

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

**December 10, 2014 – 1:30 p.m.
BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room**

MINUTES

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

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

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

- 2. Comments by Chair:** Director Mendall welcomed the Committee members, and stated that he is looking forward to the Long-Term Reliable Water Supply Strategy report.
- 3. Public Comments:** There were no public comments.
- 4. Consent Calendar:** Approval of Minutes from the October 8, 2014 meeting.

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

The motion passed unanimously.

5. Action Items:

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

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

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

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

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

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

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

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

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

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

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

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

The motion carried unanimously.

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

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

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

rate structures Member Agencies might consider to stabilize water rates and water revenues.

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

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

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

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

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

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

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

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

SFPUC General Manager and Deputy General Manager that the trigger for the 2018 decision is when the projected total system purchases exceed 265 mgd, which is currently not planned to occur until well after 2018.

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

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

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

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

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

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

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

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

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

BAWSCA continues its work on projects to improve drought reliability, including monitoring and documenting water use in the BAWSCA service area. Ms. Sandkulla explained that this effort proved valuable when BAWSCA was successful in re-analyzing the member agencies' water use consumption to support the SFPUC's decision to continue with only a 10% voluntary water use reduction in Summer 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Discussion:

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

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

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

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

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

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

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

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

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

The motion carried unanimously.

6. Reports and Discussions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The long-term perspective in developing the goals for the agency helps prioritize its resources to the level of work. Ms. Sandkulla anticipates challenges that will require

rigorous technical investigations and skilled negotiations to address the agreements, legislations, and other legally enforceable products that might be required. These efforts prove most effective and successful when they are done well in advance, and in a coordinated effort by all member agencies versus individually. This reflects the need for determining schedule flexibility and long-term perspective.

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

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

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

Director Mendall concurred.

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

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

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

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

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

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

Ms. Sandkulla explained that they were concerns in the old contract where wholesale customers paid for assets on a utility basis, or only once the projects are put into place. In the new WSA, wholesale customers pay on a cash basis, where wholesale customers pay cash as San Francisco spends the money to build the projects or repair the system. Depreciation is not in the equation. There is no depreciation built into the current wholesale rates.

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

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

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

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

7. Reports:

A. Water Supply Update:

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

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

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

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

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

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

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

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

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

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

B. Pilot Water Transfer Progress Report:

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

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

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

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

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

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

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

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

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

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

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

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

Meetings have been held with YCWA and EBMUD to discuss the risks associated with the transfer, essentially in the wheeling. Bi-weekly meetings continue with the City of Hayward to better understand the city's operational and system concerns as well as the benefits to the city from the pilot transfer. The meetings have been helpful in realizing

the complexity of the transfer and the issues that come with the transfer under a controlled environment as opposed to forced conditions.

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

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

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

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

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

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

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

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

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

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

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

C. Long-Term Reliable Water Supply Strategy:

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

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

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

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

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

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

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

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

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

Mr. Hurley explained that given the relatively small yields, recycled water shows no significant role in meeting dry year demands for BAWSCA member agencies at this

time. Additionally, Redwood City's existing recycled water line currently has no project analysis or demand for extension. The lack of data makes it difficult to compare that project on the same basis as other potential projects. This is similar with the local capture and reuse project. There is not enough data available to include in a quantitative metric to score it against other alternatives. Those projects will continue to be monitored, however, and will remain in the list of potential projects for future analysis.

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

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

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

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

Committee discussions ensued.

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

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

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

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

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

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

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

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

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

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

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

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

Ms. Sandkulla explained that the board agreed to not overtake individual agency's projects or do a project that an agency did not want to do. In searching for projects, every agency that has groundwater expressed no interest in putting their project in the mix, except for the City of Sunnyvale. Sunnyvale's project, however, is a small project

of 2 mgd. This small yield does not address the drought supply need significantly and therefore, scored poorly in this area. This makes the development with the potential pilot water transfer with SCVWD so critical.

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

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

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

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

D. CEO/General Manager's Letter:

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

E. Board Policy Committee Calendar:

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

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Nicole Sandkulla", written in a cursive style.

Nicole Sandkulla, CEO/General Manager

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Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – December 10, 2014

Roster of Attendees:

Committee Members Present

Al Mendall, City of Hayward (Chair)
Randy Breault, City of Brisbane/GVMID (BAWSCA Vice Chair)
Rob Guzzetta, California Water Service Company
Kirsten Keith, City of Menlo Park
Irene O’Connell, City of San Bruno (BAWSCA Chair)
Tom Piccolotti, North Coast County Water District
John Weed, Alameda County Water District

Committee Members Absent

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

BAWSCA Staff:

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

Public Attendees:

Michele Novotny San Francisco Public Utilities Commission