

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD POLICY COMMITTEE**

**February 11, 2015 – 1:30 p.m.
BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room**

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

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 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: Approval of Minutes from the December 10, 2014 meeting.

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. Adjustment 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 Discussions:

A. 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.

In 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 4th 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/General Manager'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.

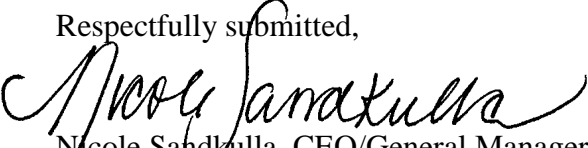
D. Correspondence Packet:

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 from the Committee members

9. **Adjournment:** The meeting was adjourned at 3:40pm. The next meeting is April 8, 2015.

Respectfully submitted,



Nicole Sandkulla, CEO/General Manager

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Attachments: 1) Attendance Roster

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

BAWSCA Staff:

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|------------------|--|
| 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 | Peninsula Resident |
| Tania Solé | Docktown |