

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

December 14, 2016 – 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 Dan Quigg called the meeting to order at 1:30 pm. A list of Committee members who were present (8) and other attendees is attached.

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

2. **Comments by the Chair:** Committee Chair Quigg welcomed the members of the Committee.

3. **Public Comments:** Public comments were received from Peter Drekmeier, Policy Director of the Tuolumne River Trust.

4. **Consent Calendar:** Approval of Minutes from October 12, 2016 meeting.

Director O'Connell made a motion, seconded by Director Larsson, that the minutes of the October 12, 2016 Board Policy Committee meeting be approved.

The motion passed unanimously.

5. **Action Item:**

- A. **Proposed Fiscal Year 2017-18 Bond Surcharges:** Christina Tang reported that the proposed FY 2017-18 bond surcharge setting conforms to BAWSCA's Revenue Bond Indenture for the Series 2013A and 2013B revenue bonds. BAWSCA is required to imposed a fixed surcharge for each member agency on an annual basis to pay that year's obligated debt service, bond administration expenses, and replenish the stabilization fund as necessary.

Based on the review, no replenishment amount for the stabilization fund is needed at this time. The same methodology used to calculate the bond surcharges for FY 2016-17 was used to calculate the surcharges for FY 2017-18.

The total surcharge for FY 2017-18 is \$24,686,592. This amount is equivalent to \$0.47/ccf or \$206/AF, assuming a wholesale water consumption of 107 mgd. A table that provides the monthly and annual bond surcharge amount for each agency was presented and included in the packet.

Ms. Tang reminded the Committee that the bond issuance and bond prepayment program saves the member agencies and their customers over \$3.5 M annually until 2034.

Director Larsson noted that because the bond surcharges were based on an established methodology previously approved by the board, the item could go directly

to the Board for action, unless there are changes to the methodologies, or irregularities with the indenture that would require the BPC to discuss and provide further direction to the CEO.

Ms. Sandkulla stated that there is no policy involved in the action, and could be brought directly to the Board moving forward.

Director Vella stated that while the calculation is based on a set methodology, he appreciates the information on an annual basis. He finds it helpful for the item to be brought to the Committee yearly for the reasons that the transaction involves a significant amount of money, the charges to each agency is set once for the entire year, and a presentation provides information to new members of the Committee, and to members who benefit from the reminder. It behooves the committee members to be informed. Director Vella recommends that the item continue to be brought to the BPC on an annual basis.

Director Schmid agreed, and noted that it's important that the BPC get a chance to review and ask their questions before action is taken by the full board. An example of issues that would be important for both BPC and the Board to understand are the effects of the true-ups on agencies, which, for FY 2016-17, provided gains for some agencies and losses for others.

Ms. Sandkulla stated that the work involved to present the information to the BPC prior to the Board is not an issue, and that staff will do what the board and committee desires. She noted that for the past 2 years, the Chair of the Board has been streamlining the items that come to the BPC, consistent with the Committee purpose to review, discuss, and provide the Board recommendations on matters of policy.

Director O'Connell suggested the consideration of adding "advisory" to the name of the Committee.

Given that the Chair of the Board is not present, Ms. Sandkulla recommended, and the Committee agreed, to table the discussion of the Committee's role for a future conversation.

Director Mendall stated that a part of streamlining the items that come to the BPC is to avoid repetitiveness. But there is a balance to be considered on non-policy items that ought to be brought to the BPC for information before it goes to the Board for action. A reconsideration in January is appropriate.

Director Benton stated the importance of maintaining a purposeful Board.

Director O'Connell made a motion, seconded by Director Vella, that the Committee recommend the Board approval of the proposed FY 2017-18 bond surcharges as presented in the staff memorandum.

The motion passed unanimously.

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- B. Mid-Year 2016-17 Work Plan and Budget Review: Ms. Sandkulla reported that BAWSCA routinely reviews its work plan and budget in December, a process that has proven to be an important step in identifying necessary changes at mid-year. While the agency strives to develop the work plan and budget according to anticipated activities, changes occur that present the need to update the work plan. A number of changes to this year's work plan will be presented to the Committee for feedback and discussion. The changes will be presented to the Board for action in January.

The current review shows that all changes identified as necessary can be accommodated within the current budget. Further discussion about possible budget impacts will occur in the coming months.

Ms. Sandkulla stated that many of the changes are associated with supply reliability. They are both new and unplanned activities that critically impact BAWSCA and its member agencies. They include 1) the State Water Resources Control Board's (SWRCB) September release of the Recirculated Draft Substitute Environmental Document (SED), 2) increased activity in FERC proceedings, 3) the Governor's Executive Order and Draft Framework for Long-Term Water Conservation Policy, "Making Water Conservation a California Way of Life", and 4) New opportunities to continue implementation of BAWSCA's Long-Term Reliable Water Supply Strategy (Strategy).

To address the changes, BAWSCA needs to expand its work plan to address five critical areas, as well as reduce scope of work in four areas to balance the available resources.

BAWSCA will need to participate in SWRCB's Bay-Delta Plan and Draft SED to protect the water supply reliability interests of the member agencies and their customers. Ms. Sandkulla explained that this activity was not included in the FY 16-17 work plan and budget because while the release of the draft SED was expected, the time in which it was going to be released, or the scope of effort that would be required was unknown. With its release in September 2016, substantial resources are being dedicated to it by the Water Resources Team, the CEO, and legal counsel to address the different pieces involved in what the document proposes. It is a significant addition to BAWSCA's work plan that is critical to protecting and representing the interests of the member agencies and water customers in what is going to be a statewide process.

The second critical area that needs expanded focus is implementation of the Strategy with several opportunities that came about. The opportunities include participation in three feasibility studies for purification of waste water for drinking purposes. BAWSCA is a direct participant in an MOU with San Francisco and Silicon Valley Clean Water for a pre-feasibility study for purified water. Additional MOUs are in progress with SCVWD, as well as with ACWD and Union Sanitary District for purified water pre-feasibility studies.

BAWSCA is also directly involved in the Los Vaqueros Reservoir Expansion project to identify what the potential supply reliability benefits could be achieved through this project.

Ms. Sandkulla explained that the SFPUC had budgeted the costs of these projects in its water enterprise fund for developing alternative new supplies to cover the

wholesale customers' collective share. There is no budget impact to BAWSCA because it is being paid through the wholesale revenue requirement. As a direct participant in the MOUs, BAWSCA is directly involved in the project scoping, evaluation, and subsequent steps. Additionally BAWSCA has the equal opportunity, if SFPUC backs away from these projects, to move forward independently of SFPUC.

The third critical area is BAWSCA's participation in the Regional and State-level discussions related to drought response and new water-use efficiency regulations. Work was expected in this area, but an expansion of efforts is needed as a result of new developments in the Governor's Executive Order and his focus on a new Urban Water-Use Efficiency Framework (Framework) for the State of California. The Framework is a whole new set of rules and regulations about how efficient water agencies must be, and has potential implications on agencies as water suppliers.

The member agencies are looking to BAWSCA to review and comment on the framework, participate in the state wide forums, understand particular issues, and represent the agencies.

The biggest concern is with the data intensive measures required by the framework that many agencies do not have, or are not technically capable of producing. Developing such data intensive measures would be an administrative burden to many agencies. BAWSCA has been active in emphasizing this argument with statewide agencies, such as ACWA, to include this consideration in their comment letter.

Work in this area is expected to continue because when the framework is put in place, the next step will be to help agencies identify what is involved in the implementation; how quickly will agencies need to have the data, and what resources will be required to develop the data.

The fourth critical area that needs expanded focus is on the New Don Pedro FERC proceedings. While it has been an ongoing item on BAWSCA's work plan and budgeted at a moderate level, it will require additional focus this fiscal year because of a growing probability that the FERC process could provide a way to resolve the issues with SWRCB's draft SED.

Ms. Sandkulla explained that MID and TID (Districts) has a license with FERC to operate New Don Pedro Reservoir. That license expired in 2016, and is being renewed on a yearly basis until a permanent license is issued.

As part of the process to discuss the conditions of the license renewal, the Districts have had ongoing meetings over the past 1 ½ years with stakeholders, which includes BAWSCA and the SFPUC, and are the same group involved with the draft SED.

Concurrently, the Governor has asked for a stakeholder driven solution to address the issues with the draft SED in which the SWRCB should look at the voluntary solutions provided by the stakeholders.

A fifth area of increased scope is in the Joint Water Quality Committee. The 2009 agreement obligated SFPUC, at BAWSCA's request, to have a Joint Water Quality Committee whose Chair and Vice-Chair shall be interchangeably filled by a representative from BAWSCA and SFPUC. The Committee has been the technical

body that monitors, and addresses if needed, activities and changes needed in operations on the RWS related to water quality for the RWS supply.

The need to increase the level of effort in this area is evident with the increasing issues over the past three years. There were three critical issues that occurred in 2016 and BAWSCA's participation was helpful in highlighting the water quality issues with the SFPUC and identifying and implementing changes to reduce overall impact.

To balance the staff resources with the scope increases, four areas of the work plan will be deferred.

The development of the water system modeling tool will be deferred to next fiscal year.

The development of a decision-making matrix for implementing the Strategy actions will be moved for reconsideration in next year's work plan, as will the workshop to review water utilities' financial best management practices and the benchmarking study about the SFPUC's development and management of Capital Improvement Programs.

Director Mendall commented that during the FY 2016-17 work plan and budget discussions, the Committee and Board concurred that the development of a decision-making matrix for implementing the Strategy should be an item first considered for deferral, if needed.

There are budget savings from the deferral of the four water resources activities. Given the unpredictable developments of the draft SED and FERC proceedings, Ms. Sandkulla will monitor legal activities and any need for budget changes. To date, the budget for legal counsel is sufficient.

Director Schmid asked if BAWSCA is monitoring the Water Resources Development Act (WRDA) bill to see if there are mandates that BAWSCA should be prepared to respond to, since it is water from the Tuolumne River that would be claimed by the Federal distribution guarantees.

He also asked about the SFPUC's progress on the Water MAP regarding its decision by 2018 about Santa Clara, San Jose and East Palo Alto, in which BAWSCA will have to be involved in during 2017.

WRDA falls outside of the scope that BAWSCA is actively engaged in. However, BAWSCA is relying on the SFPUC which is the agency that is closely monitoring WRDA for the interest of the Regional Water System.

The Federal Government has a role in WRDA because of its impact on a federal water project known as the US Bureau of Reclamation Project. There is no federal water project on the Tuolumne River, therefore, there is some distance between Tuolumne River and WRDA. However, there is funding in WRDA that is intended to help efforts like the Bay Delta Plan.

BAWSCA will continue to rely on the SFPUC and request for information and briefings as necessary on this subject as it pertains to the wholesale customers.

Ms. Sandkulla reported that the SFPUC continues its efforts with the cities of Santa Clara, San Jose, and East Palo Alto to discuss the relationship of the SED with SFPUC's Water MAP. The level of impact that the draft SED has on the Regional Water System puts a significant question on San Francisco's ability to fulfill the agencies' requests.

Ms. Sandkulla added that the SFPUC has to act by the end of 2018, but not necessarily make a decision. Given the absence of any firm knowledge about what is going to happen with the draft SED, no new decision by the SFPUC may be in the best interest of BAWSCA member agencies. BAWSCA will continue working with the SFPUC in representing the best interest of the member agencies.

In response to Director O'Connell, Ms. Sandkulla reported that efforts on Restore Hetch Hetchy are ongoing. Legal Counsel will provide an update in February 2017. The budget for this effort is sufficient.

Director Mendall stated that he is pleased to see that the drought response analysis remains in the work plan. He stated his concern with the deferral of the benchmarking study to evaluate the RWS' operational efficiency and cost effectiveness, but he will support it since it is not an immediate need. He would like to see it back on the subsequent work plan, and would not want it deferred on a yearly basis.

Ms. Sandkulla agreed, and clarified that the benchmarking study was a specific effort. BAWSCA's routine monitoring of the SFPUC's implementation of the WSIP and development of its 10-year CIP will continue.

Director Schmid commented that it would be helpful to be clear that there is flexibility in the work plan to deal with any issues that might come up.

Director Larsson made a motion, seconded by Director O'Connell, that the committee recommend Board approval of the proposed adjustments to the FY 2016-17 Work Plan:

1. Additions:

- a. Participate in SWRCB Bay-Delta Plan for the San Joaquin River including review and comment on Draft SED.**

2. Scope Increase:

- a. Participate in new feasibility studies in support of Long-Term Reliable Water Supply Strategy (Strategy) recommended actions.**
- b. Represent member agencies in regional and state-level discussions related to current drought and new water use efficiency regulations.**
- c. Support ongoing participation in New Don Pedro FERC proceedings.**
- d. Coordinate agency participation in Water Quality Committee.**

3. Scope Reduction/Delay:

- a. **Issue Request for Proposal this fiscal year but delay development of regional water system modeling tool until next fiscal year.**

4. Deletion for Subsequent Reconsideration Next Fiscal Year

- a. **Expand decision-making process for implementing Strategy actions.**
- b. **Organize workshop to review water utility best management practices.**
- c. **Pursue SFPUC benchmarking study.**

The motion passed unanimously.

6. Reports and Discussion

- A. Results of Survey on Alternative Board Meeting Time and Location: Ms. Sandkulla presented the results of the survey evaluating the location of the San Mateo Library where the November Board meeting was held. Out of the nineteen Board members who attended the November Board meeting, sixteen responded to the survey.

The overall response favored the San Mateo Library over Foster City in terms of a better commute. Comments received stated that parking and the meeting space in Foster City is better.

Ms. Sandkulla stated that any permanent change to the regular Board meeting date, time and location would need to be approved as an amendment to the Rules of the Board by an affirmative vote of the majority of the full Board.

Further consideration regarding the San Mateo library is the time restriction and an occasional conflict in the month of September.

The Library closes at 9pm and has no capacity to stay open beyond 9pm. A solution the Board can consider is to start the meeting at 6:30 pm.

One of the questions in the survey asked if a start time of 6:30 pm would work with Board Members' schedules. Of the sixteen respondents, eleven responded "yes" to a 6:30 pm start time, two responded "no", and three provided comments that were receptive to a 6:30 pm start time.

The library holds its Annual Book Faire on the 3rd Saturday of September and will occupy the Oak room if the 3rd Thursday precedes the 3rd Saturday. On these occasions, Special meetings of the Board can be held at an alternative location. This is the case for 2019 through 2022.

Ms. Sandkulla explained that the Library programs designed to serve the public users of the Library takes priority over reservations of outside agencies.

There is a charge of \$200 per meeting to use the San Mateo Library. The use of the Wind Room in Foster City is free. The cost to use the San Mateo Library six times during a year fits within BAWSCA's budget.

Ms. Sandkulla stated that this item requests the Committee's feedback for further direction to the CEO or guidance to the Board.

Director Vella commented that the parking at San Mateo is more restricted than Foster City's.

Director Schmid stated that the San Mateo location has three alternative routes, while the Foster City location can only be accessed through 101. The multiple route options justify the need to have to start at an earlier time.

Director Quigg thought that the San Mateo location worked well, and suggested that the Committee make a recommendation to the Board to change the meeting location to San Mateo.

Director Mendall recommended to hold the January 19th Board meeting as a Special Meeting with a 6:30pm start time at the San Mateo Library location. The agenda should include an action item for the Board to consider changing the meeting time and location, and holding a Special meeting on the occasions that the San Mateo Library is not available.

Director Benton advised not to change the start time of the January meeting, if possible, because changing the start time of a standing meeting can be tricky and would require a well-executed notification to ensure that all members of the Board are aware.

Ms. Sandkulla stated that that the January meeting will have a full agenda with the Mid-Year Work Plan and Budget Review and the FY 2017-18 Budget planning session. A least a full 2-hours will be needed to conduct the meeting.

The Committee advised that staff alert the BAWSCA and RFA Board members of the upcoming Special Meeting immediately, send reminder emails, and post a notice in accordance with the Brown Act.

Ms. Sandkulla stated that the Chair of the Board is supportive of making the necessary change to mitigate the negative impacts of worsening traffic conditions. She will report the Committee's discussions and recommendations to the Chair, and move forward as appropriate.

7. Reports:

- A. Water Supply Update: Ms. Sandkulla reported that the RWS' water supply is in a good position. The system storage is at 83% of maximum as opposed to 76% of normal storage. San Francisco is storing more water than normal in anticipation of the Mt. Tunnel shutdown.

Cumulative precipitation is slightly above 2016 (Water year is October 2015 – September 2016). The precipitation forecast shows moderate rain. Snow pack remains below the median.

Ms. Sandkulla reported that the amount of water rights water available to San Francisco to date is at 99 TAF, which is more than what was available in 2014 and

2015 at the end of the water year. This demonstrates the benefit of the storage that the system has been able to hold on to this year, because even if this year is not a good water year, the system will still fill up.

The total water deliveries continue to show a trend of decreased used once the weather cooled down and precipitation occurred.

- B. State Water Resources Control Board (SWRCB) Recent Proposal in the Draft SED: Ms. Sandkulla reported that BAWSCA has concerns with the SWRCB's proposal in the draft SED that could cause substantial flow reductions from the Tuolumne to the RWS. BAWSCA is working closely with the SFPUC to analyze the water supply, environmental, and socioeconomic impacts of the flow proposal in the draft SED.

The proposal is part of a regulatory-based environmental review process in which BAWSCA is preparing comments in conjunction with the SFPUC. BAWSCA's comments will query the adequacy of the CEQA document, and provide additional data and analysis about the impacts of the proposal.

Ms. Sandkulla explained that SWRCB has the obligation to establish objectives to protect the water quality in the Bay-Delta for fish, other wildlife, and human purposes. BAWSCA supports these objectives. The concern is whether the proposal achieves those objectives.

BAWSCA is requesting that the environmental and economic impacts of any shortage on the system, and the associated lost jobs and delayed development, be fully and adequately analyzed; and that these impacts be given at least equal weight with the other elements of the SWRCB's subsequent deliberations and decision making.

BAWSCA is working to secure comment letters from member agencies and allies to support BAWSCA's position. The focus of the comment letters will emphasize the impact to the agencies and suggest that the settlement discussions be given the opportunity to bear information that can potentially provide all or part of the solution.

Comments are due by January 17, 2017, but BAWSCA is asking that comment letters be submitted before the end of the year. Nicole will continue to communicate with the General Managers of each agency, and will reach out to the Board Members if needed.

- C. FY 2017-18 Work Plan and Operating Budget Preparation and Planning Session: Ms. Sandkulla reported that the agenda materials for the January Board meeting will provide a list of short and long-term issues identified by staff for the Board's discussion during the January planning session. BAWSCA's work plan and budget development begins with identifying the near and long-term issues that need to be addressed to achieve critical results. The budget planning session is an opportunity for the Board to provide input about the potential issues identified and results to be achieved, as well as ask questions or voice their concerns and ideas to the CEO/General Manager.

A preliminary FY 2017-18 work plan and budget will be presented to the Committee in February for review and discussion. It will have a list of issues to be addressed and results to be achieved along with responses to questions, concerns and ideas brought forth by the Board during the January planning session. With the Committee's input, the preliminary work plan and budget will be presented to the Board in March for its review and discussion, and additional direction to the CEO.

The proposed work plan and budget for FY 2017-18 will be presented to the BPC in April for discussion and recommendation to the Board for approval in May.

Director Mendall suggested that the Board be advised about the January budget planning session and the information that will be included in the January Board agenda packet so they can come prepared with their input and questions.

D. CEO's Letter: There were no discussions on the items.

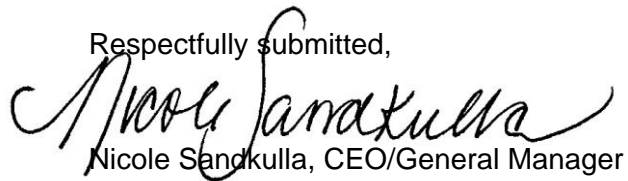
E. Board Policy Committee Calendar: There were no discussions on the item

8. **Comments by Committee Members**: In response to Director O'Connell, Ms. Sandkulla stated that she will follow up with an email to the Board providing information on a response to Peter Drekmeier's comments stated during Public Comments.

Director Mendall noted that the February agenda should include a discussion item to continue the tabled dialogue about what non-policy items should come to the Committee, and the Committee's role.

9. **Adjournment**: The meeting was adjourned at 2:50 pm. The next meeting is February 8, 2017.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Nicole Sandkulla", is written over the typed name.

Nicole Sandkulla, CEO/General Manager

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Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – December 14, 2016

Roster of Attendees:

Committee Members Present

Dan Quigg, City of Millbrae (Chair)
Gustav Larsson, City of Sunnyvale (Vice Chair)
Jay Benton, Town of Hillsborough
Rob Guzzetta, California Water Service Company
Al Mendall, City of Hayward (BAWSCA Vice Chair)
Irene O'Connell, City of San Bruno
Gregg Schmid, City of Palo Alto
Louis Vella, Mid-Peninsula Water District

Committee Members Absent

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

BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Tom Francis	Water Resources Manager
Adrienne Carr	Sr. Water Resources Specialist
Andree Johnson	Sr. 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:

Peter Drekmeier	Tuolumne River Trust
Jan Lee	City of Hayward
Fan Lau	San Francisco Public Utilities Commission