

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

**December 9, 2015 – 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 Vice-Chair Kirsten Keith called the meeting to order at 1:33 pm. A list of Committee members who were present (8), absent (3) and other attendees is attached.

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

2. **Comments by the Chair:** Vice Chair Keith welcomed the Committee members and announced that Committee Chair Bronitsky is traveling.
3. **Public Comments:** Mr. Suhas Ahuja from Smart Utilities Systems (SUS) provided information on SUS' utility product.
4. **Consent Calendar:** Approval of Minutes from the August 12, 2015 meeting.

Director Pierce made a motion, seconded by Director Vella, that the minutes of the August 12, 2015 Board Policy Committee meeting be approved.

Directors Keith and Marsalli abstained. The motion passed.

5. **Action Items:**

- A. **Proposed Fiscal Year Bond 2016-17 Bond Surcharges:** BAWSCA Sr. Administrative Analyst, Christina Tang, presented the proposed bond surcharges for FY 2016-17. The surcharge setting conforms to BAWSCA's Revenue Bond Indenture (Indenture) for Series 2013A and 2014B revenue bonds.

Ms. Tang reported that the Indenture requires BAWSCA to collect an annual surcharge from member agencies to make debt service payments twice a year, pay for expenses associated with administration of the bonds, and replenish the Stabilization Fund as necessary. Based on current review, replenishment of the Stabilization Fund is not necessary at this time.

The annual surcharge is a fixed amount for each agency. The total surcharge amount for FY 2016-17 is \$24,684,779. Based on SFPUC's projected wholesale water consumption of 120mgd for FY 2016-17, the equivalent unit cost of the total surcharge is \$0.42/ccf or \$183/AF.

Ms. Tang explained that a true-up adjustment is included in the FY 2016-17 surcharge setting. The true-up adjustment reflects each agency's actual percentage of total water purchases from San Francisco in FY 2014-15, and it reimburses BAWSCA for the bond administration expenses of \$11,044 in FY 2014-15.

The true-up amount is the difference between the actual expenses or cost allocation based on FY 2014-15 purchases, and the estimated cost allocation based on FY 2012-13 purchases.

A true up adjustment is expected every year moving forward.

A table that lists the proposed bond surcharge for each member agency was presented to the Committee. Ms. Tang reported that the total savings for the member agencies in FY 2014-15 as a result of BAWSCA's bond issuance for the pre-payment of old capital debt owed to San Francisco is approximately \$3.5 million.

Director Guzzetta suggested modifications to the titles of the tables in the memo to better characterize the results being presented.

Director Larsson made a motion, seconded by Director Pierce, that the Committee recommend approval of the proposed FY 2016-17 bond surcharges.

The motion passed unanimously.

- B. Authorization to Extend Office Lease:** BAWSCA CEO/General Manager, Nicole Sandkulla, reported that the existing lease for BAWSCA's current office space expires on September 30, 2016. In the process of reviewing the lease renewal, BAWSCA's real estate agent advised that BAWSCA reach out to the property owner well in advance of the lease expiration because of the increasing lease rates that has occurred in the market, and the expectation that the rates will continue to increase significantly in the coming months.

Based on that recommendation, BAWSCA was offered an opportunity to renew the lease early and lock in at the then current market rate of \$3.75/sq. ft. Ms. Sandkulla noted that in the few weeks since the proposed rate was offered to BAWSCA, the market rate has already gone up to \$4/sq. ft. within the local area, and is continuing to climb.

The rate under the current lease is \$2.48/sq. ft. The proposed rate would become effective October 1, 2016 with a resulting net monthly rent increase of \$4,233.

Ms. Sandkulla stated that the proposed rate of \$3.75/sq. ft. falls within the range of rates BAWSCA has paid in the past which is \$1.85/sq. ft. - \$4.25/sq. ft.

Ms. Sandkulla also noted that the early lock-in offer will have no impact to the current fiscal year. BAWSCA will continue to pay the current rate of \$2.48/sq. ft. until September 30, 2016. The proposed rate of \$3.75/sq. ft. will take effect on October 1, 2016, and will be included in the FY 2016-17 budget.

Alternative locations were reviewed and the current location proves to offer the best value to the agency.

Since BAWUA, BAWSCA's predecessor, has had staff, San Mateo has been the most central location for the member agencies and their staff, the SFPUC, and BAWSCA staff members who all travel back and forth to meetings at each other's locations.

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This premise continues today and proves to be the most effective location given the worsening traffic conditions.

Ms. Sandkulla stated that renewing the current lease now and locking in on the proposed rate that is less than current market value is cost-effective for the agency, as opposed to waiting until Summer, or considering a different office location in the vicinity that would likely have a higher rate in addition to the additional expenses associated with moving.

Staff also looked into different site locations outside of the current vicinity, particularly in the East Bay across San Mateo Bridge into Hayward and Union City area. The office spaces found were not as conducive to BAWSCA's needs because they were generally larger, commercial type spaces that would require significant layout changes. Based on a market survey performed by BAWSCA's real estate agent of available spaces in the East Bay, it was not evident that there would be available office space to fit BAWSCA's needs, or a lower cost lease rate, or overall reduced cost given necessary tenant improvements and relocation expenses.

Ms. Sandkulla stated that the overall cost of relocating would not result in significant savings, and would negatively impact efficiency for member agencies and BAWSCA staff when they travel to attend meetings that are regularly scheduled and also occur on an as-needed basis.

The recommendation is to extend the current lease at the proposed rate of \$3.75/sq. ft., for a period of five years.

In response to Director Breault, Ms. Sandkulla noted that the proposed lease will have an annual 3% increase for common area maintenance expenses, which is consistent with the current lease agreement. Ms. Sandkulla stated that previous lease agreements in past years had up to a 4% annual increase because of market conditions.

Director Breault supports the recommendation and stated that even with the 3% annual increase, it would be 3 years into the 5 year lease before the lease reaches what is currently the market rate.

Director Weed supported the recommendation, and encouraged staff to look into government agencies that sublet spaces as part of any future review of office space.

Director Guzzetta advised to include detail in the memo on the history of the lease rates BAWSCA has had in the past, given that the renewal is a 50% increase from the current rate, but within the rates previously paid.

In response to Director Vella, Ms. Sandkulla stated that the current lease total is \$105,000, or approximately 3% of the agency budget. The renewal lease, taking into account the new rate of \$3.75/sq. ft. that will not go in effect until October 1, 2016, will result in total lease costs of \$137,000 in FY 2015-16, or approximately 4% of the current fiscal budget.

Director Vella supports the recommendation and stated that commercial space lease rates will continue to climb in the next few years. He appreciates BAWSCA's initiative

and efforts to negotiate an early agreement and obtain a lower rate than that of the current market value. He encouraged staff to pursue early negotiations of the next lease, and to look at subletting opportunities as mentioned by Director Weed. Lastly, Director Vella suggested including information in the staff memo that would present average commercial vacancy rates in the local vicinity.

Director Guzzetta inquired, and committee discussions followed, about consideration of changing the Board meeting time from an evening meeting to a daytime meeting due to worsening traffic trends.

Ms. Sandkulla stated that the Board meeting time was established during the early development of BAWSCA, and has not been reviewed since.

The committee discussed that while the decision of having the Board meetings in the evening was most likely associated with the common time of council meetings, public access, and Board Member schedules, the committee supports a re-consideration of the Board meeting time, and potentially changing it to a daytime meeting, because of the worsening traffic congestion.

Director Keith noted that BAWSCA looked into the CalTrain office as a meeting location that would be close to public transportation. The venue was unfortunately not available with the current meeting time, but may be available if the meeting was held during the day.

Director Larsson cautioned that the end time of a daytime meeting can fall right into the afternoon commute time, which would not be an improvement to the current circumstances.

Ms. Sandkulla will work with staff, legal counsel, and Chair Breault to re-examine the benefit of moving the Board Meeting time.

Director Vella made a motion, seconded by Director Pierce, that the committee recommend Board authorization of the CEO/General Manager to extend the current lease for a period of five years.

The motion carried unanimously

6. Reports:

- A. Water Supply Update: Mr. Hurley presented the series of charts that are regularly used to show the regional water system's storage levels, precipitation and snowpack, total deliveries, and cumulative savings.

As of December 6th, Hetch Hetchy is at 71% of capacity and the water bank is at a slight reduction to 31% of capacity. Mr. Hurley reported that SFPUC is trying to increase the storage at its upcountry reservoirs in the next few months.

The 2015-16 Water Year has had a good start with precipitation levels staying above the median level. While the snowpack is a bit below the median, it is expected to bump up with the forecasted weather conditions.

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Upcountry 6-station precipitation during the months of October and November were above historic median, and the trend is expected to continue through December with the current weather forecast.

The region continues to be well below the water use reduction target, and above the target cumulative savings.

Director Weed noted that with the current 141 mgd deliveries for the entire system, including San Francisco, the region is running at less than 50% of Hetch Hetchy system's capacity.

Mr. Hurley stated that there has been significant water use reduction, and reported that BAWSCA agencies achieved an overall savings of 29% from June through October 2015. Of the 26 member agencies, nineteen agencies have achieved 100% of the 9-month target within a period of 5 months.

To comply with the emergency regulations, the savings target between June 2015 and February 2016 was approximately 10 billion gallons. Mr. Hurley reported that BAWSCA agencies exceeded the target by 2.5 billion gallons in the June through September 2015 period alone. If there was a regional compliance component to the emergency regulations, BAWSCA agencies would have met that in 5 months.

Mr. Hurley reported that despite the wet weather pattern, BAWSCA continues to work in anticipation of another drought year. BAWSCA recently completed an update of the regional Model Water Efficient Landscape Ordinance (MWELO) as required by the State emergency regulations.

Under the emergency regulations, agencies are required to adopt, by December 1, 2015, an updated local or regional ordinance that is at least as effective as the ordinance developed by the Department of Water Resources (DWR). BAWSCA's updated ordinance has been distributed to the member agencies for their use and consideration. The ordinance has also been shared with Santa Clara Valley Water District, who has been following BAWSCA's work on the update, and will likely adopt an ordinance consistent with BAWSCA's.

Given the successful customer response to the conservation message to date, the regional drought campaign message will be modified to thank customers for their conservation efforts, encourage them to continue despite the wet weather patterns, and emphasize that emergency state regulations have been extended through October 2016.

Lastly, Mr. Hurley reported that BAWSCA, along with SFPUC, is an active participant in the State Water Resources Control Board's (SWRCB) consideration of potential modifications to the conservation regulations. SWRCB held a workshop on December 7th, which BAWSCA provided comments through a letter addressed to the Chair, Felicia Marcus. The letter asserts that any modifications to the regulations should avoid re-directing any additional conservation savings burden on low water using communities that are at or near health and safety standards.

Mr. Hurley reported that Chair Marcus indicated at the recent ACWA conference that the SWRCB Board does not have direct discretion for changing the Governor's orders. However, it recognizes the need for careful review of the various proposals of modification.

Ms. Sandkulla added that Chair Marcus also spoke about adjusting the baseline to accommodate already low water using agencies with the Governor's firm directive. Ms. Sandkulla reported that she and Steve Ritchie conveyed the message when they participated in a SWRCB meeting attended by Chair Marcus, SWRCB staff members, and other stakeholders.

At the December 7th workshop, Mr. Hurley reported that the proposed changes included climate adjustment, growth adjustment, recycled water adjustment, sustainable supplies credits, groundwater credits, and regional compliance option. The environmentalists were not supportive of the proposals and pointed out that what is currently in place is working.

Chair Marcus indicated at the workshop that she sees the extension as an emergency measure and not indicative of any long-term decision by the State. BAWSCA will keep a close watch on the developments, provide regular updates to BAWSCA's Water Management Representatives, and coordinate with other organizations accordingly.

Director Breault asked if BAWSCA has considered how the SWRCB Board's perspective on the current "water use off-sets" impacts BAWSCA's Long-Term Water Supply Reliability Strategy.

Mr. Hurley stated that the most vocal participants in the process are those with stranded assets. The classic case is the San Diego County Water Authority who has worked decades in developing its desalination plants. Those plants are scheduled to go online but the agency will not be able to take advantage of the supplies given how the SWRCB conservation standards are currently being applied and implemented.

Mr. Hurley explained that the SWRCB Board recognizes that how they clarify the intent of the current process is going to be key to what will be included in future standards. SWRCB has tried to focus the discussions on the extension of the emergency regulations through October 2016, rather than a long-term regulation.

Ms. Sandkulla added that the State Board recognizes that it does not want to put agencies in a position that would discourage individual water agencies' desire to make future investments to improve water supply reliability.

In response to Director Guzzetta, Ms. Sandkulla stated that BAWSCA staff looks at the monthly SFPUC Hydrological Reports as a way to keep track of the SFPUC's Water First Policy, SFPUC's optimization of system operation to benefit water supply as opposed to power.

Legal Counsel, Allison Schutte, added that the Water Supply Agreement memorializes the Water First Policy, which adds a contractual promise to SFPUC's enforcement of its own policy.

In response to Director Keith, Mr. Hurley explained that the SFPUC's water bank will fill provided that this year is an average water year. Ms. Sandkulla added that by April, SFPUC would be able to project whether water bank will fill based on the snow levels and projected runoff.

Mr. Hurley added that with the improvements the SFPUC has made to the Cherry Reservoir in 2014, it can be a source of drinking water supply this year if dry conditions continue.

In response to Director Weed, Ms. Sandkulla reported that the FERC process continues. A staff memo will be included in the January 2016 Board Meeting packet to provide a status report with a presentation at the Board meeting to provide an opportunity for the Board to discuss current developments.

- B. Pilot Water Transfer Progress Report: Ms. Sandkulla provided an update on the progress of the Pilot Water Transfer Plan (Pilot). A meeting between BAWSCA, EBMUD and Yuba County Water Agency (YCWA) was held on December 2nd to discuss current developments.

Ms. Sandkulla reported that EMBUD is planning for 100% operation of its Freeport Facility this water year to deliver water to its service area using water purchases from their Bureau of Reclamation contract, Placer County Water Agency, and YCWA. As a result, YCWA will not have any water that it can sell to BAWSCA, and Freeport will not have the capacity to move water for the Pilot.

All the parties, however, remain very interested in the Pilot, and are in agreement that it is to everyone's benefit to continue the discussions.

Ms. Sandkulla reported that EBMUD is firming up their ability to use the Freeport Facility with non-Bureau water, which would require them to obtain a Warren Act Agreement from the Bureau. Last year, the Bureau was very cautious about providing a Warren Act Agreement and allowing non-Bureau water to move through the Bureau's Folsom South Canal because of concerns about the drought. Because the Freeport Facility is EBMUD's own facility, it is strongly pursuing the agreement to establish a history of operating the Freeport Facility with non-Bureau water. Ms. Sandkulla stated that BAWSCA and YCWA are supportive of EBMUD, and that securing the required agreements, such as the Warren Act Agreement, is a critical piece of the process.

BAWSCA's current effort with EBMUD is focused on ensuring that the partnership agreement between the agencies provides the level of security that ensures BAWSCA will receive the benefits of being a partner in the operation of Freeport Facility during a transfer.

Ms. Sandkulla was pleased to report that the operational concerns with Hayward have been effectively resolved, and that discussions related to compensation continue to move forward.

Director Weed commented that given the dramatic drop in water consumption, BAWSCA should re-consider the need for a pilot water transfer project in the immediate term, and put it on an indefinite suspension. There are other alternatives that may have far less conflicts and uncertainties than that of the Pilot.

Ms. Sandkulla stated that the recent Strategy report provided several potential projects, including the Pilot, for alternative sources of water supply. Her continued recommendation is to move forward with pursuing all recommended projects,

including the Pilot, because history has shown that none of these projects happen immediately. All of them require multiple partners, and much more needs to be analyzed for each project before any final recommendation or decision can be made about which project to invest in.

With the level of investment that BAWSCA is currently making on the Pilot, BAWSCA needs to make the most of getting all questions answered so that its recommendations are based on solid information. She added that any recommended project will require significant capital investment or a significant contract with another or multiple agencies, and therefore, it is necessary to analyze viable alternatives to ensure that the correct decision is being made.

One main reason water transfers was identified as a highly desirable alternative water supply project was because it required minimal capital, but multiple partners.

Ms. Sandkulla added that the progress made with Hayward on the intertie discussions has yielded valuable results that benefit everyone, including San Francisco and EBMUD. For example, the discussions of issues related to the Pilot identified physical fixes that would improve the operation of the Hayward Intertie in its current emergency capacity.

- C. Mid-Year 2015-2016 Work Plan and Budget Review: Ms. Sandkulla presented the mid-year work plan review, the FY 2015-16 budget review, and a new approach for the FY 2016-17 work plan and budget preparation.

She reminded the Committee that BAWSCA's work plan for the year is based on the results the agency wants to achieve by the end of the fiscal year. Ms. Sandkulla highlighted a few areas of the work plan and was pleased to report that all tasks are on schedule, and expenditures are within budget.

The tasks associated with drought reliability and support of agencies' efforts to achieve their conservation targets are areas of the work plan with increased costs compared to previous years.

BAWSCA's oversight of the SFPUC's progress on the WSIP, 10-year CIP, and asset management has been a big effort that will continue through the fiscal year and into the next. She was happy to report that BAWSCA's efforts are yielding very good results.

Ms. Sandkulla reported that the SFPUC recently adopted some schedule changes to the WSIP for projects that are in operation and meeting the level of service goals. The extension of time was needed to do closeouts and complete final negotiations of settlements.

She highlighted that a budget adjustment for the WSIP in the range of \$30-50 million is expected in the next couple of months. The SFPUC indicates that the budget adjustment will have to be funded through a deferral of an equivalent amount of dollars that are allocated in the 10-year CIP to result a net zero rate change increase.

Ms. Sandkulla stated that BAWSCA is concerned with SFPUC's deferral of capital improvements to stay within a pre-determined rate increase, and reported that she has

clearly expressed this concern with the Commissioners. She reported that Mr. Hurley, along with BAWSCA's consultants, will be meeting with SFPUC to look at the specifics details of the deferral in January. While the deferral might be acceptable, BAWSCA will be closely monitoring what happens to the 10-year CIP budget as a result of these changes.

BAWSCA's efforts with the SFPUC on the 10-year CIP have been focused on the Mountain Tunnel, and have produced positive results in pushing San Francisco to keep the project moving, do what needs to be done to protect the interests of the water customers, and ensure that plans are in place in the event of a failure.

BAWSCA's settlement negotiations with San Francisco on the classifications and cost allocations for certain regional water system assets continue to make progress, and is anticipated to be resolved this fiscal year.

Ms. Sandkulla reported that the fiscal year expenditures are in accordance with the work plan, and no work plan or budget adjustments are recommended. She explained that minor expenditure differences that occurred fell within the CEO/General Manager's discretionary expense authority. She called out the Bay Area Regional Reliability (BARR) Partnership, which the Board authorized at its July 2015 meeting. The total expenditure of \$50,000 will be booked in the current year, as opposed to the anticipated expense being split between FY 2014-15 and FY 2015-16. This is due a delay in BARR's billing. Ms. Sandkulla reported that this additional expense will be accommodated this fiscal year thru decreases in other planned expenditures that will not be occurring this fiscal year.

Legal counsel expenses on the litigation are currently within budget. Expenditures will be reviewed again in March 2016 for any necessary adjustments that may arise.

Ms. Sandkulla reminded the Committee of BAWSCA's unique budgetary process which begins with identifying the critical issues in the near and long-term. BAWSCA looks up to 30 years ahead and works backwards towards the present to identify the results that must be achieved every 5-10 years and in the current fiscal year. This process allows BAWSCA to plan its resources during its work-plan and budget development in a way that ensures critical issues are identified in sufficient time to achieve necessary results.

Ms. Sandkulla stated that a presentation of the long-term critical issues and preliminary fiscal year work plan development is typically presented to the Committee in December. However, in response to interest expressed by the Board, Ms. Sandkulla is proposing an opportunity for Board input on long and near-term issues at its January meeting, to foster 1) Board input during the time when it has the ability to impact the work plan and budget development, as opposed to receiving them throughout the year, and 2) discussion on work plan and budget priorities of the agency.

Ms. Sandkulla will review the Board's input received at the January meeting and present her recommendations to the Committee at its meeting in February, where she will discuss what items are included in the recommended preliminary work plan and budget, and why. She emphasized that BAWSCA's strength has been its ability to achieve results. Her recommendations will be based on what the agency can achieve

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most effectively for the member agencies' best interests according to the resources it has available. She noted that unlike most cities and water districts, BAWSCA operates with only 8 full time staff and 1 part-time staff and therefore, resource constraints are a critical component of work plan and budget development.

Following committee discussions, the recommended preliminary work plan and budget will be presented to the Board in March for further discussion and development for the Committee's consideration in April, and the Board's adoption in May.

Director Weed noted that contingency in water operations and supply is a critical item for consideration in the work plan. Specifically, he pointed out two elements in the Water Supply Agreement: (1) an individual member agency's ability to sell a portion of its San Francisco Supply Assurance to another member, and (2) San Jose and Santa Clara having temporary and uninterruptible contract status with SFPUC.

Ms. Sandkulla reported that BAWSCA continues to have conversations with the SFPUC about how to make Santa Clara and San Jose permanent wholesale customers. She noted that this is a decision that only the SFPUC can make and that may or may not be acceptable to San Jose and Santa Clara. The other member agencies may or may not have a role in this decision depending upon how that agreement would relate the existing WSA.

6. **Comments by Committee Members:** There were no further discussions.
7. **Adjournment:** The meeting was adjourned at 2:48pm. The next meeting is February 10, 2016.

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 – December 9, 2015

Roster of Attendees:

Committee Members Present

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

Committee Members Absent

Charlie Bronitsky, City of Foster City (Chair)
Al Mendall, City of Hayward (BAWSCA Vice Chair)
Irene O'Connell, City of San Bruno

BAWSCA Staff:

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

Public Attendees:

Suhas Ahusa	Smart Utilities Systems
Michelle Novotny	San Francisco Public Utilities Commission
Paul Sethy	Alameda County Water District