

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

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

**Thursday, March 19, 2015  
7:00 P.M.**

**AGENDA**

<b><u>Agenda Item</u></b>	<b><u>Presenter</u></b>	<b><u>Page</u></b>
<b>1. Call to Order/Roll Call/Salute to Flag</b>	<b>(Breault)</b>	
<b>2. Comments by the Chair</b>	<b>(Breault)</b>	
<b>3. Board Policy Committee Report (Attachment)</b>	<b>(Bronitsky)</b>	<i>Pg 3</i>
<b>4. SFPUC Report</b>		
A. Comments by Commissioner Caen, President	<b>(Caen)</b>	
B. 2014 State of the Regional System Report	<b>(Ritchie)</b>	
<b>5. Public Comments</b>	<b>(Breault)</b>	
<i>Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>		
<b>6. Consent Calendar (Attachments)</b>	<b>(Breault)</b>	
A. Approve Minutes of the January 15, 2015 Meeting		<i>Pg 21</i>
B. Receive and File Budget Status Report – As of January 31, 2015		<i>Pg 27</i>
C. Receive and File Bond Surcharge Collection Report – As of December 30, 2014		<i>Pg 29</i>
D. Proposed Fiscal Year 2015-16 Bond Surcharges (Attachment)		<i>Pg 31</i>
<i>The Committee voted unanimously to recommend approval of the proposed Board action</i>		
<b>7. Action Calendar</b>		
A. Adjustments to Staff Top Step Position Compensation (Attachment)	<b>(Sandkulla)</b>	<i>Pg 37</i>
<i>The Committee voted unanimously to recommend approval of the proposed Board action.</i>		
<b>8. Reports and Discussions</b>	<b>(Sandkulla)</b>	
A. Preliminary Fiscal Year 2015-16 Work Plan and Operating Budget (Attachment)		<i>Pg 39</i>
<b>9. Reports</b>	<b>(Sandkulla)</b>	
A. Water Supply Conditions		

- B. CEO/General Manager’s Letter (*Attachment*)
- C. Board Policy Calendar (*Attachment*)
- D. Correspondence Packet (*Under Separate Cover*)

Pg 59

Pg 71

- 10. Directors’ Discussion: Comments, Questions and Agenda Requests** (Breault)
- 11. Date, Time and Location of Future Meetings** (Breault)  
(See attached schedule of meetings)
- 12. Adjourn to next meeting scheduled for May 21, 2015 at 7pm** (Breault)

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**Directions to Foster City Community Bldg. – 1000 E. Hillsdale Blvd., Foster City**

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

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

# **BAWSCA**

**Bay Area Water Supply & Conservation Agency**

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## **MEMORANDUM**

TO: BAWSCA Board Members

FROM: Nicole Sandkulla, Chief Executive Officer/General Manager

DATE: March 19 2015

SUBJECT: Summary of Board Policy Committee meeting held February 11, 2015

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1. **Call to Order:** Committee Chair Charlie Bronitsky called the meeting to order at 1:30 pm. A list of Committee members who were present (11), absent (0) and other attendees is attached.

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

2. **Comments by the Chair:** Chair Bronitsky welcomed Director Larsson and Director Marsalli as new members of the Committee, and requested self-introductions from committee and staff members.

BAWSCA Chair Breault asked for time to comment and thank the Committee members for their service on the committee. He emphasized the value and importance of the committee to the operations of BAWSCA, explaining that it is a place for a core group of directors that represent the region, to discuss and thoroughly analyze the critical work and information the agency is doing before matters are presented to a 26-member Board. Just as importantly, it provides staff the opportunity to understand the questions and concerns that are important to the Board members. The committee has been a crucial process in the successes BAWSCA has had over the year. He recognized everyone's busy schedules and appreciates their commitment to attending the meetings in the middle of the day, in the middle of the week.

3. **Public Comments:** Public comments were made by Peter Drekmeier of Tuolumne River Trust, about the Silicon Valley Water Conservation Awards, and BAWSCA staff member, Andree Johnson's contribution to the coalition.

Comments were also made by Julie Pardini and Tania Solé, peninsula residents, about a moratorium on construction to slow down the issuance of building permits during the drought. This can help with the call for water use reduction.

**4. Consent Calendar:**

**Director Vella made a motion, seconded by Director O’Connell, that the minutes from the December 10, 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 the proposed bond surcharges for FY 2015-16 is being brought back to the Committee because, in addition to the true-up adjustment reflecting actual purchases in FY 2013-14, as reported at the December BPC meeting, it now includes the actual expenses of \$12,115 incurred in FY 2013-14 in connection with the bond administration that were paid through BAWSCA’s Operating Budget. She explained that the Bond Indenture allows BAWSCA to levy the bond surcharges to cover the debt service obligation and the expenses in connection with the bond administration.

Ms. Tang reported that FY 2015-16 is the first year bond surcharges will include the “true-up” adjustment to reflect the actual water purchases in FY 2013-14, as well as the actual FY 2013-14 bond administration expenses. She explained the calculation and noted that the “true-up” adjustment is anticipated every year, moving forward, with a two year lag. Meaning, the true-up calculation for FY 2015-16 will be included in the surcharge setting for FY 2017-18.

Ms. Tang presented the proposed FY 2015-16 bond surcharges for each agency in an annual and monthly breakdown. She explained that the bond surcharges are a fixed amount adopted by the board each fiscal year, and are collected as a separate line item in the bill member agencies receive from SFPUC each month.

Ms. Tang reported the savings incurred by each member agency in FY 2013-14 from the bond issuance, and noted that the member agencies’ collective savings is higher than the preliminary Operating Budget for FY 2015-16.

An alternative to the proposed FY 2015-16 bond surcharges is to not include the administrative expenses incurred in FY 2013-14.

Director Guzzetta recommends that the expenses associated with the administration of the bonds be incorporated in the surcharge setting rather than paying for it from the Operating Budget.

Director Pierce suggested to modify the recommended action for the Board to state that the bond surcharge setting will include the expenses associated with administering the bonds for each fiscal year, moving forward.

**In support of Director Pierce’s suggestion, Director Mendall made a motion, seconded by Director Pierce, to recommend Board approval of the proposed FY 2015-16 bond surcharges as presented in the staff memorandum.**

**The motion carried unanimously.**

- B. Adjustments to Staff Top Step Position Compensation: Ms. Sandkulla reported that BAWSCA conducts a salary survey every two years to ensure that top step compensation range for staff positions are in line with the overall market. A salary survey was

conducted by Koff and Associates in January 2014 as part of this process. This work was included in FY 2013-14 Operating Budget approved by the Board.

Ms. Sandkulla stated that the survey results were not presented to the Board in 2014 given the agency staff changes occurring simultaneously with the completion of the survey.

The results of the survey are being presented at this time to align BAWSCA's top step compensation ranges with the market. It is not a recommendation to change current compensation during FY 2014-15, and poses no fiscal impact in FY 2014-15.

The survey results show that compensation levels for most BAWSCA positions are within 1.3% and 4.5% below the market, except for two positions, which are 7.9% and 9.8% below the market.

Action by the committee to recommend Board approval would allocate a merit budget in the Operating Budget for FY 2015-16. The potential impact to the FY 2015-16 budget is \$4,571.

Ms. Sandkulla explained that the merit budget is based on two components: a COLA adjustment, if approved by the Board, and a <5% merit adjustment. COLA adjustments are applied to a position's top step salary. There is no automatic application of a COLA adjustment to the salaries for BAWSCA staff. Rather, the COLA adjustment and merit allowance provide a budget allowance for salary increases to be authorized at the CEO's discretion.

Ms. Sandkulla explained that BAWSCA does not operate under MOUs or Union MOUs that require automatic salary increases for COLA. The compensation survey is the only mechanism that BAWSCA has to keep its salary ranges in line with the market.

Director Weed commented that a study of 3,000 special districts in California identifies the Bay Area to be in the top 1% when it comes to pay and benefits in the state of California.

Director Guzzetta asked if total compensation was included in the survey and what the results indicated. He stated that the proof of an organization's success is to attract and maintain the right people who will continue to achieve the results. He believes that BAWSCA is on target with its salary schedules and that this is confirmed with the longevity of BAWSCA's staff.

Ms. Sandkulla stated that total compensation was included in the survey and that its results lead to the same conclusions.

Director Mendall commented that the salary study of 3,000 special districts in California can be misleading because it omits a lot of factors. He supported BAWSCA's approach to a compensation survey which took similar jobs in different agencies and looked at how they compare.

In response to Director Keith's questions regarding increases in salary ranges which results to increases in CalPERS fees, Ms. Sandkulla explained that the budget

development makes assumptions to allocate accordingly for salary adjustments that will occur in the fiscal year. Those are called out in the budget discussion with the board.

Director Pierce asked that the final compensation survey report to the Board lists the agencies that participated in the survey, and state the reason why BAWSCA conducts the survey every two years. Additionally, just as the CEO has a merit budget available to use at his/her discretion, Director Pierce suggested that the Board should discuss having a similar merit budget for the CEO that the Board can use at its discretion.

Ms. Sandkulla stated that this consideration can be called out during the budget discussion with the Board.

Director Vella questioned the use of the same group of agencies in the survey performed by the same consultant, for a cost of \$5,500 for the renewal of the same information.

Ms. Sandkulla explained that compensation comparison for BAWSCA's administrative staff, including the CEO, Assistant to the CEO, Office Manager, and Office assistant, has stayed consistent. But comparison for the technical staff has had changes based on the skill set and the work that those individuals are doing, and what parallel positions the survey is comparing against. Ms. Sandkulla reported that several changes were made to the survey to make sure the comparisons for the technical positions were as accurate as possible.

In response to Director Larsson's question, Ms. Sandkulla clarified that the \$4,571 is the potential impact for adjusting the top stop compensation for the two positions that are 7.9% and 9.8% below market. This is the amount that will be added to the potential merit budget that the board will discuss during the budget development for FY 2015-16.

Director Larsson asked whether there will be a salary survey done in FY 15-16 since this salary survey under discussion was from FY 13-14.

Ms. Sandkulla has not decided if one would be necessary at this time.

Director Brontisky commented that he has high regard for the agency, the board, and its staff. It is not typical for an agency to debate and discuss a \$5,000 impact to the budget given that it serves over 1.5 million people. He noted that BAWSCA's Operating Budget amounts to approximately \$2/person. He believes this is highly efficient given the level of expertise the agency requires from its staff, and the cost of living in the area.

Director Keith was surprised with the significant jump in the salary for the two positions given that BAWSCA does a compensation survey every 2 years.

Ms. Sandkulla explained that when the position of Water Resources Specialist was added, BAWSCA re-structured the position of Sr. Water Resources Analyst based on the individual that was hired. The position called for a broad range of expertise, and developing a compensation for the position was very complicated because it depended upon the individual that was hired. It was clear from the salary survey, that the initial target was off.

The case was the same for the position of Water Resources Manager. Because the Water Resources team was re-structured, additional responsibilities were assigned to the Water Resources Manager, therefore, the position description changed.

Director Bronitsky added that the recession in 2008 caused market fluctuations as a result of hiring and compensation freezes.

**Director Mendall made a motion, seconded by Director Keith, that the Committee recommend Board approval of adjustments to top step compensation for specified positions (all staff positions except CEO and Office Assistant).**

**The motion carried unanimously.**

## **6. Reports and Discussion Items**

Preliminary Fiscal Year 2015-16 Work Plan and Operating Budget: Ms. Sandkulla reported that her presentation will go over the preliminary work plan and budget, including the additional program activities and staff time that address the ongoing drought condition, and alternatives to funding the budget.

The BPC's discussion of the preliminary work plan and Operating Budget for FY 15-16 initiates the process of developing a proposed work plan and Operating Budget that the Committee will review and discuss at its meeting in April, before it is presented to the Board for action in May.

As discussed with the Committee in December, and the Board in January, the annual work plan and Operating Budget is developed to align with BAWSCA's legislated authority and three goals of ensuring reliable supply of high quality water at a fair price. It focuses on, and is built around, the critical results that need to be achieved next fiscal year, and the future challenges that face member agencies and their customers.

Ms. Sandkulla presented a list of specific tasks set out for FY 15-16. They are discreet actions based on BAWSCA's objectives of reliable supply, high quality water, fair price, and efficient administration of the agency.

Under reliable supply, BAWSCA will continue to monitor the progress and make recommendations on SFPUC's implementation of the WSIP and 10-year CIP. Ms. Sandkulla noted that monitoring SFPUC's Asset Management Program has been added to the work plan in response to the strong interest expressed by both the Committee and the Board.

BAWSCA will implement the recommendations of the Strategy's Phase II Final report, support member agencies' efforts to develop the required 2015 Urban Water Management Plans, and implement drought response actions to support member agencies' efforts in achieving the necessary water use reductions.

BAWSCA will continue to protect member agencies' water supply and financial interests in the administration of the 2009 WSA. Ms. Sandkulla reported that BAWSCA and the SFPUC are in active discussions to consider a modification of the Tier 1 plan for drought. While it may not be a formal modification to the plan, it would be a modification that will address the current drought and can be beneficial for the region.

BAWSCA will continue to assess the significance and risks of potential actions by proponents of draining Hetch Hetchy, monitor and participate in the FERC re-licensing process of New Don Pedro, pursue state grants to use on conservation programs and implementation of projects recommended in the Strategy, and monitor and document water use in the service area to protect member agencies' interests. Ms. Sandkulla noted that BAWSCA's Water Conservation Database proved valuable for the agencies when it was used to determine whether the member agencies were achieving San Francisco's call for voluntary 10% water-use reduction.

Director Weed asked whether BAWSCA has a standard process of collecting member agency water use. Ms. Sandkulla explained that BAWSCA collects agency water use data on a monthly basis through an online interface, by customer class and by source. She stated that classification of single-family residential water use are standard among the agencies, however multi-family, commercial and industrial classification can vary significantly between agencies.

Director Weed suggested that developing a model for customer classification that member agencies can be encouraged to follow would be beneficial.

Ms. Sandkulla agreed, and explained that in collecting member agency data for BAWSCA's Annual Survey, member agencies have accepted BAWSCA's five customer classification categories. Those categories have not been pushed towards the monthly basis because, for most agencies, customer classifications are defined in the financial department. This makes what appears to be a simple data change very complicated for many agencies.

Ms. Sandkulla presented the tasks under high quality, fair price and administration of BAWSCA.

BAWSCA maintains its involvement with the Joint Water Quality Committee between the SFPUC and BAWSCA to ensure that member agencies' interests are represented and ensure a reliable communication of water quality issues.

Ms. Sandkulla reported that the area of fair price will have increased focus in FY 2015-16, particularly with BAWSCA's administration of the bonds and of the 2009 WSA, as it relates to the water supply and financial interests for the member agencies. Additionally, the work plan will include BAWSCA's coordination of input to SFPUC's goals and objectives for future examination of alternative wholesale water rate structures.

Ms. Sandkulla reported that the SFPUC has expressed interest in examining alternative wholesale water rate structures that rely on a greater share of fixed costs. Currently,



wholesale customers pay a small fixed rate with the majority of the wholesale rate based on actual water purchases.

BAWSCA will work with San Francisco on this effort to ensure that the provisions of the WSA are enforced. Ms. Sandkulla stated that there are specific timelines on when San Francisco can make changes to the wholesale water rate, and a required public process for making changes. Additionally, changes should be based on goals and objectives as opposed to, for example, responding to the drought. Changing the wholesale rate structure during a drought is not necessarily the best or most appropriate timing.

In response to Director O’Connell, Ms. Sandkulla reported that the SFPUC is looking at a greater fixed charge, as well as examining how to address agencies that are purchasing below their Individual Supply Guarantee (ISG).

Legal Counsel, Allison Schutte, added that the WSA includes language from the 1984 Settlement Agreement that says agencies pay based on proportionate annual use, which, historically has been achieved through the current rate structure that heavily favors volumetric rates.

Director Guzzetta commented that it appears that San Francisco is seeking annual revenue certainty, which could be achieved through the balancing account.

Ms. Sandkulla concurred with Director Guzzetta, and reported that just like many other water agencies, SFPUC had experienced decreased water sales revenue as a result of the current drought. They were \$41 million below in water revenue, of which \$25 million is from the wholesale customers. The balancing account can be used to assist in repaying the shortfall.

BAWSCA will pursue a better understanding of San Francisco’s goals and objectives for this project. One concern is that some rate structure changes can result in revenue stability risks being shifted to wholesale customers who have a lot less flexibility given Prop 218 requirements and timing issues.

Lastly, BAWSCA’s administrative tasks include the maintenance of close relationships with local legislators, community allies, and environmental groups. BAWSCA will continue to coordinate Regional Water System and local facility tours with San Francisco, and preserve the professional management of the agency.

Ms. Sandkulla reported that the work plan includes five programs in direct response to the drought, and for which member agencies have expressed an interest in. The first is the development of a water index and irrigation adjustment notification system, which is a tool for home owners to manage their landscape water use.

The second is the implementation of an online conservation rebate application and tracking system.

The third is cost-share partnerships to promote conservation messaging and new resource development. For example, this year, BAWSCA was approached by San Mateo County Energy Watch, and Sustainable Silicon Valley with partnership opportunities that

promote BAWSCA's conservation programs and drought messaging. Investing in these regional partnerships, which usually offer cost-share opportunities, help BAWSCA's dollars go farther.

The fourth is expanding the Google/You Tube regional drought messaging, which proved successful during the summer drought campaign.

The four programs ultimately drives traffic to BAWSCA's website, which is the fifth item added to the work plan. Ms. Sandkulla reported that the functionality of the website is limiting BAWSCA's abilities to effectively provide water customers information about conservation. The website has not been updated since it was developed in 2003, when its functionality was primarily to inform who BAWSCA is, and what it does. The role of BAWSCA's website has evolved to be a source of information for water customers seeking to implement water conservation activities. It is important to fulfill this role in the midst of a drought and into the future.

Committee discussions ensued on cost-share partnerships.

Director Mendall expressed caution with this program because the effort can be mistaken to have only a localized benefit, and therefore, he would be interested in supporting regional efforts that would be paid for and benefit all agencies. He values BAWSCA's unity and the principle that holds the region together.

Ms. Sandkulla explained that the partnership with San Mateo County Energy Watch involves a cost-share of \$7,000 for a fellow who will promote BAWSCA's outdoor conservation message and HET rebate and landscape conservation programs to targeted business including hardware and plumbing stores, and nurseries in the service area.

Andree Johnson, Water Resources Analyst, clarified that the program is designed to cover all three counties in BAWSCA's service area. She noted that since Santa Clara Valley Water District runs its own alternatives to lawn rebate program, the fellow, whose initial focus was on the Lawn Be Gone! rebate program, has not made it to Santa Clara County yet.

Director O'Connell commented that while the partnership is with one entity, the effort to promote the message of conservation benefits all of the member agencies.

Director Breault commented that this highlights BAWSCA's evolutionary path and noted that BAWSCA's predecessor organization, BAWUA, was originated to help agencies come together to protect its individual interests.

Since BAWSCA's formation, the agencies' activities have truly highlighted BAWSCA's regional role, and previous board discussions have acknowledged the fact that the people individual agencies serve work and travel throughout the BAWSCA service area.

Director Breault commented that as the representative for GVMID, the irrigation notification system is not as important to him since Brisbane's residents generally have small lawns, nor is BAWSCA's efforts to assist agencies with Urban Water Management Plans, since GVMID and Brisbane are not required to submit one by law. But he must

recognize his regional role as a BAWSCA director, and support these programs that benefit the region.

He emphasized that discussions about what defines regional benefits are important to have and will be critical into the future when determining BAWSCA's activities.

Director Bronitsky supported the concept and encouraged the pursuit of such programs, but noted there may be instances where the benefit is not equal among the member agencies. In those instances, he suggested that it should be brought back to the Board for discussion.

Ms. Sandkulla stated that her discretionary spending authority is \$25,000. Anything above that amount must be brought back to the Board.

Director Guzzetta commented that there are activities that, for example, Cal Water, as a much bigger entity, is doing independently while other member agencies are being assisted by BAWSCA. This is just a part of the uniqueness of the organization. He agrees that the cost-to-benefit should not be allowed to get too far skewed; however, it is a situation that will happen because of the nature of the organization.

Ms. Sandkulla presented the preliminary budget of \$3,165,202. While it is 8% greater than the current budget, it remains 3.5% less than the FY 2013-14 budget.

The distribution of the budget among the tasks is primarily on reliability and fair pricing, with greater distribution on fair pricing for FY 2015-16.

The preliminary budget fully funds the OPEB annual required contribution, and includes a budget for a 2.09% COLA adjustment applied to the top step salary range for all positions except the CEO.

In response to Director Weed, Ms. Sandkulla reported that BAWSCA continues to review OPEB annually. A summary report of the CERBT account balances and account activities for the OPEB contributions in 2014 is in the CEO letter.

The preliminary budget includes a merit budget for staff except for the CEO. The merit increase allowance is <5% per salaried positions. A decrease in the PERS contribution, and an increase in the budget for health premiums are also reflected in the preliminary budget.

Ms. Sandkulla presented alternatives for funding the preliminary budget.

As discussed at the December BPC meeting, and reported to the Board in January, the current budget used approximately \$300,000 from the General Reserve, and assumed a transfer of \$328,000 to the General Reserve at the end of FY 2014-15 due to under-expenditure.

This assumption was based on historical activities in the last several years, which formed the agency's practice of using the General Reserve to fund a portion of the Operating Budget, and anticipating a transfer of expenditure savings to the General Reserve at the

end of the fiscal year. This practice produced a growing General Reserve that, Ms. Sandkulla reminded the Committee, enabled a one-time refund of assessments to the agencies in 2011 to stay within the agency's guidelines for the General Reserve.

Ms. Sandkulla reported that the historical trend has changed. The current budget will be fully spent, resulting to a year-end balance of the General Reserve to be \$221,461. This balance is 8% of the approved Operating Budget which is below the budgetary guideline.

The current level of assessments is not enough to fully fund the preliminary Operating Budget, and the General Reserve will be well below the adopted guideline. As a result, assessments need to be increased to fund the preliminary Operating Budget for FY 2015-16.

The board has, for its consideration, the unspent funds from the Water Management Charge (WMC) collected during FY 2010-11. The WMC was approved by the Board to specifically fund work associated with the Long-Term Reliable Water Supply Strategy. It was a multi-year budget used to pay the consultant work associated with the effort of the Strategy. The Strategy is now complete, and there is an estimated amount of \$355,700 that is unspent.

Ms. Sandkulla reported that several new scope items developed, as the Strategy progressed, that were paid for by BAWSCA using the General Reserve. One of the biggest examples of work that developed was the demand study, which cost approximately \$360,000, and was completed over two fiscal years. The General Reserve funded the demand study because the General Reserve balance was above the agency's guidelines at the time, and it was an appropriate action for the Board to take.

In talking with legal counsel, it is acceptable for the agency to pay itself back for expenses taken out of the General Reserve to pay for work associated with the Strategy.

Ms. Sandkulla reported that a combination of increased assessments with use of the surplus from the WMC could fund the Operating Budget for FY 2015-16, and replenish the General Reserve balance to be within the agency guideline of 20%-35% of the current Operating Budget within 1 year.

Four scenarios to fund the FY 2015-16 Operating Budget were examined. Scenario 1 increases assessments by 19.8% to fund the Operating Budget, but not replenish the General Reserve balance. The General Reserve balance would remain at 8% of the Operating Budget.

Scenario 2 increases the assessments by 19.8% and uses the WMC surplus to fund the Operating Budget and put the General Reserve balance up to 18% of the Operating Budget.

Scenario 3 increases the assessments by 21.7% and uses the WMC surplus to fund the Operating Budget and put the General Reserve balance up to 20% of the Operating Budget.

Scenario 4 increases the assessments by 35.2% to fully fund the Operating Budget and put the General Reserve balance to 20% of the Operating Budget. It leaves the WMC surplus available for future use.

For the purpose of tolerability, Director Bronitsky suggested to look into what the assessment increase would be if, the WMC surplus was used, and the General Reserve balance was replenished to 20% of the Operating Budget over a period of 2 years. For example, what would be the assessment increase if the General Reserve balance was replenished at 15% for FY 15-16, and 20% for FY 2016-17. He recognizes that the agency would have to be below the minimum General Reserve level target for one year.

Director Breault commented that the General Reserve level will depend on each year's Operating Budget. He agreed with Director Bronitsky's comment to examine the option of remaining below the minimum General Reserve balance for one year, with a plan to reach the 20% guideline the following year. He also suggested providing the Operating Budget dollars for past fiscal years to provide a sense of how the budget has been trending, and make an estimate based on that. At the same time, the Board should recognize that there could be unforeseen challenges that develop which BAWSCA must address and require immediate funding.

Ms. Sandkulla added to Director Breault's comments and noted that the preliminary budget does not include work to address potential challenges associated with possible legal activities resulting from actions by outside entities.

Director Marsalli asked about unexpected challenges from the SFPUC on the Mountain Tunnel that can seriously impact the budget.

Ms. Sandkulla explained that the SFPUC's costs for the Regional Water System, for example, the Mountain Tunnel, are not incorporated in BAWSCA's budget. They are applied to each agency's cost of water that are billed from, and paid directly to, San Francisco.

In response to Director Keith, Ms. Sandkulla explained that the dip in the General Reserve balance occurred shortly after the refund was given to the agencies in 2011. It was also used to fund unplanned activities including the work for the bond issuance, the first year funding for OPEB, and the demand study associated with the Strategy. The General Reserve has also been used in the past few years to fund a portion on the Operating Budget. Ms. Sandkulla will include this information on her presentation to the Board in March.

Director Pierce referenced the principles that were considered in developing alternatives to fund the budget, and commented on the third principle which states, "do not increase assessments unless absolutely necessary".

She pointed out that this principle applied when BAWSCA did not have a full staff that could achieve the results planned for the fiscal year, which resulted to having unspent savings that were consistently deposited back into the General Reserve.

BAWSCA now has a full staff to match a work plan that fully expends the budget. A different funding scenario is developing, and she prefers the agency to be forward-thinking. She supports Directors Bronitsky and Breault's suggestion to examine a multi-year budgeting plan to replenish the General Reserve balance over a multi-year period, as long as the risks are not extreme. She also supports the use of the WMC to pay back the General Reserve for funding efforts associated with the Strategy.

She expressed concerns with a significant hike in assessments that would possibly end up with a General Reserve that is above the guidelines after a few years.

Ms. Sandkulla agreed and explained that such a scenario was the caution for deciding the lower level of increase in last year's assessments.

Director O'Connell concurred with the Directors' comments, and asked if staff can examine the partial use of the WMC surplus, as opposed to using it at 100%.

Ms. Sandkulla explained that the use of the WMC is specifically defined for the Strategy. She noted that since the Strategy is complete, it is a clear and concise way to use the surplus towards an effort that was directly related to the Strategy as opposed to saving it, and using it for an effort that may not be directly related to the Strategy.

Ms. Schutte noted that the Board may choose to levee a WMC for a future project.

Ms. Sandkulla emphasized that closing out the current WMC as proposed would establish a clean history in case another WMC is needed for future efforts.

Director Mendall supported 100% use of the surplus WMC to repay the costs funded by General Reserve. He supports options 2 and 3 for funding the budget, and would be interested to see the calculations for replenishing the General Reserve balance over a multi-year period.

Director Weed supported the multi-year approach to fund the Operating Budget and replenish the General Reserve balance to obtain an acceptable level of increase in assessments. He asked if the income from subscription conservation programs were separate from the assessment income, and what the amount of subscription income is.

In response to Director Weed's question, Ms. Sandkulla explained that the dollars from the subscription conservation programs has historically been approximately \$1 million. It is money that flows through the agency, and pays for the rebates. This is not included in the Operating Budget. But the staff time involved in implementing the subscription programs are in the Operating Budget. These figures are reflected in BAWSCA's accounting statements.

Director Guzzetta supported the multi-year approach to fund the Operating Budget and replenish the General Reserve balance over a period of two years. He asked legal counsel what actions are required if the Board consciously violates the guideline it established to maintain a General Reserve balance of 20%-35% of the Operating Budget.

Ms. Schutte stated that the policy the Board adopted is permissive, and that no formal action is required. However, she advises that the Committee be explicit so that the full Board is aware of the action plan. The policy states that, "...for budgetary purposes, the guideline for the minimum balance in the General Reserve is 20% of the budget year's operating expense. Once that level is achieved, it is a policy for the Board to maintain the General Reserve at minimum 20% level".

Director Guzzetta recommended that the intent of the multi-year approach can be offered as the budget resolution in the staff memo to the Board. However, he noted that in quickly doing the numbers, a multi-year approach may be about the same as what is being presented in option 2 or 3.

Ms. Sandkulla reported that the FY 2014-15 assessments are \$2,642,653. If the Board chooses Option #3, the 22% increase would bring the total assessments up by \$581,384. The cost per residential household per year would increase by \$0.62, or \$5.42 instead of \$4.82. The cost per person would increase from \$1.61 to \$1.82, or by \$.21. Ms. Sandkulla noted that this remains lower than FY 13-14 when it was approximately \$6 per household per year.

Ms. Sandkulla summarized that the preliminary work plan and Operating Budget is based on achieving the agency goals of reliable high quality water at a fair price, without sacrifice of critical results by balancing the resources needed to match the foreseeable challenges in the upcoming 5-10 years.

In response to Director Keith's question, Ms. Sandkulla explained that 2018 is a point in time when San Francisco will make a decision on the member agencies' interim supply limitation. If the projected purchases of wholesale customers surpass 265 mgd between now and 2018, San Francisco can potentially impose a supply limitation, and decide to cut off service to San Jose and Santa Clara.

With the new demand projections, Ms. Sandkulla reported that the combined purchases of San Francisco retail and member agencies are below 265 mgd. While the pre-cursor of surpassing 265 mgd between now and 2018 no longer exists, the question of whether San Francisco will continue to serve San Jose and Santa Clara on a permanent basis, and whether San Francisco will increase the wholesale customers' ISG supply limitation remains on the table. This is why San Francisco's 2018 decision remains on BAWSCA's anticipated challenges.

Director Guzzetta was interested to see how the distribution of efforts among the areas of results to achieve, listed in Table 1 of the staff memo, would look like. Specifically, while the WSIP has been extended and remains to have significant dollar allocations, it is approaching completion with a handful of capital projects remaining, as opposed to multiple projects. Additionally, in tracking SFPUC's new asset management program, he would like to see what kind of effort will be put into that as we develop our budget. how the distribution of efforts changes over time as tasks develops and approach completion.

Ms. Sandkulla acknowledged the question and will provide a percentage of efforts distribution in her presentation to the Board.

**7. Reports**

- A. Water Supply Update: Ms. Sandkulla presented the SFPUC's water supply conditions data as of February 8, 2015. While the reservoir storage level for Hetch Hetchy is better than most reservoirs in the state, the water bank takes the hardest hit and is below normal for this time of the year. Recent precipitation did increase levels at Cherry and Eleanor Reservoirs.

The recent storm increased cumulative precipitation at Hetch Hetchy. While it remains lower than 2007, it is slightly better than February 2014.

Ms. Sandkulla presented a graph that shows how a certain amount of Tuolumne River water becomes available to the City. She explained that the irrigation districts are senior water rights holders and there's a prescribed flow pattern in which the districts get the first water. When actual stream flow is above a certain amount, water becomes available to San Francisco. How much water San Francisco gets from the river is very dependent upon the timing of when water shows up in the river, when the snowmelt occurs, and where the precipitation occurs. The progress is tracked everyday by San Francisco and the irrigation districts to determine the water that becomes available to San Francisco.

On a normal year, achieving full storage that allows Hetch Hetchy to spill more than once during the water year, is when the cumulative water available to San Francisco reaches 700 thousand AF (TAF) in July. For San Francisco to maintain a 10% call for voluntary water use reduction, 230 TAF is needed by July 2015. If San Francisco gets below 230 TAF, actions may need to be taken to decrease total water use.

During the 2014 water year, only 22 TAF of Tuolumne River water was available to San Francisco by July 2014. San Francisco relies completely on storage, therefore, if Hetch Hetchy reservoir did not exist, the Bay Area would have no water.

In response to Director Keith's question, Ms. Sandkulla stated that San Francisco's design drought storage plan anticipates up to 8 years of water supply. However, we are now on the 4<sup>th</sup> year of drought.

With February's precipitation, there is now 42 TAF of water available to San Francisco. Ms. Sandkulla reported that Mr. Ritchie sees this as good news because it is twice the amount of what was available in July of 2014.

The graph provides a sense of what precipitation and snow level is needed to get through the current water supply conditions, current demand levels, and what has taken place to date.

Ms. Sandkulla reported that wholesale customers continue to meet the targeted water use reduction. The precipitation index for the up-country 6-station remains below the historic mean. Bay Area 7-station precipitation index shows a significant spike in December which helped agencies who rely heavily on local storage. February's precipitation remains below the historic mean, and the storm systems for the upcoming months remain to be seen.



Director Guzzetta commented that 10% reduction is equivalent 209 million acre feet. Reaching the 230 TAF means the system would be able to operate on supply that is available, and not have to deplete the water bank further.

Director Weed noted that there have been discussions on the purchase of water from the agricultural interests at 100 times more than what irrigation districts are selling it to the agricultural interests. This is a potential option to acquire some water using and paying 100 times more than the districts are receiving it for, and still staying within San Francisco's current rate. He stated that at some point, letting the land go fallow provides a far greater economic return to the agricultural interests than trying to farm it. It's an interesting scenario.

Ms. Sandkulla reported that Modesto and Turlock Irrigation Districts have been uninterested in selling water.

Ms. Sandkulla stated that with the approach of warmer weather, the conservation effort remains critical, particularly with the San Francisco Regional Water System that heavily relies on snow, of which there is currently none.

Mr. Hurley reported on BAWSCA's conservation and drought messaging efforts.

Staff continues to work with San Francisco to develop a Winter/Spring drought campaign that will be made available to member agencies. In anticipation of the potential need to step up drought messaging efforts, the SFPUC has posted an RFP for a marketing and communication consultant to develop materials that will be used as soon as April. BAWSCA will have access to the consultant for assisting with the service area needs.

In the meantime, the campaign graphics that BAWSCA will be getting from SFPUC immediately focus on outdoor irrigation and leak repair.

As reported previously, BAWSCA is expanding its outreach to retailers and nurseries on the rebate programs and landscape education program through the fellow hired jointly with San Mateo County Energy Watch.

The number of landscape classes is at an all-time high in response to member agencies' request for more classes to meet demands from water customers. Advertising of the classes has been expanded with the use of Google, given the success of the web-You Tube based summer drought campaign.

BAWSCA is working with Gardensoft to revamp the Water-Wise Gardening in the Bay Area web tool, as well as installing a watering calculator/water index on the site tool.

Finally, BAWSCA is investigating the WaterSense fixture giveaway. WaterSense is a program by the Environmental Protection Agency (EPA) that establishes standards for devices that help reduce water use by 20% without a reduction in performance. BAWSCA is looking at a bulk buy that member agencies can take advantage of.

- B. CEO's Letter: Ms. Sandkulla referred the committee to the CEO letter for brief reports and updates on BAWSCA's activities not included in the agenda.

- C. Board Policy Committee Calendar: The Board Policy Committee Calendar provides a synopsis of what can be expected in the coming months.
  - D. Correspondence Packet: The Correspondence packet includes a copy of SFPUC's letter to the wholesale customers regarding its continued call for a voluntary 10% water use reduction. The packet also includes news articles of interests.
8. **Comments by Committee Members**. There were no comments by Committee members.
9. **Adjournment**: The meeting was adjourned at 3:40pm. The next meeting is April 8, 2015.

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE – February 11, 2015**

**Roster of Attendees:**

**Committee Members Present**

Charlie Bronitsky, City of Foster City (Chair)  
Kirsten Keith, City of Menlo Park (Vice Chair)  
Randy Breault, City of Brisbane/GVMID (BAWSCA Vice Chair)  
Rob Guzzetta, California Water Service Company  
Gustav Larsson, City of Sunnyvale  
Jerry Marsalli, City of Santa Clara  
Al Mendall, City of Hayward (Chair)  
Irene O’Connell, City of San Bruno (BAWSCA Chair)  
Barbara Pierce, City of Redwood City  
Louis Vella, Mid-Peninsula Water District  
John Weed, Alameda County Water District

**BAWSCA Staff:**

Nicole Sandkulla	CEO/General Manager
Michael Hurley	Water Resources Manager
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:**

Peter Drekmeier	Tuolumne River Trust
Michele Novotny	San Francisco Public Utilities Commission
Julie Pardini	Docktown
Tania Sole	Peninsula Resident

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

**January 15, 2015 – 7 p.m.  
Foster City Community Building, Foster City CA**

<b>MINUTES</b>
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**1. Call to Order/Pledge of Allegiance/Roll Call – 7:00 pm**

BAWSCA Chair, Irene O’Connell, called the meeting to order and led the salute to the flag. Nicole Sandkulla called the roll. Twenty-one (21) members of the Board were present, constituting a quorum. Two arrived after roll-call. A list of Directors present (23) and absent (3) is attached.

**2. Special Order of Business: Election of Officers for Calendar Year 2015.**

Chair O’Connell called for nominations for the position of Chair of the BAWSCA Board. Director Bronitsky nominated Randy Breault for Chair. Director Quigg seconded the nomination. There being no other nominations, nominations were closed by consensus.

**The Board unanimously voted to elect Randy Breault as Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2015 to commence at the adjournment of the meeting at which he was elected.**

Chair O’Connell called for nominations for the position of Vice-Chair. Director Pierce nominated Al Mendall as Vice-Chair of the board, and was seconded by Director Richardson. There being no other nominations, nominations were closed by consensus.

**The Board unanimously voted to elect Al Mendall as Vice-Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2015 to commence at the adjournment of the meeting at which he was elected.**

**3. The meeting adjourned at 7:05pm to convene the San Francisco Bay Area Regional Water System Financing Authority Board of Directors meeting.**

**4. The meeting reconvened at 7:09**

**5. Comments by the Chair:** Chair O’Connell was pleased to announce the completion of the Long-Term Reliable Water Supply Strategy Report. The Executive Summary was included in the agenda packet and a summary of the report findings will be presented by staff to initiate Board discussions. The Board will further discuss the Strategy findings and recommendations as part of the FY 2015-16 Work Plan and Budget Process. Chair O’Connell encouraged Board members to contact Nicole and Michael if they have any questions about the findings and recommendations before the March and May meetings.

Chair O'Connell reported that she requested assigned seating to encourage Board members to get acquainted with each other, and to provide a different perspective given the Board is of 26 members.

Additionally, an updated BAWSCA binder has been prepared for each member of the board with updated reference information. Each member of the board has received a request from staff for an updated biography to be inserted in the new version of the binder as well as posted on the website. Chair O'Connell recognized the directors who were appointed to the Board when it was originally formed in 2003. They were Directors Breault, Kasperzak, O'Mahony, Piccolotti, Vella, Weed, and herself.

Lastly, she thanked the Board for the opportunity to serve as Chair for the past two years. The Board has built a strong, respectful and productive relationship with the SFPUC, and appointed a new CEO who continues to confirm the wisdom of the Board's selection and decisions. The CEO has built a strong staff that continues to produce results for the member agencies and their customers. Chair O'Connell expressed her confidence that BAWSCA's new leadership will continue to provide the policy guidance and resources for BAWSCA to provide valuable results for member agencies and protect the water interests of the water customers.

6. **Board Policy Committee (BPC) Report:** Director Mendall reported the discussions and actions taken by the Board Policy Committee at its meeting on December 10, 2014.
7. **SFPUC Report:** Michael Carlin, SFPUC Deputy General Manager and Chief Operating Officer, reported on the SFPUC's 2014 State of the Regional Water System report, which he encouraged the Board to read in time for the March Board meeting, where an in-depth presentation will be given by the SFPUC. Mr. Carlin also reported on WSIP activities on the Coast Range Tunnel, and the approval of the operating agreement for the Regional Groundwater Recovery Project, which has been a project that has taken 21-years in the making. The project will provide dry year supply when it is completed.

Steve Ritchie, Assistant General Manager of the Water Enterprise, reported on the current water supply conditions, and the continued success of the region in reaching its target for water use reduction. He noted that the water bank is the key component of the system that fulfills its obligations to the irrigation districts, and keeps water in Hetch Hetchy. Despite the precipitation in December, conditions remain dry, and the voluntary 10% reduction will continue. Mr. Ritchie noted that if dry conditions continue through February, the State may believe that further action necessary because other parts of the State are in much worse conditions than San Francisco's Regional Water System. In response to Directors' questions, Mr. Ritchie stated that the region needs to continue its conservation efforts and consider that the worst will happen and be prepared to take actions, whatever they may be.

8. **Public Comments:** There were no public comments.

**9. Consent Calendar:**

**Director Richardson made a motion, seconded by Director Kasperzak, to approve the Minutes of the November 20, 2014 meeting, and receive and file the Budget Status Report as of November 30, 2014, and the Investment Report and Directors' Reimbursement Report as of December 31, 2014.**

**The motion carried unanimously.**

Director Kasten suggested to review the Local Agency Investment Fund (LAIF) investments to ensure that the assets are sufficiently protected and not subject to risks due to rapid changes in the market.

**10. Action Calendar:****A. Mid-year 2014-15 Work Plan and Budget Review**

**Director Bronitsky made a motion, seconded by Director Laporte, that the Board approve the following revision to the FY 2014-15 Work Plan:**

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

**The motion carried unanimously.**

**11. Reports and Discussions:**

**A. Fiscal Year 2015-16 Work Plan and Budget Preparation:** Ms. Sandkulla reported on the development of the FY 2015-16 work plan and budget, which is driven by the results that must be achieved to address the long-term and short-term challenges BAWSCA and its member agencies face. Ms. Sandkulla highlighted the need for the Board's consideration and discussion of increasing assessments to fund the operating budget and manage the General Reserve balance.

**B. Long-Term Reliable Water Supply Strategy (LTRWSS) – Final Phase:** Mr. Hurley presented a summary of the LTRWSS Final Phase to provide the board members a frame of reference as they read the final report. He highlighted the demand study, the project evaluation analysis, and strategic findings of the final report.

**12. Reports:** Additional staff reports included Ms. Sandkulla's update on the Pilot Water Transfer with East Bay Municipal Utility District (EBMUD), and EBMUD's decision to defer its use of the Freeport Facility at least until April 2015.

**13. Directors' Discussion:** Chair O'Connell reminded each Board member to take their Binders with them as a reference source. Updated materials for each tab will be sent to the Board as changes occur.

**14. Date, Time and Location of Next Meeting:** The next meeting is scheduled on March 19, 2015 in the Wind Room, Foster City Community Center.

**15. Adjournment:** The meeting adjourned at 8:42pm.

Respectfully submitted,

Nicole M. Sandkulla  
Chief Executive Officer/General Manager

NMS/le

Attachments: 1) Attendance Roster



**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**  
**Board of Directors Meeting**  
**January 15, 2015**

**Attendance Roster**

Present:

Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
Charlie Bronitsky	City of Foster City
Tom Chambers	Westborough Water District
Armando Gomez	City of Milpitas
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Mike Kasperzak	City of Mountain View
Tom Kasten	Town of Hillsborough
Kirsten Keith	City of Menlo Park
Gustav Larsson	City of Sunnyvale
Marty Laporte	Stanford
Al Mendall	City of Hayward
Chris Mickelsen	Coastside County Water District
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Sepi Richardson	City of Brisbane
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District

Absent:

Larry Klein	City of Palo Alto
Jerry Marsalli	City of Santa Clara
Chuck Reed	City of San Jose

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# BAWSCA

## Bay Area Water Supply & Conservation Agency

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

**TO:** Nicole Sandkulla, CEO/General Manager

**FROM:** Deborah Grimes

**DATE:** March 9, 2015

**SUBJECT:** Budget Status Report as of January 31, 2015

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

**Operating Budget Summary:**

For the seven month period ending January 31, 2015, 58 percent into the fiscal year, total expenditures were \$1,694,870 or 58 percent of the total budget of \$2,939,286.

**Table 1. Operating Budget Summary as of January 31, 2015**

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
<b>Consultants /Direct Expenditures</b>			
Reliability	770,162	264,142	34%
Fair Pricing	287,000	352,353	123%
Administration	85,300	58,980	69%
<b>Subtotal</b>	<b>1,142,462</b>	<b>675,475</b>	<b>59%</b>
<b>Administration and General</b>			
Salary & Benefits	1,439,324	868,773	60%
<b>Other Expenses</b>			
BAWSCA	295,000	150,103	51%
BAWUA	1,100	0	0%
<b>Subtotal</b>	<b>2,877,886</b>	<b>1,694,350</b>	<b>59%</b>
<b>Capital Expenses</b>	2,500	0	0%
<b>Budgeted Contingency</b>	57,500	0	0%
<b>Regional Financing Authority</b>	1,400	520	37%
<b>Grand Total</b>	<b>2,939,286</b>	<b>1,694,870</b>	<b>58%</b>

**Overview:**

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

**Consultants**

The \$125,000 budget for technical review and tracking of the SFPUC’s Water System Improvement Program was 46 percent expended. The Operating Budget allocation of \$150,000 for strategic counsel was 52 percent expended. The Operating Budget allocation of \$524,000 budget for legal counsel was 78 percent expended, reflecting the significant efforts at the beginning of this fiscal year and the successful settlement negotiation of the FY 2010-11 Wholesale Revenue Requirement. The \$160,662 budget for water management and conservation-related activities was 32 percent expended.

**Administration and Other Expenses**

Budgets for salaries and other expenses were 60 and 51 percent expended, respectively.

**Use of CEO’s Discretionary Spending Authority:**

In January, the CEO entered into an agreement with GardenSoft in the amount of \$6,500 for redevelopment of BAWSCA’s WaterWise gardening website. Funds were available in the conservation related budget.

**Use of Reserve and Reserve Fund Balance:**

There have been no accretions or deletions to the General Reserve Fund for the period 12/01/14-01/31/15.

**Table 2. General Reserve Fund Balance**

<b>Fund</b>	<b>Account Balance (As of 11/30/14)</b>	<b>Account Balance (As 01/31/15)</b>
General Reserve	\$521,897	\$521,897

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

Phase 2 of the Long-Term Reliable Supply Strategy (Strategy) began FY 2010-11. Funding is provided through the Water Management Charge, approved by the Board in July 2010. All Water Management Charge revenue, totaling \$2,321,998 has been collected by the SFPUC and received by BAWSCA. Expenditures for strategic and legal support of the Long-Term Reliable Water Supply Strategy are within their respective budgets. Consultant invoices received and paid through November 30, 2014 total \$1,897,315.

# BAWSCA

**Bay Area Water Supply & Conservation Agency**

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

**MEMORANDUM**

**TO: Nicole Sandkulla, CEO/General Manager**

**FROM: Christina Tang, Senior Administrative Analyst**

**DATE: March 4, 2015**

**SUBJECT: Bond Surcharge Collection, Account Balance and Payment Report  
as of December 31, 2014**

BAWSCA’s Revenue Bond Series 2013A and Series 2013B (Taxable) were issued to prepay the remaining capital cost recovery payments that the BAWSCA agencies owed San Francisco as of June 30, 2013 when the payments were paid off. The bond transaction and the prepayment program was anticipated to 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.

**Bond Surcharge Collections**

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 agencies. The bond surcharge payments are used to make debt service payments on BAWSCA’s revenue bonds.

All surcharges billed for the months from October to December 2014 have been collected. Table 1 below presents a summary of financial transactions related to BAWSCA’s Bond Series 2013A and 2013B for the three months.

Table 1: Summary of Surcharges Remitted to Trustee for Quarter Ending 12/31/2014

<u>Month</u>	<u>Amount Billed</u>	<u>Amount Remitted to Trustee</u>
October 2014	\$2,056,235	\$2,056,235
November 2014	\$2,056,235	\$2,056,235
December 2014	<u>\$2,056,235</u>	<u>\$2,056,235</u>
Total	\$6,168,705	\$6,168,705

**Bond Surcharge Account Balances**

All surcharge payments are deposited with the Bank of New York, which manages BAWSCA’s accounts and administers debt service payments. BAWSCA’s account balances at the Bank of New York and the account activities in the past quarter are shown in Table 2 below.

Table 2: Bank of New York Bond Trustee Account Activity for Quarter Ending 12/31/2014

	<b>33,080,564</b>	<b>Account Market Value as of 9/30/2014</b>
<i>plus:</i>	6,236,129	<i>Surcharge collected in October 2014 through December 2014</i>
<i>plus:</i>	282	<i>Money market fund interest earnings</i>
<i>minus:</i>	17,947,407	<i>Debt service payment to bondholders</i>
<i>minus:</i>	12,290,422	<i>Principal for Treasury bonds purchased</i>
<i>minus:</i>	2,099	<i>Accrued interest for Treasury bonds purchased</i>
<i>plus:</i>	<u>12,270,088</u>	<i>Market Value of Purchased Bonds</i>
	<b>21,347,134</b>	<b>Account Market Value as of 12/31/2014</b>

There are two ways interest is earned by BAWSCA on the collected surcharge payments and balances held in the stabilization funds. First, interest is automatically earned on the account balance in the Bank of New York Bond Trustee money market account at a current rate of approximately 0.01%. Last quarter, that interest earning was \$282. Second, BAWSCA has the ability to invest the collected surcharge payments by purchasing US Treasury securities, possibly earning a higher rate of return than the money market account.

Based upon an evaluation of the available yields, it was determined that BAWSCA would realize a moderate earnings benefit by purchasing the U.S. Treasury securities instead of staying invested in the money market account. For the quarter ending December 31, 2014, BAWSCA’s investment earnings on the U.S. Treasury securities and money market funds held in the Stabilization Funds and Principal & Interest Funds (collectively, the “Funds”) were \$5,503. As of the quarter ended December 31<sup>st</sup>, the currently held U.S. Treasury securities represent an increase of 19 basis points (0.19%) over what BAWSCA would have earned had the balances remained invested in the money market funds.

All investment interest earnings are deposited directly in the Trustee accounts, and will be used to pay for future expenses and debt service of the bonds. Ultimately, all interest earnings are returned to the member agencies through annual savings and through distribution of the Stabilization Fund, including interest, once the bonds are fully paid.

**Revenue Bond Series 2013A and Series 2013B Debt Service Payment Status**

The recent debt service payment of \$17,947,407 was made on October 1, 2014. It was paid using the bond surcharges collected from the agencies, consistent with the initial bond structure. The next debt service payment of \$6,681,251 will be made on April 1, 2015. There are sufficient fund in the Trustee account to make the payment. Debt service payments are made on April 1<sup>st</sup> and October 1<sup>st</sup> of each year until 2034.

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

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

**Summary:**

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

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

In July 2013, BAWSCA began collecting the bond surcharge from member agencies through the SFPUC as a separate item on their monthly water bills to member agencies. FY 2015-16 will be the third year for BAWSCA to collect the bond surcharge payments that are used to make debt service payments on BAWSCA's revenue bonds. 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.

**Board Policy Committee Action:**

The Committee expressed a preference for including expenses associated with administering the bonds as part of the yearly true-up calculation moving forward. The Committee voted unanimously to recommend approval of the proposed board action.

**Recommendation:**

**That the Board approve the proposed FY 2015-16 bond surcharges, as shown in Table 1, which include actual FY 2013-14 bond administration expenses.**

**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.

**Alternative to Recommended Action:**

The alternative to the recommended action is to continue paying all expenses in connection with the bond administration from BAWSCA’s annual operating budget which would result in BAWSCA not being reimbursed for the expenses incurred in FY 2013-14 during the FY 2015-16 bond surcharge setting. This alternative is not recommended as BAWSCA’s bond indenture allows for the recovery of these costs and such recovery of actual costs is consistent with BAWSCA’s practice in other areas.



**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
<b>Total</b>				<b>\$24,684,108</b>	<b>\$2,057,009</b>

Table 2. Proposed BAWSCA FY2015-16 Bond Surcharge: True-up Details

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
<b>Totals</b>	<b>\$24,674,815</b>	<b>\$24,686,930</b>	<b>\$12,115</b>	<b>\$24,671,995</b>	<b>\$24,684,108</b>

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
<b>Totals</b>	<b>\$28,200,000</b>	<b>\$24,674,815</b>	<b>\$12,115</b>	<b>\$24,686,930</b>	<b>\$3,513,070</b>

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

**Agenda Title: Adjustments to Staff Position Top-Step Compensation**

**Summary:**

A compensation survey was performed to determine whether BAWSCA's staff positions remain 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.

**Board Policy Committee Action:**

The Committee voted unanimously to recommend approval of the proposed board action.

**Recommendation:**

**That the Board approve adjustments to top step compensation for all positions except CEO and Office Assistant.**

**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.

Roughly every two years, a compensation survey is performed to ensure that comparability is in fact maintained. This regular interval ensures that BAWSCA's compensation stays competitive with comparable positions in the market which are impacted by other factors including union or other long-term salary agreements and prevailing economic conditions. 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. Comparator agencies include ACWD, Contra Costa Water District, East Bay Municipal Utility District, City of Hayward, City of Palo Alto, and the SFPUC. 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.

The survey also included a comparison of total compensation, the results of which were not materially different than the results of the top step salary comparison and are therefore not presented here.

**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 OF DIRECTORS MEETING**

**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 provides 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 member 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 \$3,197,109 which is about 9%, or \$257,823, above the current FY 2014-15 Operating Budget. This preliminary Operating Budget represents approximately a \$0.14 increase in cost 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.

**Board Policy Committee Action:**

The Committee provided the following comments and suggestions during the presentation:

- Include quantification of level of effort for each task area in Table 1;
- Modify the 3<sup>rd</sup> principle that has historically been used by BAWSCA in developing the budget, to allow for greater flexibility in increasing assessments incrementally over a multi-year period in anticipation of future needs and to allow for a smoother transition of increases;
- Include an alternative for funding the Operating Budget that replenishes the General Reserve over a two year period;
- Modify Figure 1 to include historic Operating Budget levels;
- Further discuss the regional benefits of the proposed "cost-share partnerships to promote conservation messaging"; and
- Provide a history of use of the General Reserve.

**Recommendation:**

**That the Board provide comments and suggestions concerning the preliminary Work Plan and results to be achieved, the preliminary Operating Budget estimate, alternatives for funding the budget, and alternatives for managing the General Reserve.**

**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 reflected in 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 San Francisco's WSIP, 10-Year Capital Improvement Program (CIP), and Regional Water System Asset Management Program;
- Actively participate in the relicensing of New Don Pedro Reservoir to protect regional water supplies;
- Administer of the 2009 Water Supply Agreement, including work related to the September 2014 settlement with San Francisco;
- Administer 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 include development of a Watering Index and Irrigation Adjustment Notification System, an online 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 water customers. 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, and represent 89% of the Preliminary Operating Budget. The percent budget allocation for each task area is shown in parenthesis next to that item.

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 for the benefit of the agency and its members. These activities, however, are not included in the preliminary Work Plan because they are not critical to the agency achieving its state mandated mission and purpose. These activities are presented in Appendix M 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 pricing. These activities were updated as part of the FY 2015-16 preliminary Work Plan development and are listed in Table 3. 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 and work products 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 including 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 recommended at this time given the critical water supply conditions that exist in the service area. They are described in detail in Appendix A.

An alternative to the FY 2015-16 Preliminary Work Plan would be to exclude 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**

**(Percent of Preliminary Operating Budget for Each Item Shown in Parenthesis)**

**RELIABLE WATER SUPPLY**

- (8.2%) **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.
- (10.4%) **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.
- (15.2%) **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.
- (4.5%) **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 in FY 15-16, 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
- (5.4%) **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.
  - b. 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.

- (0.3%) **6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts**
  - a. Pursuit and use of Proposition 84 grant funds awarded for water conservation programs.
  - b. Investigate potential for grant funds to support the implementation of the Strategy, including 2014 California Water Bond.
- (1.6%) **7. Reporting and Tracking of Water Supply and Conservation Activities**
  - a. Complete BAWSCA FY 2014-15 Annual Survey.
  - b. Complete BAWSCA FY 2014-15 Annual Water Conservation Report.
  - c. Implement BAWSCA Water Conservation Database.

**HIGH QUALITY WATER**

- (0.2%) **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**

- (22.5%) **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**

- (4.5%) **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.
- (17.1%) **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**

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

<p>2016 to 2019 (cont.)</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Monitor SFPUC’s development and implementation of its 10-Year CIP to ensure protection of water supply and financial interests of the water customers.</li> <li>• Monitor SFPUC’s asset management program to ensure ongoing maintenance and protection of RWS assets.</li>   <li>• Ensure San Francisco maintains its Tuolumne River water rights.</li> <li>• Protect customers from legal and legislative efforts to draining Hetch Hetchy that disregard their interests in reliability, quality and cost.</li> <li>• Enforce the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting commitments.</li> </ul>
<p>2019 to 2025</p>	<ul style="list-style-type: none"> <li>• Protect BAWSCA member agencies from severe supply shortages and resulting excessive economic impacts.</li> <li>• Ensure new water supplies are on line to meet future needs that are not met by San Francisco.</li>   <li>• Monitor SFPUC’s development and implementation of its 10-Year CIP to ensure protection of water supply and financial interests of the water customers.</li> <li>• Monitor SFPUC’s asset management program to ensure ongoing maintenance and protection of RWS assets.</li>   <li>• Ensure San Francisco maintains its Tuolumne River water rights.</li> <li>• Protect customers from legal and legislative efforts to draining Hetch Hetchy that disregard their interests in reliability, quality and cost.</li> <li>• Enforce the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting commitments.</li> <li>• SF elects Mayor in 2019 and 2023.</li> </ul>
<p>2026 to 2040</p>	<ul style="list-style-type: none"> <li>• Ensure new water supplies are on line to meet future needs that are not met by San Francisco.</li> <li>• Extend or renegotiate the Water Supply Agreement before it expires in 2034.</li> <li>• Enforce the Water Supply Agreement to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting commitments.</li> <li>• SF elects Mayor in 2027, 2031, 2035, and 2039.</li> </ul>

**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
<b>Consultants/ Direct Expenditures</b>			
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
<b>Administration</b>			
Employee Salaries & Benefits	1,343,406	1,402,959	59,553
Other Post-Employment Benefits( <i>net</i> )	95,918	111,000	15,082
<i>Benefits Subtotal</i>	1,439,324	1,513,959	74,635
Operational Expenses	295,000	313,200	18,200
BAWUA	1,100	1,100	0
Subtotal	1,735,424	1,828,259	92,835
Total Operating Expenses	2,877,866	3,135,709	257,823
<b>Capital Expenses</b>	2,500	2,500	(0)
<b>Budgeted Contingency</b>	57,500	57,500	(0)
<b>Regional Financing Authority</b>	1,400	1,400	0
<b>Grand Total</b>	2,939,286	3,197,109	257,823

**Explanation and Alternatives for Salaries and Benefits:**

The increase for salaries and benefits of \$74,635 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 for all employees except the CEO:

- \$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 I to this memo.

The size of the merit allowance would permit potential salary increases of up to 5%, or to top step for the position, whichever is less.

At the direction of the Board Chair, a budget allowance of \$15,825 for a potential merit increase for the CEO has been included in the preliminary Operating Budget. For budgeting purposes, this amount is consistent with the merit increase awarded to the CEO in FY 2014-15.

This preliminary Operating Budget does not include the results from potential action by the Board in adopting the compensation changes recommended in the January 2014 Salary Survey and being considered by the Board at its March 2015 meeting.

**Funding the Preliminary Operating Budget:**

Four principles have historically been used by BAWSCA when considering 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 Board Policy Committee recommend modifying the third principle to allow for greater flexibility in increasing assessments incrementally over a multi-year period in anticipation of future needs to allow for a smoother transition of increases.

The funding alternatives below address all four principles, with one alternative addressing the modification requested to principle 3 by the Board Policy Committee. The preliminary Operating Budget achieves the results listed in the Work Plan.

**Status of General Reserve**

Each year, unspent funds (if available) are moved to the General Reserve to fund special needs and future budgets. Appendix F presents the historical use of the General Reserve to fund special studies, fund the Operating Budget, and provide a one-time refund to the member agencies in November 2011.

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.

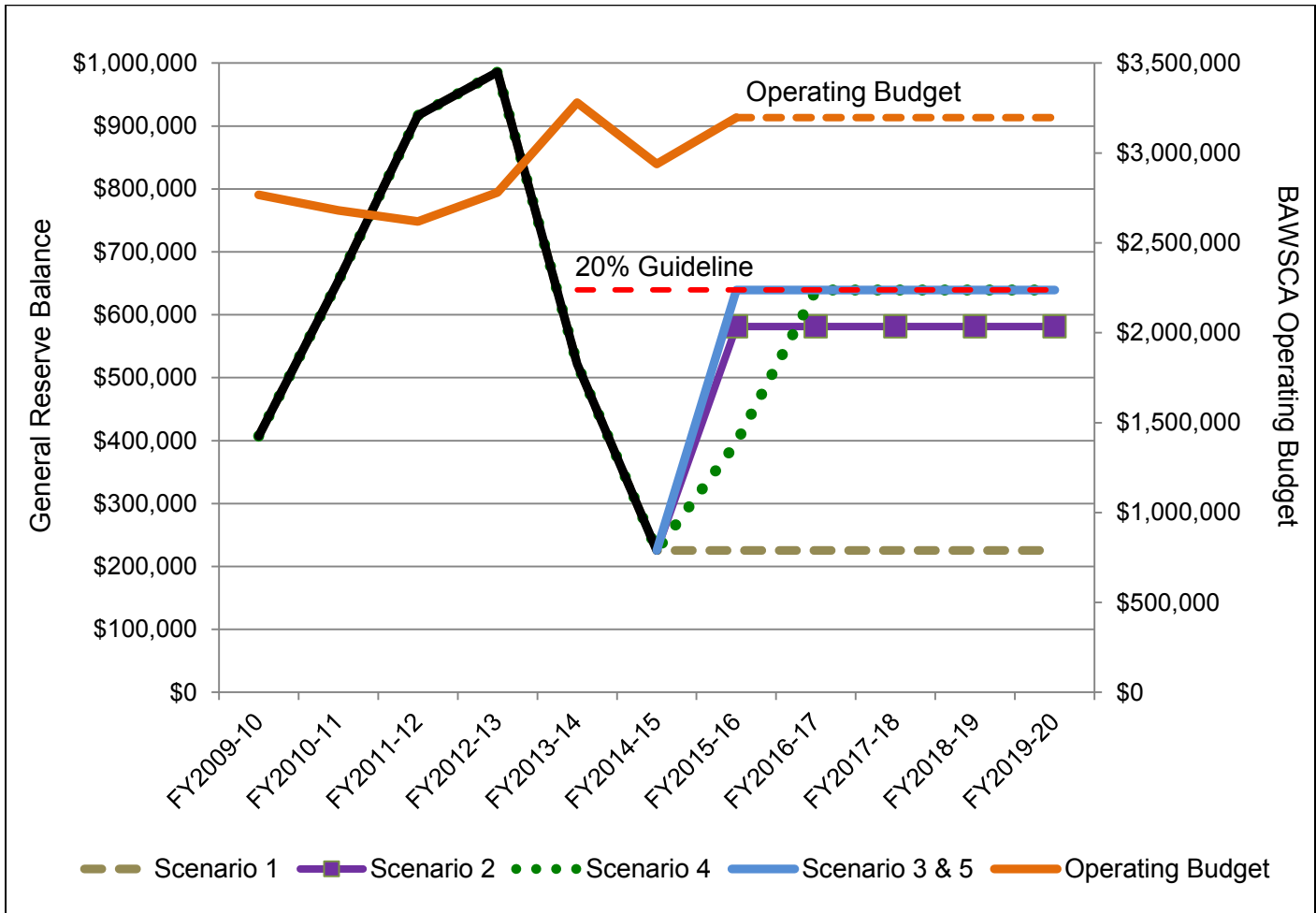
**Alternatives Examined for Funding the Preliminary Operating Budget**

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 21% 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 21% 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 \$58,261 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 23.2% increase in assessments in FY 2015-16 to both fund the FY 2015-16 preliminary Operating Budget and return the General Reserve to the minimum budgetary guideline of \$639,422.
- Scenario 4: Plan to achieve General Reserve target level in two years. In FY 2015-16, use a combination of \$355,700 in unspent funds from the Water Management Charge Fund and a 14% increase in assessments to fund the the FY 2015-16 preliminary Operating Budget and bring the General Reserve to an estimated balance of \$396,676 at the end of FY 2015-16 (which is \$242,746 below the minimum budgetary guideline). Plan for a 14.2 % increase in FY 2016-17 assessments to fund the Operating Budget and return the General Reserve to the minimum budgetary guideline of \$639,422.
- Scenario 5: Fund the 2015-16 preliminary Operating Budget and provide sufficient funding to return the General Reserve to the minimum budgetary guideline of \$639,422 with a 36.6% increase in assessments. Surplus Water Management Charge Funds would remain available for future use in implementing Strategy actions.

(With the exception of Scenario 5) The scenarios assume the following: 1) full funding of the preliminary Operating Budget through a combination of assessments and use of unspent Water Management Charge funds, 2) an Operating Budget of \$3,197,109 for five years, 3) 100% spending-to-budget ratio for FY 2015-16 and beyond, and 4) 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 2015-16 significantly below the minimum budgetary guideline established by the Board (7% of Operating Budget).
- Scenario 2 results in an estimated General Reserve balance below the minimum budgetary guideline established by the Board (18% of Operating Budget).
- Scenario 3 and 5 result in an estimated FY 2015-16 General Reserve balance within the established budgetary guidelines, at 20% of the preliminary Operating Budget.
- Scenario 4 results in the General Reserve balance taking two years to meet the established budgetary guidelines with the FY 2015-16 General Reserve balance estimated at 12% of the Operating Budget.

Based on these preliminary examinations, in order to bring the estimated General Reserve within the minimum budgetary guideline, a 24% increase in assessments appears sufficient. 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 24% increase in assessments represents a total increase of \$634,237. Table 5 below presents the results by member agency of a 24%, or \$634,237, increase in assessments. Note that a 1% increase in assessments is roughly \$26,427.

**Table 5. Examination of a 24% Increase in BAWSCA Assessments**

<b>Members</b>	<b>Adopted FY 2014-15 Annual Assessment</b>	<b>Assessments with 24% Increase</b>	<b>Difference</b>
ACWD	\$177,590	\$220,211	\$42,622
Mid Peninsula	\$54,138	\$67,131	\$12,993
Brisbane	\$5,531	\$6,859	\$1,328
Burlingame	\$73,512	\$91,154	\$17,643
Coastside	\$23,403	\$29,020	\$5,617
Cal Water	\$560,826	\$695,424	\$134,598
Daly City	\$68,624	\$85,094	\$16,470
E. Palo Alto	\$32,382	\$40,154	\$7,772
Estero	\$89,005	\$110,367	\$21,361
GVMID	\$6,902	\$8,558	\$1,656
Hayward	\$277,490	\$344,087	\$66,598
Hillsborough	\$57,644	\$71,478	\$13,835
Menlo Park	\$52,187	\$64,712	\$12,525
Millbrae	\$41,478	\$51,433	\$9,955
Milpitas	\$106,681	\$132,285	\$25,603
Mtn. View	\$167,986	\$208,303	\$40,317
North Coast	\$51,935	\$64,400	\$12,464
Palo Alto	\$208,440	\$258,465	\$50,026
Purissima Hills	\$33,020	\$40,945	\$7,925
Redwood City	\$178,084	\$220,824	\$42,740
San Bruno	\$36,919	\$45,780	\$8,861
San Jose	\$72,760	\$90,222	\$17,462
Santa Clara	\$61,868	\$76,716	\$14,848
Stanford	\$40,739	\$50,516	\$9,777
Sunnyvale	\$148,225	\$183,799	\$35,574
<u>Westborough</u>	<u>\$15,283</u>	<u>\$18,951</u>	<u>\$3,668</u>
Total	\$2,642,653	\$3,276,889	\$634,237

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 conversations with BAWSCA’s local bank about this issue, BAWSCA was informed that the bank would be unable to provide such a service to BAWSCA for two reasons: (1) it was against bank policy to provide a line of credit to a public agency and (2) it was not in the financial interest 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. Local Agency Investment Fund (LAIF), where BAWSCA deposits the majority of its cash reserves, does not offer lending services. BAWSCA staff will continue to investigate this option with other financial institutions.

## APPENDICES

Appendices A through M present additional detail about the preliminary 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 online.

#### *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 general, the benefits of these partnerships are spread throughout the service area with the exception of partnerships that directly benefit subscription conservation programs, in which case those costs are paid for by participating agencies.
- For example, 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 a temporary employee to outreach to targeted businesses in all three counties that promote BAWSCA's core and subscription water conservation programs (ie, nurseries, hardware and plumbing stores). A portion of BAWSCA's costs are being allocated to the appropriate subscription conservation programs.
- 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 Water Year 2014, BAWSCA worked collaboratively with the SFPUC to provide regional messaging throughout the service area. That level of coordination is expected to continue in Water Year 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 provided general information about BAWSCA to the public and others.
- Today, the website serves a dual purpose of providing emerging information about BAWSCA and its activities, and 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 Water Management Charge authorized by the Board in July 2010.

As of January 2015, BAWSCA completed the development of the Strategy. The Strategy Phase II Final Report was 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 discussions in April and May 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 BAWSCA’s Operating Budget to residential customers in the BAWSCA service area averages about \$5.00 per household per year. Table D below provides the estimate annual cost per person and per household (assuming three persons per household) for BAWSCA’s Operating Budget.

**Table D-1. Historical Estimated Annual Cost of BAWSCA Operating Budget Per Service Area Household**

Fiscal year	Est. Annual Cost Per Person	Est. Annual Cost Per Household
2010-11	\$1.64	\$4.93
2011-12	\$1.53	\$4.60
2012-13	\$1.52	\$4.56
2013-14	\$1.82	\$5.47
2014-15	\$1.70	\$5.11
2015-16	\$1.84 (preliminary)	\$5.51 (preliminary)

**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: Historical Use of the BAWSCA General Reserve**

Table F-1 displays the historical use of the BAWSCA General Reserve.

**Table F-1. Historical Use of the BAWSCA General Reserve**

Date	Amount	Description of Use
3/19/2008	\$391,000	To fund FY 2007-08 Operating Budget
1/07/2009	\$349,000	To fund FY 2008-09 Operating Budget
2/09/2009	\$105,000	To fund Conservation Implementation Plan
1/13/2010	\$250,000	To fund FY 2009-10 Operating Budget
1/27/2011	\$163,394	To fund FY 2010-11 Operating Budget
11/30/2011	\$172,190	Refund to Member Agencies
9/30/2012	\$130,000	To fund Pilot Water Transfer Plan
3/31/2013	\$65,000	Initial funding for Water Demand Study
4/21/2014	\$300,000	Final funding for Water Demand Study
6/30/2014	\$98,000	To fund FY 2013-14 OPEB contribution
6/30/2014	\$66,000	To fund Pilot Water Transfer Plan

**Appendix G: 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 H: 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 I: 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 J: Uses of Professional Services**

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

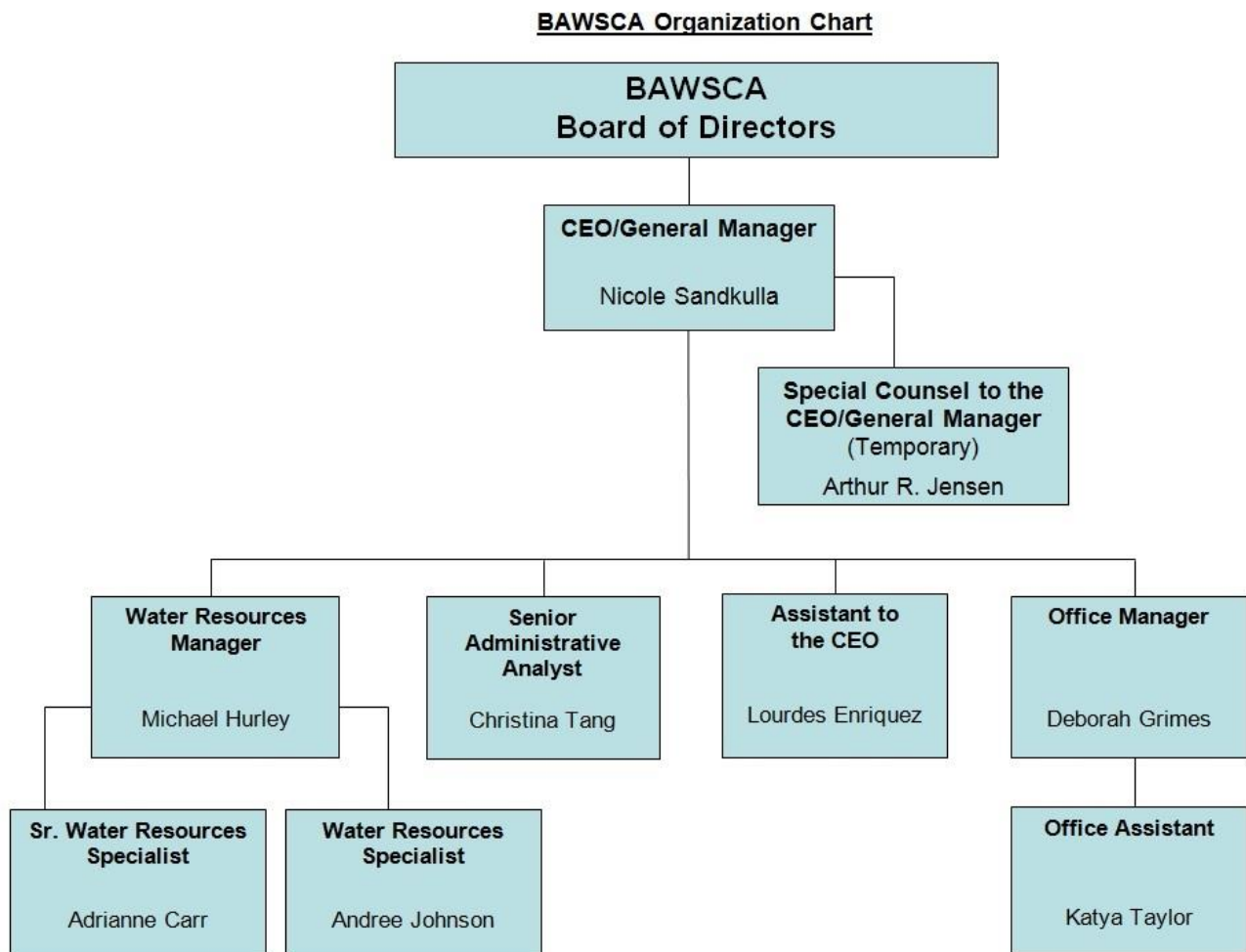
1. Professional engineering services for: a) evaluating and monitoring SFPUC's asset management program; b) evaluating and monitoring SFPUC's 10-Year Capital Improvement Program (CIP) development and implementation; c) evaluating Water System Improvement Program project scopes during design and construction; 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 K: Current Organization and Staffing**

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



**Appendix L: 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 M: 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 M-1 below.

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

<b><u>Program Area</u></b>	<b><u>Activity</u></b>
Fair Price	<ul style="list-style-type: none"><li>• Produce an independent evaluation of wholesale rate structures and how retail rates could be structured 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.</li></ul>
Reliable Supply	<ul style="list-style-type: none"><li>• 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.</li><li>• Develop regional conservation program materials for BAWSCA member agencies to support their programs and BAWSCA's programs in a uniform fashion</li><li>• Modify BAWSCA's Water Conservation Database to match current CUWCC reporting requirements.</li></ul>

# **BAWSCA**

**Bay Area Water Supply & Conservation Agency**

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

## MEMORANDUM

**TO:** BAWSCA Board of Directors  
**DATE:** March 13, 2015  
**FROM:** Nicole Sandkulla, CEO/General Manager  
**SUBJECT:** Chief Executive Officer/General Manager's Letter

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### Work Plan Progress Towards Selected FY 2014-15 Projected Results:

Attached is an updated table presenting the progress this fiscal year towards selected work plan results (see attached Table 1). This table reflects the work plan changes approved by the Board at its January meeting, as well as progress towards results since January 2015.

### SFPUC 2014 State of the Regional Water System Report:

The 2009 Water Sales Agreement (WSA) obligates the San Francisco Public Utilities Commission (SFPUC) to "submit reports to its Retail and Wholesale Customers on the "State of the Regional Water System" (Report), including reports on completed and planned maintenance, repair or replacement project or programs, by September of every even numbered year" (e.g., 2014). The primary purpose of the Report is to document accomplishments in the prior two fiscal years and outline areas of focus for the SFPUC's upcoming budget cycle.

On February 26, 2015, BAWSCA provided the Board of Directors with a copy of the 2014 version of the Report. As with prior Reports, the 2014 edition satisfies the contractual requirements outlined in Section 3.10B of the WSA. At BAWSCA's request, publication of this year's Report was delayed to allow for the inclusion of the Eastern Division (from Hetch Hetchy Reservoir to Tesla Portal) of the Regional Water System for the first time since inception of this Report.

BAWSCA has completed a review of the report with the support of its technical experts. A letter from BAWSCA's Water Resources Manager, Michael Hurley, to the SFPUC's Assistant General Manager Steve Ritchie, transmits BAWSCA's comments and questions on the Report. A copy of this letter is attached to this memorandum. BAWSCA will be meeting with the SFPUC to discuss the comments and questions transmitted in the letter. The results of BAWSCA's review and follow up discussions will be communicated to the Wholesale Customers and Board as appropriate.

### **Long-Term Reliable Water Supply Strategy Implementation – Update:**

BAWSCA's Long-Term Reliable Water Supply Strategy (Strategy) is available on the BAWSCA website and copies of the report were distributed to the Board.

BAWSCA is moving forward with implementation of the Strategy recommendations. FY 2014-15 efforts focus on the completion of the Pilot Water Transfer Plan with EBMUD and exploration of other possible transfer opportunities, including the addition of storage to better manage potential transfer supplies. Staff has also begun to coordinate with interested parties on desalination to identify the next steps to further evaluate project yields of the identified alternatives and explore possible institutional and financial arrangements. Further, BAWSCA continues to participate in the Bay Area Regional Reliability (BARR) Project that is exploring regional alternatives (e.g., interties) to provide greater reliability. Finally, staff continues to monitor regulatory, technological and institutional developments in potential new supplies such as indirect and direct potable reuse.

Actions to implement the Strategy next fiscal year are reflected in the preliminary FY2015-16 Work Plan and Operating Budget. Further detail on these work plan items and anticipated results will be reported on at the March 19, 2015 board meeting.

### **SFPUC 10-Year Capital Improvement Program:**

BAWSCA staff has been meeting with the SFPUC to develop a new reporting process to track progress on the SFPUC's 10-year Capital Improvement Program (10-year CIP). Projects currently contained in the 10-year CIP range from large, WSIP-like capital projects (e.g., Mountain Tunnel) to smaller repair and replacement (R&R) projects to extend the life of the SFPUC's capital assets.

Currently, the SFPUC produces a CIP Quarterly Report that is provided to the Commission, BAWSCA, and the public. In working with the SFPUC, the goal is to modify this report so that it serves a similar function as the WSIP Quarterly Reports in describing the program and individual projects, and providing schedule and budget updates.

To date, the discussions have focused on developing an effective, consistent format for reporting; understanding the differences between the current WSIP reporting process and the resources available for developing the 10-year CIP reporting; incorporation of asset management activities; and where necessary, developing new metrics, primarily for smaller R&R projects. Some modifications have been made to the report over the last year and the SFPUC has indicated a willingness to continue to improve the reporting content. Given the increasing magnitude of the SFPUC's 10-Year CIP moving forward, this level of reporting will enable BAWSCA and all stakeholders improved ability to monitor and track the CIP.

### **Current Drought Conditions – Update:**

BAWSCA has asked the SFPUC to provide an updated water supply condition report at the March Board meeting.

On December 29, 2014, the SFPUC notified the BAWSCA member agencies of the continued request for a 10% water use reduction into 2015. The SFPUC will revisit its request in the late spring to determine if the 10% voluntary reduction is sufficient. BAWSCA

is meeting regularly with SFPUC management to assess current and projected water supply reliability, the potential for changes to the current call for voluntary reductions in water use, and review the process for allocating limited supplies should that become necessary.

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

Staff is also participating in bi-monthly conference calls with the Santa Clara Valley Water District and its retail customers to review water supply conditions and drought response actions that would directly or indirectly affect BAWSCA member agencies.

**Silicon Valley Water Conservation Awards:**

BAWSCA is pleased to announce that the winners of the 2015 Silicon Valley Water Conservation Awards have been selected. This year's winners include BAWSCA Board Member Marty Laporte for the Lifetime Achievement Award and Alameda County Water District for the Government Agency Award.

BAWSCA Board Members are invited to join in honoring these champions at the Water Awards Ceremony on Monday, March 23rd from 11 am – 1 pm at the Mitchell Park Community Center in Palo Alto. The event will include a Water Conservation Expo and lunch. Please RSVP at <http://www.svwca.brownpapertickets.com>.





**Attachments:**

1. Table 1: Work Plan Progress Toward Selected FY 2014-15 Projected Results
2. Letter from Michael Hurley to Steve Ritchie – May 13, 2015  
Subject: Comments on 2014 State of the Regional Water System Report

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**Table 1: Work Plan Progress Toward Selected FY 2014-15 Projected Results**  
*(Work Plan revised per Jan. 2015 Board Action; Progress updated as of March 12, 2015)*

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

 Complete    
  Ongoing & On Schedule    
  Experiencing Delay    
  Needs attention

3/13/2015

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March 13, 2015

Steve Ritchie, Assistant General Manager, Water Enterprise  
San Francisco Public Utilities Commission  
525 Golden Gate Avenue, 13<sup>th</sup> Floor  
San Francisco, CA 94102

**Subject: Comments on 2014 State of the Regional Water System Report**

Dear Mr. Richie,

The Bay Area Water Supply and Conservation Agency (BAWSCA) has reviewed the 2014 State of the Regional Water System Report (Report), which is required pursuant to Section 3.10B of the 2009 Water Sales Agreement (WSA) between the City And County of San Francisco and the Wholesale Customers. BAWSCA has the following general comments as well as more specific comments included in Attachment A of this letter.

Overall, the Report is highly informative and deeply enhances the stakeholders understanding of both recent and planned activities related to maintenance of and improvements to the Regional Water System (RWS). Further, the inclusion of the assets and associated activities within the Eastern Division greatly improves the value of this year's Report.

The portion of the Report covering the Western Division is especially well written and informative, covering a wide range of important issues with very detailed information. In particular, the system planning and assessment methodology, evaluation criteria and process, and the level of detail provided in the Western Division are useful in understanding the SFPUC's approach to maintaining and improving these assets.

The newly added discussion of the Eastern Division certainly presents an initial understanding of the state of these assets. BAWSCA is confident that, in time, the Report will be uniformly comprehensive, thorough, and timely. Greater detail on the following items would be useful in the future: inspection standards and schedules, asset assessment criteria and goals, evaluations and management procedures, ongoing monitoring, schedules for needed follow-up repair actions, master planning, and budgeting.

It is recommended that the SFPUC use the same, or similar, management systems, process for program evaluation, system planning and assessment, goals, and budgeting for both divisions of the RWS. This will be very important in fully understanding and relying on the performance of and expectations for the Eastern Division in the future. Given the planned increased in capital program expenditures over the next ten years, a high level of transparency and access to information will be critically important.

Mr. Steve Ritchie  
March 13, 2015  
Page 2 of 2

The enclosed Attachment A provides detailed comments and questions about the Report. These comments reflect the areas of interest for BAWSCA's understanding of the CIP (especially for the non-WSIP portions).

Please let me know if you have any questions and we look forward to sitting down with you and your staff in the near future to discuss these issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Hurley", written over a horizontal line.

Michael Hurley  
Water Resources Manager

le/NS/MH

Enclosure:

1. Attachment A - Detailed BAWSCA Comments and Questions on the 2014 State of the Regional Water System Report

cc: M. Novotny, SFPUC

**ATTACHMENT A:  
Detailed BAWSCA Comments and Questions on the  
2014 State of the Regional Water System Report**

**Eastern Division: Hetch Hetchy Water and Power (HH) (Pages 1-36)**

1. Pg. 6. Sec. 2.2. Complementary to the Figure 2-1 schematic, it would be helpful to include a location graphic showing the HH system similar to that shown on Pg. 7 of the WD portion of the Report.
2. Pgs. 5-12. The facilities descriptions are very helpful for a better understanding about key selected features of the HH system. Suggest that in future editions of the Report some of the detailed information tables be placed in appendices for ease of reference.
3. Pgs. 12-13. Table 2-4. The condition assessment information does not provide enough detail for the reader to get a good understanding of the condition of the system. Some assessments are "available", some are not. The Report indicates that the detailed documents are available for viewing at the SFPUC offices which does not help the Report reader without a specific document title. More information about the condition of the facilities should be shown in the Report (at least a summary of findings or status). Some of this information is already presented in the narratives within Section 2.5 when discussing individual CIP projects. A question for the SFPUC would be: Is there any high risk, high priority facility repair/replacement work that is unfunded or underfunded and will not be corrected in the next 3 years? Which facilities?
4. Pg. 13. Sec. 2.4. There are many questions and concerns about this section. Most of the narrative on page 13 and the chart on page 14 address HH Power only. The first paragraph on page 14 is of concern. To paraphrase it indicates that: asset classification for Water and Joint projects has varied over the last 7 years with the SFPUC now refining the process. It further indicates a new process is being applied to Kirkwood Penstock which they intend to use in the future. There is no information about the process they have been using on the remainder of the HH system so the reader has no way to determine if the current CIP is based on a reasonable evaluation process (the CIP is shown on pgs. 17 and 18). Fig. 2-3 on page 15 looks impressive but it is not being used on the HH program except for Kirkwood Penstock. The discussion describes a CIP process that is essentially not yet in use. What process was used to develop the approved FY 15-24 CIP? An additional need is an assessment tool to test the contribution of a project or group of projects on achieving LOS goals similar to what is contained in the Notice of Changes to the WSIP provided to the State.
5. Pg. 15 Sec. 2.5. The CIP discussion goes on here to say: "HHWP continues to refine the process used to prioritize projects....." and that the 10 year CIP is "based on condition assessments performed to date and available funding". What methods have been used for assessment, evaluation, prioritization, and budgeting for the 10-year CIP? Are they adequate and what guidance is used to set the assessment cycles for different types of infrastructure? It appears that HH is lagging behind where it should be in performing inspections and condition assessment. Why? How does the SFPUC determine the level of funding needed to support HH? Should stakeholders rely on the quality of system evaluation, and the budgeting process that the SFPUC has been using? Does more work

- need to be done to ensure key facilities are evaluated and funded for repair in a timely way? What steps should be taken in that regard?
6. Pg. 16. Sec. 2.5. Approved 10-Year Capital Improvement Program. The text needs to provide more explanation of the Candidates/New classification. They appear to be a place to highlight what is new to the current CIP. Does this mean in subsequent CIPs these projects move to the established categories, or are they held as candidates for several cycles due to reasons such as low priority?
  7. Pgs. 17-18. Fig. 2-4. The heading states that the chart is for "water only", but power facilities are also shown. Is the funding shown appropriately proportioned between water and power?
  8. Pgs. 19-20. San Joaquin Pipelines. Paragraph 1 indicates that the "HHWP is developing a maintenance program....to manage the SJPL's...." There is about \$69M included in the 10 year CIP for SJPL's. Some inspection and evaluation work has apparently been done but more remains. If evaluations are not complete, how was the \$69M project cost determined? When will all the evaluations be complete?
  9. Pg. 20. Coast Range Tunnel. There is currently no funding in the FY15-FY24 period. As it is reasonable to expect that the January 2015 inspection will identify some rehabilitation needs, placeholder funds should be used as it will be much harder to rebalance the CIP in future years using refined figures if nothing has been anticipated. Also, this methodology should be employed on other projects/programs whenever there is a likely expectation of incurring costs within the timeframe of the CIP.
  10. Pg. 21. Mountain Tunnel (\$628M). The Report indicates that "minimal maintenance work" has been performed on the tunnel in the 90 years since it was built. A discussion of why only minimal work was done and a basis for that decision seems appropriate. How was the budgeted amount of \$628M determined? Is the budget expected to change in light of the recent report from the Technical Advisory Panel?
  11. Pg. 21. Canyon Tunnel. It appears that more work needs to be done on this project (permanent replacement of the concrete plug) but there is no funding for any work in the FY 15-24 CIP. When is this work scheduled to be done and what is the funding plan?
  12. Pg. 23. Moccasin Penstock (\$42M). The Report indicates that HH is in the process of performing the condition assessment and that it "may be subject to failure". How was that determined if there is no assessment? How was the \$42M budget determined? When was the last assessment conducted on the facility? What was the result?
  13. Pg. 24. Various dams. The CIP funding is constant over the 10 year period, suggesting the funds are primarily intended for assessment and minor upgrade/repair activities. There are monitoring deficiencies in the Priest Dam that are "required for dam safety purposes". HH "is launching a project that will design and construct new monitoring instrumentation and perform an overall condition assessment of the dam...." There is no specific Priest dam project shown in the 10 year CIP. How long has the monitoring equipment been deficient? When was the last inspection and condition assessment on the dam? Where is the project funding coming from? The same is true for the Eleanor, Cherry and O'Shaughnessy dams. Where are the funds budgeted for the projects identified in the assessments? What are the scopes of the projects? How much will each cost?
  14. Pg. 25. Cherry Spillway (\$14M). It's not clear why damage would occur at 1800 cfs if the design was for 52,000 cfs even though the original project was not fully completed. Why and

- when did the damage occur at 1,800 cfs? How long has this been a known problem? What is the scope of the proposed project?
15. Pg. 28. Facilities Security. What level of security is needed at each facility? What criteria were used to determine the need beyond the NERC regulations? How are needs prioritized?
  16. Pg. 29. Communication System Upgrade. Have there been condition assessments done on the communication system? When and what were the results? If this project is a "high priority", why has it waited so long? What are the safety and security implications of the system deficiencies?
  17. Pg. 31. Proposed Recovery Projects (from the Rim Fire). Where are the fire recovery projects budgeted? A footnote on Figure 2-4 project for the Moccasin Generator Rewind indicates \$10.9 M reallocated to the Rim Fire Project yet Table 2-5 indicates \$24.71 M is needed for completion. What is the scope and cost for the individual projects?
  18. Pg. 32. Sec. 3.1. Asset Management Services. Is the enterprise asset management system state-of-the-art? How long has the system been used by HH? More details are needed on the asset management system results to better understand its effectiveness.
  19. Pg. 35. Sec. 3.4.1. Dam Monitoring Program. How many inspections are done on each dam annually (it appears that WD does 6 inspections on each dam annually)? What were the findings this year (a summary)? Who conducts the dam assessments? Are the dams scored numerically by level of safety? If so what was the score on each?
  20. In looking towards the future, what are the three highest priority improvements that are not funded in the proposed 10-year CIP that are the most important for the overall success, safety, quality and functioning of the HH system? What is the procurement process for HH services, i.e. design, maintenance, construction, and project management? Is it the same as the WD?

#### **Western Division (WD) (Pages 1-141)**

1. Pg. 15. Fig. 2-3a. This figure shows water system pipelines and tunnels by material and decade of installation. Why is the information in this figure so dramatically different from the same information shown in the September draft Report (Pg. 15, Fig. 2-3 in the draft)?
2. Pg. 22. Sec. 3.0. Asset Management Program Overview. A general question about the evaluation and maintenance of the Water Enterprise Regional Water System (RWS) and the Hetch Hetchy Water System (HHW): Do the two systems use the same systems evaluation goals and process for the same type of infrastructure component? Are the asset management goals and evaluation criteria for LOS, risk based condition assessment, facility assessment, maintenance vision and prioritization, and related budgeting as shown in Section 3 of the WD Report essentially the same for the two systems. If, not, how do the two differ?
3. Pg. 26. Sec. 3.2. Risk Based Condition Assessment. The last two paragraphs (pg. 27) address Tier prioritization. Are there currently any high risk, high priority facilities repair/replacement work that is unfunded, or underfunded, and will not be corrected within the next 3 years? Which facilities? Are all needed improvements to medium risk facilities funded within the proposed 10-year CIP? If not, which are not funded?

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# Board of Directors Policy Calendar through Jan. 2016

Board Meeting	Purpose	Issue or Topic
March 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 Planned FY 2015-16 Actions to Implement the Strategy
May 2015	D&A D&A	Consideration of Proposed FY 15-16 Work Plan and Budget Consideration of Annual Contracts
July 2015	D&A	Review Water Supply Forecast & Decide if a Transfer Should be Pursued
Sept. 2015	D&A	Review Water Supply Forecast & Decide if a Transfer Should be Pursued
Nov. 2015	R&D R&D	BAWSCA Mid-Year Review for FY 2015-16 Work Plan and Budget Review of General Reserve Policy
January 2016	D&A D	BAWSCA Mid-Year Review for FY 2015-16 Work Plan and Budget Work Plan and Budget Planning for FY 2016-17

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

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

**Meeting Schedule through June 2016**

<b>Schedule for BAWSCA Board Meetings (Meetings are held from approx. 7:00 – 9:00 p.m.)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Thursday – March 19, 2015	Wind Room, Foster City Community Center
Thursday – May 21, 2015	Wind Room, Foster City Community Center
Thursday – July 16, 2015	Wind Room, Foster City Community Center
Thursday – September 17, 2015	Wind Room, Foster City Community Center
Thursday – November 19, 2015	Wind Room, Foster City Community Center
Thursday – January 21, 2016	Wind Room, Foster City Community Center
Thursday – March 17, 2016	Wind Room, Foster City Community Center
Thursday – May 19, 2016	Wind Room, Foster City Community Center

<b>Schedule for RFA Board Meetings (Meeting time will be announced)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Thursday – July 16, 2015	Wind Room, Foster City Community Center
Thursday – January 21, 2016	Wind Room, Foster City Community Center

<b>Schedule for BAWSCA Board Policy Committee Meetings (Meetings held from 1:30-4:00 p.m.)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Wednesday – April 8, 2015	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – June 10, 2015	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – August 12, 2015	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – October 14, 2015	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – December 9, 2015	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – February 10, 2016	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – April 13, 2016	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – June 8, 2016	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.