line of credit to a public agency and that it was not in the financial interests of the bank to provide this service to BAWSCA given BAWSCA's financial policy which limits deposits in any bank to the amount insured by FDIC.

APPENDICES

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

Appendix A: New Drought Response Actions To Achieve Necessary Water Use Reductions And Minimize Likelihood Of Mandatory Rationing

Development of a Watering Index and Irrigation Adjustment Notification System:

- BAWSCA will fund development of (1) a web-based Landscape Watering Index, which is a scientifically based number to guide adjustments to watering schedules based on changes in the weather, and (2) e-mail notification system, which would provide periodic, customizable notices with irrigation controller adjustment percentages, watering restriction information, and other conservation messaging.
- Outdoor water use makes up 30-50% of residential water use in the BAWSCA service area and has the largest potential for savings for the average home or business.
- Such systems have been implemented throughout California including Solano County.

Implement an On-line Conservation Rebate Application and Tracking System:

- BAWSCA will purchase and implement an on-line conservation rebate application, processing and tracking system to (1) enable BAWSCA member agency customers to submit applications for BAWSCA's subscription conservation programs via the internet and (2) facilitate more efficient and accurate processing and tracking of rebate applications.
- BAWSCA member agency customers currently submit applications in person or via the U.S. Mail system, which requires manual processing of applications, inputting of data for tracking purposes and notification of member agencies.
- New "off the shelf" software programs offer a wider range of services and would allow BAWSCA to simplify and expedite the application process for customers, more effectively process applications, as well as manage and track existing and proposed conservation programs.

Cost-Share Partnerships to Promote Conservation Messaging and New Resource Development:

- BAWSCA has a strong history of partnering with non-profit organizations in the BAWSCA service area to promote BAWSCA's conservation and water reliability efforts. Typically this partnership has involved in-kind services or small financial contributions.
- In response to the current drought, BAWSCA began a new partnership with San Mateo County Energy Watch in which both organizations are sharing the cost of temporary employee to outreach to targeted businesses that promote BAWSCA's water conservation program (ie, nurseries, hardware and plumbing stores).
- For FY 2015-16, it is proposed to continue these types of cost-effective regional partnership efforts given the critical drought year and the important conservation message.
- Potential partners in FY 2015-16 include:
 - San Mateo Countywide Water Pollution Prevention Program, Sustainable Silicon Valley, San Mateo County and East Bay Energy Watch.
- In addition, BAWSCA's Long-term Water Supply Strategy calls for a range of future actions to increase water reliability in the BAWSCA service area that will require

significant cooperation and collaboration from multiple entities in the region. These organizations will provide valuable resources to advance these efforts in the future.

Regional Drought Response Messaging (assume 10% voluntary):

- In 2014, BAWSCA worked collaboratively with the SFPUC to provide regional messaging throughout the service area. That level of coordination is expected to continue in 2015 given the continuing request for 10% voluntary water use reductions.
- BAWSCA is proposing to provide additional support for regional messaging based on last year's successful Google/YouTube advertising campaign. For example, BAWSCA received 300,000 YouTube views of its conservation message between August and November 2014, and doubled its website traffic during that same period.
- Finally, BAWSCA will continue to develop conservation messaging materials, tools and other services to support its member agencies in achieving the voluntary 10% water use reduction target set by the SFPUC.

Update BAWSCA Website Content and Function:

- Established in 2003, BAWSCA's website has not been significantly updated since.
- Funding for website maintenance and some updates have been budgeted annually beginning 2010-11, however expenditures have been low and limited to critical maintenance activity due to staff limitations and work load priorities.
- Both the content and the function of the website needs to be updated to allow it to continue to effectively communicate to the public and the water customers about BAWSCA and conservation programs offered by BAWSCA and member agencies.
- Since 2003, the purpose and audience for the website has changed. Initially, the website served to provide information about BAWSCA to the public and others.
- Today, the website serves a dual purpose of providing updated information about BAWSCA and also being a source of information for water customers seeking to implement water conservation activities. BAWSCA's website averages approximately 8,000 sessions monthly.

Appendix B: Funding for Subscription Conservation Programs

As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA's subscription water conservation programs. The staff time to be devoted to those programs during FY 2015-16 is estimated to be 700 hours. Agencies participating in subscription programs pay for associated consultant support and direct expenses. As in prior years, those consultant costs and direct expenses are not included in the Operating Budget.

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

BAWSCA's Operating Budget was not used to fund the cost of consulting services for developing the Long-Term Reliable Water Supply Strategy (Strategy). Rather, development of the Strategy has been funded through the Waste Management Charge authorized by the Board in July 2010.

As of January 2015, BAWSCA completed the development of the Strategy and the Strategy Phase II Final Report will be published in February 2015.

With the completion of the Strategy, the final accounting for costs against the Water Management Charge will be completed and presented to the Board as part of the FY 2015-16 Work Plan and Operating Budget development process. As of January 30, 2015, it is

estimated that a surplus of roughly \$350,000 exists in the Water Management Charge Fund. This surplus is available to repay actual expenses incurred by BAWSCA through its Operating Budget in FY 2012-13 and FY 2013-14 to support the Strategy.

Appendix D: Value for the Cost

The formula for BAWSCA assessments results in equivalent cost per gallon throughout BAWSCA’s members. All BAWSCA costs are ultimately passed on to water customers through the water rates of the local city, district, or private utility. The current cost of assessments to residential customers in the BAWSCA area averages about \$5.00 per household per year.

Appendix E: Historical Assessments

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

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

Fiscal year	Assessments	Year-End Reserves
2003-04	\$1,668,550	\$276,480
2004-05	\$1,641,995	\$246,882
2005-06	\$1,953,998	\$240,000
2006-07	\$2,117,904	\$654,000
2007-08	\$2,117,904	\$691,474
2008-09	\$2,309,000	\$507,474
2009-10	\$2,517,000	\$407,192
2010-11	\$2,517,000	\$653,763
2011-12	\$2,517,000	\$916,897
2012-13	\$2,517,000	\$985,897
2013-14	\$2,517,000	\$551,628
2014-15	\$2,642,653	\$225,461 (estimated)

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

The preliminary FY 2015-16 budget for BAWUA is \$1,100. This amount appears in the BAWSCA budget.

Appendix G: Preliminary Budget for the Regional Financing Authority Budget

The BAWSCA Board of Directors has continued to agree to fund nominal administrative costs for the Regional Financing Authority (RFA), at least until it became more actively involved and required significant resources. Assuming a continued low level of activity in FY 2015-16, the preliminary RFA budget is \$1,400. The RFA will formally consider and adopt this budget in July 2015.

Appendix H: History of Salary and Benefits Adjustments

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

- FY 2014-15: The Board approved a 2.60 percent increase to the top step of staff salary ranges, consistent with the December 2014 value for the Consumer Price Index for Urban Wage Earners and Clerical Works in the SF-Oak-SJ area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit. An allowance for merit adjustments was budgeted for employees not yet at top step
- FY 2013-14: The Board approved a 2.312 percent increase to the top step of staff salary ranges, consistent with the December 2013 value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the SF-Oak-SJ area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.
- FY 2012-13: The Board approved a 3.10 percent increase to the top step of staff salary ranges. Those adjustments were consistent with the December 2012 value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the SF-Oak-SJ area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.
- FY 2011-12: The Operating Budget included no adjustment to the salary for any employee for COLA, merit or any other reasons.
- FY 2010-11: The Board approved a 3.01 percent increase to the top step of staff salary ranges. Those adjustments were consistent with the December 2010 value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the SF-Oak-SJ area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.
- FY 2009-10: There was no COLA adjustment. An allowance for merit adjustments was budgeted for employees not yet at top step.

Appendix I: Uses of Professional Services

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

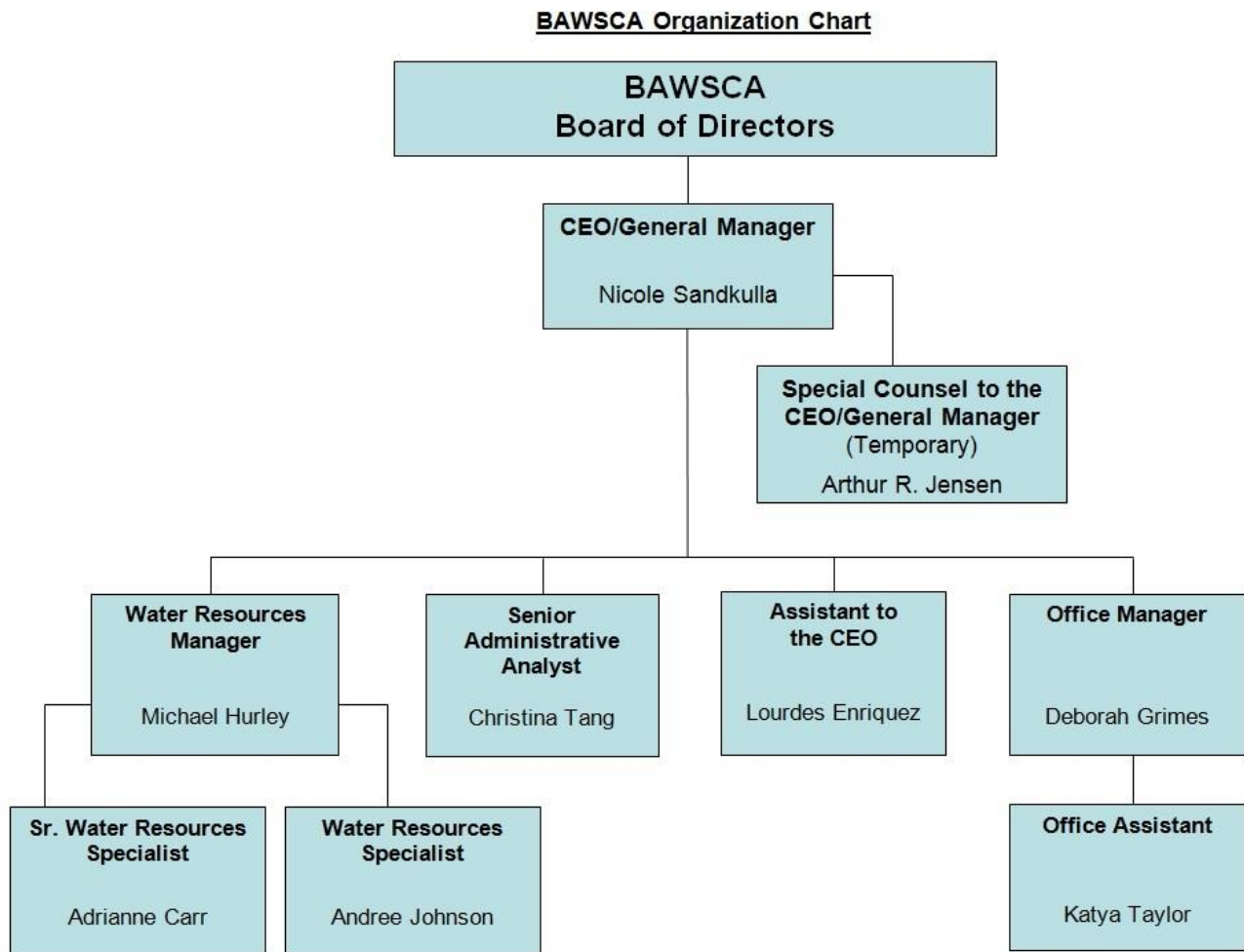
1. Professional engineering services for: a) evaluating and monitoring SFPUC's asset management program; b) evaluating and monitoring SFPUC's 10-Year Capital Improvement Program (CIP) development and implementation; c) evaluating Water System Improvement Program project scopes during design and construction; d) monitoring WSIP project cost estimates, bids and schedules; e) monitoring and assessing San Francisco's performance in implementing the overall WSIP; f) assessing San Francisco's method for cost estimation, application of contingencies and addressing cost inflation during the WSIP; g) providing specific constructive recommendations for keeping the WSIP on or ahead of schedule; and h) analyzing hydraulic records used by San Francisco in setting the wholesale water rates.
2. General legal services for BAWSCA and the RFA; specialized legal services to support administration of the Water Supply Agreement; specialized legal services for addressing matters related to water supply reliability.
3. Strategic counsel for identifying and addressing strategic and political issues associated with maintaining the progress of the Water System Improvement

Program, assisting the Board and the CEO in developing and implementing an effective policy making process that supports the development of the Long-Term Reliable Water Supply Strategy, providing legislative and political support, and providing advice to the CEO and the Board on other issues significant to the water customers and the effectiveness of the agency.

4. Financial advisory services to conduct specified capital financing and rate impacts analyses on a task order basis.
5. Accounting/auditing expertise to assist with implementing the Water Supply Agreement, as well as an independent auditor to prepare and review annual financial statements.

Appendix J: Current Organization and Staffing

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



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

Table 3 details the major challenges faced by BAWSCA, Member Agencies, and their customers between now and 2040 that were identified during the FY 2015-16 Work Plan development.

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

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

**Table L-1: Beneficial Activities Identified
But Not Included in Preliminary Operating Budget for FY 2015-16**

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

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BAWSCA

Bay Area Water Supply & Conservation Agency

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MEMORANDUM

TO: BAWSCA Board of Directors
DATE: February 6, 2015
FROM: Nicole Sandkulla, CEO/General Manager
SUBJECT: Chief Executive Officer/General Manager's Letter

Pilot Water Transfer Plan – Update:

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

As reported previously, execution of the pilot transfer is contingent on the actions of others including EBMUD's operation of its Freeport Facilities. In December, the EBMUD board authorized the operation of the Freeport Facilities during the January to April 2015 window to deliver its WY2014 Central Valley Project supplies. Subsequently, EBMUD has announced they will reconsider operation of these facilities starting in the summer depending upon the precipitation received over the next few months at the April 28 EBMUD Board meeting.

BAWSCA has recently begun supporting EBMUD in the development of the environmental documentation associated with the Bureau of Reclamation's Warren Act Contract for use of the Folsom South Canal. The Warren Act Contract is required prior to obtaining water through the Freeport Facilities. BAWSCA is also continuing its work on finalizing the necessary agreements and other environmental documentation required to execute a pilot water transfer during the fall of 2015.

January 28th FERC Settlement Meeting – Report:

The Modesto and Turlock Irrigation Districts (Districts) are in the process of (1) renewing their existing license for the operation of the Don Pedro Hydroelectric Project and (2) obtaining a new license for the operation of the La Grange Hydroelectric Project on the Tuolumne River. The Don Pedro facility currently operates under a 50-year license from the Federal Energy Regulatory Commission (FERC) that extends through April 30, 2016.

BAWSCA and the SFPUC are participating in the relicensing process because of potential impacts to Tuolumne River supplies such as increased in-stream flow requirements imposed for the Tuolumne River as conditions of a new hydropower license.

In December, a Tuolumne Settlement Group (Group) was formed to initiate a separate negotiated settlement process (Settlement Process), which is intended to resolve potential disputes related to any potential conservation measures in the licenses to be issued. If successful, the results of these negotiations would eventually be contained in a settlement agreement that becomes the basis for the license application to FERC. Similar processes have been successfully undertaken on other California rivers including the Klamath, Feather and Stanislaus.

Group members, made up of participants in the relicensing process, currently include water and resource agencies, and a range of environmental, recreational interests and others are expected to join as the process proceeds.

Facilitators hired to guide the Settlement Process met individually with Group participants, including BAWSCA, in January and hosted a kickoff meeting of the entire Group on January 28th in Sacramento. The Group is expected to meet monthly for remainder of 2015 depending on progress.

Lawn Be Gone! Participation Up by 350%

Customer participation in BAWSCA's Lawn Be Gone! rebate program, which provides rebates for replacing turf with water efficient plants, was up by 350% in the first seven months of FY 2014-15 compared to the same period in FY 2013-14. The increase in participation is credited to increased outreach by BAWSCA and its member agencies, significant media coverage, and an increase in the program rebate amounts. To continue the program's success, BAWSCA is currently conducting additional outreach, including training for local nurseries and retailers.

Results of Recent OPEB Valuation:

Accounting guidelines require public agencies, like BAWSCA, to perform a valuation of their Other Post-Employment Benefits (OPEB) liabilities on a bi-annual basis. BAWSCA's practice is to perform this valuation on an annual basis for right now. In January 2015, North Bay Pensions completed BAWSCA's OPEB actuarial valuation as of July 1, 2014. The objective of the valuation is to determine the best estimate of post-employment financial obligations as of July 1, 2014, and how much BAWSCA would need to set aside to fully fund that liability in FY 2015-16.

BAWSCA's estimated Annual Required Contribution (ARC) for FY 2015-16 is \$145,071 with an assumed discount rate of 6.73%. When BAWSCA's California Employers' Retiree Benefit Trust (CERBT) account was established through CalPERS in April 2014, BAWSCA selected the Investment Strategy #2 for the asset allocation, which was 7.06% at that time. CalPERS has reduced the anticipated long-term investment yield under its Investment Strategy #2 from 7.06% to 6.73%. Accordingly, the discount rate used for BAWSCA's OPEB valuation was changed from 7% to 6.73%. The estimated ARC for FY 2015-16 of \$145,071 is higher than the estimated ARC for FY 2014-15 of \$142,788 reported in the 2013 valuation, mainly due to the decrease in the discount rate.

Results of FY 2012-13 Wholesale Revenue Requirement Review

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 (WRR) and the changes in the balancing account for FY 2012-13. BAWSCA's review was assisted by its consultants: Hanson Bridgett, KNN Public Finance and Burr, Pilger and Mayer. Upon completion of the review in April 2014, BAWSCA raised some questions to the SFPUC as to the proper amount of the WRR for FY 2012-13. Discussions occurred between the staff of the SFPUC and BAWSCA.

As a result, BAWSCA and SFPUC staff have reached a verbal agreement on various adjustments to the balancing account. The Wholesale Customers will receive a credit of \$739,965 in the balancing account as a result of BAWSCA's FY 2012-13 WRR review, but owe \$433,191 as a result of SFPUC's accounting corrections made during the same review process. A draft settlement agreement pertaining to the resolution of the previously outstanding issues related to SFPUC costs allocated to Wholesale Customers for FY2012-13 is currently under legal review and is anticipated to be executed on February 10, 2015. That

agreement will result in a total credit owed to the Wholesale Customers of \$310,127 including interest.

The adjustments and financial impact are summarized in Table 1 below. The credit will be applied to the opening balance of the Balancing Account as of June 30, 2014.

Table 1. Summary of Financial Impact to FY 2012-13 Balancing Account

Item #	Type of Adjustment	Descriptions	Due from (to) Wholesale Customers
1	Cost allocation error	Telephone expenses were allocated incorrectly as Operating and Maintenance (O&M) costs, which should be allocated as Administrative and General (A&G) costs.	(\$264,974)
2	Cost allocation error	City Recreation and Parks work order expenses were allocated incorrectly as A&G Regional costs, which should be allocated as A&G Retail costs.	(\$205,777)
3	Cost allocation adjustment	Reclassify costs allocated to the Natural Resources and Water Resources Planning for 525GG related expenses from O&M costs to A&G costs.	(\$201,844)
4	Cost allocation adjustment	As a result of FY10-11 Settlement Agreement, the O&M and A&G expenses related to Kirkwood and Moccasin Penstocks will remain classified as Power at this point.	(\$31,547)
5	Cost allocation error	Payments to the USDA Forest Service for Groveland Ranger/Summit were allocated incorrectly as Water costs, which should be allocated as Joint costs.	(\$34,973)
6	Accounting error	SFPUC incorrectly charged the appropriation for the Town of Sunol Fire Suppression System retail project to regional.	(\$850)
7	Accounting error	SFPUC's meter malfunction resulted in under reporting of water deliveries to Cal Water.	(\$496,917)
8	Accounting adjustment	The J Table was adjusted due to the billing error for Cal Water.	\$187,566
9	Accounting error	SFPUC incorrectly credited the Wholesale Customers with BAWSCA assessment fee and the SFPUC administrative fee for Cal Water.	\$544,803
10	Accounting error	SFPUC omitted to bill the operating programmatic project expenses to the Wholesale Customers.	\$197,739
		Adjustments 1-6 as a result of BAWSCA's WRR review	(\$739,965)
		Adjustments 7-10 as a result of SFPUC's accounting corrections	\$433,191
		Total adjustments	(\$306,774)
		Interest, computed at 0.85%	(\$3,353)
		Grand total	(\$310,127)

BAWSCA CERBT Account Balances and Activities:

BAWSCA's CERBT account was established in April 2014. Per CalPERS, the actual annual rate of investment return in 2014 was 5.65%. A summary of BAWSCA's CERBT account balances and the account activities for the OPEB contributions in 2014 is shown in Table 1 below.

Table 1: CERBT Account Balances and Account Activity in 2014

	\$0	Account balance as of 03/31/2014
<i>plus:</i>	98,405	<i>Contribution for FY13-14</i>
<i>plus:</i>	95,183	<i>Contribution for FY14-15</i>
<i>plus:</i>	3,114	<i>Investment earnings</i>
<i>minus:</i>	<u>100</u>	<u><i>Administration expense</i></u>
	\$196,602	Account balance as of 12/31/2014

Review of Conflict of Interest Code – Update

BAWSCA is required to review its Conflict of Interest Code every even numbered year or when organizational changes necessitate amendments to the code. The Board's last review of the code was in 2010. In 2012, BAWSCA staff and legal counsel reviewed the code with the FPPC, resulting in an approval of an updated code by the FPPC in December 2012.

Modifications to the current code are recommended to reflect the current organizational structure, and to combine the RFA Conflict of Interest Code with BAWSCA's.

On October 8, 2014, the Board Policy Committee voted unanimously to recommend adoption of the proposed Conflict of Interest Code following the required 45-day public notice period, subject to further amendment and approval by the FPPC.

As reported to the BPC in October, State law has changed such that the FPPC is the only legislative body whose action is legally binding in the adoption of an agency's Conflict of Interest Code. The Code goes through a series of reviews in FPPC's chain of command, and can be subject to further changes, before the Code is agendized for adoption by the FPPC. BAWSCA and the FPPC are required to issue a 45-day public notice period of the Code's amendments before the FPPC's final adoption.

BAWSCA staff is continuing to work through the process so that it is in concert with the FPPC's 45-day public notice period and final adoption. Upon FPPC staff approval of the recommended changes, BAWSCA will initiate, along with FPPC, a 45-day notice period. The code will be presented to the BAWSCA Board, in unison with the code being presented to the FPPC, for final adoption.

Board of Directors Policy Calendar for FY 2014-15

Board Meeting	Purpose	Issue or Topic
February 2015	D&A D&A D D	Consideration of BAWSCA Bond Surcharges for FY 2015-16 Consideration of Adjustments to Staff Top Step Position Compensation Presentation of Preliminary FY 15-16 Work Plan and Budget Discussion of Possible Actions to Implement the Strategy
April 2015	D&A D&A	Consideration of Proposed FY 15-16 Work Plan and Budget Consideration of Annual Contracts
June 2015	D&A	Review Water Supply Forecast & Decide if a Transfer Should be Pursued
Aug. 2014	D&A	Review Water Supply Forecast & Decide if a Transfer Should be Pursue
Oct. 2014	R&D R&D	BAWSCA Mid-Year Review for FY 2014-15 Work Plan and Budget Review of General Reserve Policy
Dec. 2014	D D&A	Work Plan and Budget Planning for FY 2015-16 BAWSCA Mid-Year Review for FY 2014-15 Work Plan and Budget

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

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