

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

December 13, 2017

1:30 p.m.

BAWSCA Offices, 155 Bovet Road, San Mateo – 1st Floor Conference Room

(Directions on page 2)

(One Member of the Board will participate in this meeting by Teleconference. Locale shall be: 1025 Strawberry Lane, Boise Idaho, 83712. When any member of the board participates by teleconference, all votes taken at this meeting will be by roll call vote.)

AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page#</u>
1. <u>Call To Order, and Roll Call</u> Roster of Committee Members (<i>Attachment</i>)	(Larsson)	<i>Pg 3</i>
2. <u>Comments by Chair</u>	(Larsson)	
3. <u>Public Comment</u> <i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Larsson)	
4. <u>Consent Calendar</u> A. Approval of Minutes from the October 11, 2017 meeting (<i>Attachment</i>)	(Larsson)	<i>Pg 5</i>
5. <u>Action Items</u> A. Proposed Fiscal Year 2018-19 Bond Surcharges (<i>Attachment</i>) <u>Issue:</u> How much will the surcharges be for FY 2018-19? <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> That the Committee recommend Board approval of the proposed FY 2018-19 bond surcharges as presented in the staff memorandum	(Tang)	<i>Pg 13</i>
6. <u>Report and Discussion</u> A. Overview of Current Investment Strategy of BAWSCA's Bond Proceeds Associated with Revenue Bonds Series 2013A & 2013B <u>Issue:</u> Does current market conditions justify a change in BAWSCA's investment strategy to better align the Agency's objectives and risk tolerance? <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> Comments and feedback.	(Tang)	<i>Pg 19</i>
B. Mid-Year 2017-18 Work Plan and Budget Review (<i>Attachment</i>) <u>Issue:</u> What resources are needed to address new work items and potential significant scope increases that are critical to ensuring reliable supply of high quality water at a fair price? <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> Comments and feedback.	(Sandkulla)	<i>Pg 23</i>

7. Reports**(Sandkulla)**

- A. Water Supply Update
- B. FY 2018-19 Work Plan and Operating Budget Preparation and Planning Session
- C. CEO's Letter (*Attachment*)
- D. Board Policy Committee Calendar (*Attachment*)
- E. Correspondence Packet (*Under Separate Cover*)

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8. Closed Session

- A. Conference with Legal Counsel – Existing Litigation pursuant to Paragraph (1) of subdivision (d) of Government Code Section 54956.9: *Restore Hetch Hetchy v. City and County of San Francisco, et al.* Case Number: F074107 **(Schutte)**
- B. Conference with Legal Counsel – Anticipated Litigation Initiation of litigation pursuant to paragraph (4) of subdivision (d) of Government Code 54956.9 (Three potential cases) **(Schutte)**

9. Comments by Committee Members**(Larsson)****10. Adjournment to the next meeting on February 14, 2018 at 1:30pm in the 1st floor (Larsson) conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo.**

*Upon request, the Board Policy Committee of the Bay Area Water Supply and Conservation Agency (BAWSCA) will provide for written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. Please send a written request, including your name, mailing address, phone number and brief description of the requested materials and the preferred alternative format or auxiliary aid or service at least two (2) days before the meeting. Requests should be sent to: **Bay Area Water Supply & Conservation Agency, 155 Bovet Road, Suite 650, San Mateo, CA 94402** or by e-mail at bawasca@bawasca.org*

*All public records that relate to an open session item of a meeting of the Board Policy Committee that are distributed to a majority of the Committee less than 72 hours before the meeting, excluding records that are exempt from disclosure pursuant to the California Public Records Act, will be available for inspection at **BAWSCA, 155 Bovet Road, Suite 650, San Mateo, CA 94402** at the same time that those records are distributed or made available to a majority of the Committee.*

Directions to BAWSCA

From 101: Take Hwy.92 Westbound towards Half Moon Bay. Exit at El Camino Northbound (move into the far left Lane) Left at the 1st stop light which is Bovet Road (Chase Building will be at the corner of Bovet and El Camino). Proceed West on Bovet Road past 24-Hour Fitness to two tall buildings to your left. Turn left into the driveway between the two buildings and left again at the end of the driveway to the "Visitor" parking spaces in front of the parking structure.

From 92: Exit at El Camino Northbound and follow the same directions shown above.



BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Committee Roster:

Gustav Larsson, City of Sunnyvale (Chair)

Tom Zigterman, Stanford University (Vice Chair)

Jay Benton, Town of Hillsborough

Randy Breault, GVMID (BAWSCA Immediate Past Chair)

Mike Kasperzak, City of Mountain View

Al Mendall, City of Hayward (BAWSCA Chair)

Barbara Pierce, City of Redwood City (BAWSCA Vice Chair)

Dan Quiqq, City of Millbrae

Greg Schmid, City of Palo Alto

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

**October 11, 2017 – 1:30 p.m.
BAWSCA Offices – 155 Bovet Rd., San Mateo – 1st Floor Conference Room**

MINUTES

1. **Call to Order:** Committee Chair Gustav Larsson called the meeting to order at 1:30 pm. A list of Committee members who were present (7) and other attendees is attached.

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

2. **Comments by Committee Chair:** Committee Chair Larsson welcomed the Committee after not having met since June 14th, and thanked the members for their time.
3. **Public Comments:** There were no public comments.
4. **Consent Calendar:** Approval of Minutes from the June 14, 2017 meeting.

Director Kasperzak made a motion, seconded by Director Schmid, that the minutes of the June 14, 2017 Board Policy Committee meeting be approved.

The motion passed unanimously.

5. **Action Items:**

- A. **Annual Review and Consideration of Statement of BAWSCA's Investment Policy:** Ms. Sandkulla reported that BAWSCA's Statement of Investment Policy (Policy) requires that it be reviewed by the Board annually. The Policy was previously reviewed in November 2016 resulting to no changes.

The Policy language remains consistent with State law, and maintains the objective of safety, liquidity and return on investment. The Policy's permitted investment instruments provides BAWSCA a flexible approach for investing its General Reserves and bond proceeds associated with the Revenue Bonds Series 2013A and 2013B. Based on the review of BAWSCA's circumstances and market conditions, BAWSCA's Legal Counsel, Financial Advisor, and Staff recommend no changes to the Policy.

Committee discussions ensued on BAWSCA's rate of return earned on its General Reserve and bond stabilization fund.

In response to Director Schmid, Ms. Sandkulla reported that BAWSCA's \$1.2 M General Reserve is invested in LAIF because it provides the most flexibility for BAWSCA's size of budget and need for liquidity. BAWSCA's \$12 M bond stabilization fund is invested in Mutual Funds and Federal Securities.

Director Schmid asked whether BAWSCA should look into how other cities obtain a higher rate of return than BAWSCA's.

Ms. Sandkulla stated that since the action before the Committee is on the Policy, she offered to provide a report of BAWSCA's investment strategies for the General

Reserve and bond stabilization fund at a subsequent Committee or Board meeting to answer Director Schmid's question.

BAWSCA Finance Manager, Christina Tang, explained that staff investigated investment alternatives for BAWSCA's General Reserve and bond stabilization fund during the 2016 review of the investment policy in response to a Board member's inquiry. That assessment identified LAIF are the most appropriate investment tool for BAWSCA's General Reserves, primarily because of the size of BAWSCA's general funds, and required flexibility.

Director Kasperzak commented that the Policy entails the investment instruments as opposed to the minimum and maximum rate of returns. The Board has the opportunity to provide guidance to the CEO to examine and make changes, if needed, to the current mix of investments used that are consistent with the current Policy. Because the requested Committee action is on the Policy,

Director Kasperzak made a motion, seconded by Director Breault, that the Board Policy Committee recommend Board re-affirmation of the current Statement of Investment Policy.

Ms. Sandkulla added that the Policy provides discretion for the investments to the CEO/General Manager, with input from the Board.

A brief Committee discussion ensued on the importance of flexibility that LAIF offers given the small size of BAWSCA's reserves, and liquidity that BAWSCA requires.

Director Mendall noted that he pushed for, and will continue to push for, an aggressive approach to the investment of the bond stabilization funds because of its sizeable amount compared to BAWSCA's General Reserve, its incremental return is more meaningful, and the schedule of the funds' liquidity is known. Director Mendall noted that if the Committee desires a conversation on an aggressive rate of return, he would encourage it to be focused on the bond stabilization funds.

Director Mendall directed the CEO/General Manager to provide a report on BAWSCA's current investment strategies to the Committee in December, instead of the full Board.

That direction was acceptable to Director Schmid. Committee members agreed.

The motion passed unanimously.

6. Reports:

- A. Water Supply Update: Ms. Sandkulla reported that there is continued interest in the region's rebound from the drought. She presented a graph that shows member agencies' potable water use between January through August 2017 continue to be below, or 18% less than, the pre-drought (2013) monthly water use, with a spike occurring only after the drought was lifted. The member agencies' 2017 SFPUC purchases continue to be slightly above 5mgd.

Ms. Sandkulla stated that she is curious to see whether water use will go back down to where it was during the Fall and Winter of 2016, as it can be a good indication of how outdoor water-use has changed.

The source of the data is based on the reports each agency is required to submit to the State. BAWSCA will continue to analyze the numbers and their significance.

- B. Regional Water Supply Modeling: Sr. Water Resources Specialist, Adrienne Carr reported that the project has been underway since July 2017, following Board approval in May. Staff has completed the major tasks of formulating the modeling approach, engaging agencies critical to the success of the project, and selecting the software platform.

The purpose of the report to the Committee is to 1) provide the first of a series of informational progress reports that the Committee requested at its meeting on April 2017 when it acted on the negotiation and execution of a professional services contract for the project; 2) consider whether the progress reports should be brought to the Board or kept at the Committee level for the time being; and 3) inform the Committee of BAWSCA's regional engagement of other water suppliers.

As previously reported, BAWSCA's water supply planning has relied solely on SFPUC's regional water system modeling, which, as discovered during the recent drought, did not provide an accurate representation of the region's water supply reliability.

The Regional Water Supply Modeling is geared to help evaluate the BAWSCA region's water supply reliability for long-term planning by looking at all the water supplies, including Santa Clara Valley Water District (SCVWD) and Alameda County Water District (ACWD) water supplies, in addition to SFPUC's water supplies. To achieve this, BAWSCA has convened an Inter-Agency Technical Advisory Panel to provide technical input throughout the development of the model. The first Panel meeting was held on September 21st.

Dr. Carr stated that regional cooperation with ACWD, SCVWD, and SFPUC is key to the project's success. The engagement of the water supply modelers from the regional agencies is critical because they know their systems best, and can help BAWSCA achieve accuracy in the model. BAWSCA and the regional agencies are currently working on the necessary agreements that need to be in place for the year, as well as subsequent years anticipated for the project.

Part of formulating the approach to the model was to identify the various scenarios, or cases, that BAWSCA and its member agencies will use to answer questions about water supply reliability under different conditions.

There are 4 proposed modeling scenarios prioritized between a 1 through 4 ranking.

The first is the Baseline scenario that will evaluate the region's long-term water supply reliability based on all available supplies. This scenario is the priority for FY 2017-18. The subsequent scenarios will be addressed based on the progress of the overall project, as well as the workplan and budget priorities.

The second scenario, New/Alternate Supply Sources and Operating Rules, has 2 parts. The first part will provide an evaluation of the region's water supply reliability with consideration of new water supply sources or new storage facilities. The second

part will evaluate water supply reliability using potential alternative operating rules or policies. For example, one case might evaluate alternative system operations during drought.

The third scenario, Short-Term Drought or Infrastructure Outages, will allow a near-term or real-time forecast during a potential drought or infrastructure outage and could be used to assess how available storage, supply, and changing demands might impact system reliability over a 1-year period.

The fourth scenario, Climate Change, will evaluate how the changing climate might impact the region's water supply reliability. Dr. Carr noted that San Francisco is embarking on a vulnerability analysis that includes an evaluation of climate change impacts on future water supplies. BAWSCA plans to coordinate the Climate Change scenario with San Francisco's efforts.

BAWSCA selected Riverware as the model's software platform. It is widely used throughout the West and is used by Bureau of Reclamation and East Bay Municipal Utilities District. BAWSCA's assessment of the software proved it to be the most user-friendly for staff to be able to operate and manage, as well as the most flexible tool that captured all of the processes and scenarios BAWSCA wanted to evaluate.

BAWSCA continues to work to accurately replicate SFPUC's, ACWD's and SCVWD's water supply modeling with the BAWSCA model. This effort will be ongoing through January 2018. Construction of the model with the Baseline scenario will be finalized in May. Obtaining the model in-house and staff training for operation of the model is anticipated by the end of FY 2017-18. Evaluation of additional scenarios are expected in the next fiscal year.

In response to Director Zigterman's questions, Dr. Carr stated that the model will be quantitative and will replicate the historical hydrology in a long-term simulation. It will take the supply data from the various agencies dating back from 1920 to the most current hydrologic record possible. The SFPUC has data up to 2011, SCVWD has up to 2015, and ACWD has up to 2003. BAWSCA's efforts with the agencies will try to extend the simulation through the most recent drought period. Current data at hand provides a 90-95 year record.

Given the recent drought, Director Mendall commented that the short-term drought and infrastructure outages scenario seems an appropriate second priority instead of the alternative source/storage scenario.

Dr. Carr explained that the baseline scenario will evaluate the entire hydrologic record and will look at past droughts to obtain a long-term reliability picture on the impacts of drought. Development of the short-term scenario will require extensive work in addition to the long-term simulation under the baseline scenario.

Ms. Sandkulla added that a traditional approach to modeling is to replicate historical water supply conditions that are then used to examine drought reliability. Developing the baseline scenario will follow that traditional approach.

The short-term scenario will serve as a tool to look at the potential alternative ways of managing water supply during a drought or an infrastructure outage by using operational and real-time data. This requires a different way of modeling. It is critical to complete a model with a traditional approach first, because it will provide key information needed to make informed decisions about potential future investments for additional supply and storage.

Board discussions ensued on recycled water and its significance to water supply management for long-term planning and during drought.

Ms. Sandkulla explained that current modeling systems account for recycled water as a fixed data that offsets potable demand. As BAWSCA evaluates potential alternative water supply projects and determines how they are modeled, BAWSCA and the regional agencies may want to examine the consideration of recycled water more explicitly.

Director Zigterman agreed with Director Mendall and the importance of directly identifying recycled water in the regional model. He suggested asking the Water Management Representatives' input on how recycled water can be accounted for in the model. He further stated that for drought purposes, conservation and recycled water is a critical component of supply management during a drought, as well as for long range planning.

Director Schmid noted that flexibility of the model is important to think about up front given the potential impacts of "Making Water Conservation a Way of Life." He asked if the model will be flexible enough to give input to districts and cities in terms of population and commercial per capita water use?

Ms. Sandkulla stated that per capita water use is obtained from a separate water demand model, which is a model that factors in population growth, conservation plans, and water use scenarios to create a water demand projection. Ms. Sandkulla stated that she anticipates BAWSCA will have to update its current water demand model as more information on "Making Water Conservation a Way of Life" becomes available for the next round of Urban Water Management Plans.

The regional water supply model is a water supply reliability model that will simulate scenarios to assess water supply reliability including consideration of all the water supply sources.

Demand models are a different type of model, but they are a critical input to the water supply reliability model. With information on demand, the water supply reliability model can evaluate how the system is performing, how performance can be improved, whether there is a need to decrease demand, whether additional supplies are needed, or if additional storage is required.

The two different models need to be kept separate because they have very different capabilities.

Director Kasperzak asked to what extent the model will take into account groundwater supply. Dr. Carr confirmed that the model will incorporate all water supply data from the regional agencies, including groundwater.

Director Kasperzak encouraged BAWSCA's efforts on the model to, when possible, push forward and do more than what has previously been done to achieve a broader more representative modeling.

Ms. Sandkulla agreed and noted that the regional agencies share the same interest in pushing the boundaries and making the regional water supply reliability model a solid regional platform that provides a good reflection of the regional systems.

Ms. Sandkulla added that BAWSCA's regional groundwater model developed in 2013 has served as a valuable tool for the agencies surrounding the regional basins, and established a solid foundation for use by others in the region. BAWSCA hopes to achieve the same for the regional water supply reliability model.

In response to staff's request for Committee input on whether the progress reports are provided at the Committee level or taken to the Board, Director Breault suggested to wait to bring updates about the model to the Board until there are preliminary model results to share, but early enough in the development process to take Board input without having to re-program the system. He noted that the main concern is that the results are represented in the best way possible to the general public, and that the results serve the agencies' goals.

Director Larsson cautioned against scope creep as various questions come up in the process of addressing the first set of questions. While it is good to be aware of where we might be headed, he advised to stay focused on the current scope so as not to burden the model with another set of questions. He noted that the model scenarios are helpful in understanding what specific questions need to be answered.

7. **Closed Session:** The meeting adjourned to Closed Session at 2:13
8. **Open Session:** The meeting convened to open session at 3:02pm. Legal Counsel, Allison Schutte, reported that no action was taken during Closed Session.
9. **Comments by Committee Members:** There were no further comments from the Committee members.
10. **Adjournment:** The meeting was adjourned at 3:03 pm. The next meeting is December 13, 2017.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – October 11, 2017

Roster of Attendees:

Committee Members Present

Gustav Larsson, City of Sunnyvale (Chair)
Tom Zigterman, Stanford (Vice Chair)
Randy Breault, City of Brisbane/GVMID (Immediate Past BAWSCA Chair)
Mike Kasperzak, City of Mountain View
Al Mendall, City of Hayward (BAWSCA Chair)
Dan Quigg, City of Millbrae
Gregg Schmid, City of Palo Alto

Committee Members Absent:

Jay Benton, Town of Hillsborough
Barbara Pierce, City of Redwood City (BAWSCA Vice Chair)

BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Tom Francis	Water Resources Manager
Adrienne Carr	Sr. Water Resources Specialist
Christina Tang	Sr. Administrative Analyst
Deb Grimes	Office Manager
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
Nathan Metcalf	Legal Counsel, Hanson Bridgett, LLP
Bud Wendell	Management Communications

Public Attendees:

Michelle Novotny San Francisco Public Utilities Commission

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Agenda Title: **Proposed Fiscal Year 2018-19 Bond Surcharges**

Summary:

This memorandum presents the proposed bond surcharges for each agency for FY 2018-19. The surcharge would take effect on July 1, 2018. This surcharge setting conforms to BAWSCA's Revenue Bond Indenture (Indenture) for the Series 2013A and 2013B revenue bonds.

Recommendation:

That the Committee recommend Board approval of the proposed FY 2018-19 bond surcharges as presented in this memorandum.

Discussion:

The bond surcharge for each member agency is a fixed amount each fiscal year as adopted by the BAWSCA Board to ensure collection of necessary revenue to pay that year's obligated debt service as defined in the indenture.

The annual surcharges for FY 2018-19 are calculated by multiplying the obligated debt service in 2019 by each agency's percentage of total wholesale customer purchases in FY 2016-17, and adding a "true up" adjustment for the FY 2016-17 surcharges. This "true up" adjustment is used to reflect each agency's actual percentage of water purchases in FY 2016-17 and to reimburse BAWSCA for some expenses incurred in FY 2016-17 in connection with the bond administration that were paid through BAWSCA's FY 2016-17 Operating Budget.

Per the Indenture, the Rate Stabilization Fund at the Trustee has been reviewed and no replenishment amount is determined necessary at this time. One-twelfth of the annual surcharge, or the monthly surcharge, will be included in the first water bill agencies receive from San Francisco each month.

The proposed FY 2018-19 bond surcharge for each agency is shown in Table 1. Table 2 shows how the "true up" adjustment for each member agency is determined and included in the proposed FY 2018-19 surcharge amount. Table 3 indicates how much the capital recovery payment cost would be in FY 2016-17 (column A) if BAWSCA didn't issue the bonds to prepay the capital debt that the agencies owed San Francisco. The actual savings to each agency in FY 2016-17 (column E) are calculated accordingly.

Table 1. Proposed BAWSCA FY2018-19 Bond Surcharges

FY 2018-19			FY 2018-19		
Agency	Annual Bond Surcharge	Monthly Bond Surcharge	Agency	Annual Bond Surcharge	Monthly Bond Surcharge
Alameda County WD	\$1,126,416	\$93,868	Mid Pen WD	\$506,880	\$42,240
Brisbane Water	\$91,332	\$7,611	Millbrae	\$435,288	\$36,274
Burlingame	\$674,112	\$56,176	Milpitas	\$1,057,548	\$88,129
Coastside County WD	\$163,464	\$13,622	Mountain View	\$1,486,980	\$123,915
CWS - Bear Gulch	\$1,542,516	\$128,543	North Coast WD	\$382,752	\$31,896
CWS - Mid Peninsula	\$2,428,968	\$202,414	Palo Alto	\$1,991,736	\$165,978
CWS - South SF	\$806,256	\$67,188	Purissima Hills WD	\$277,044	\$23,087
Daly City	\$989,172	\$82,431	Redwood City	\$1,751,604	\$145,967
East Palo Alto WD	\$339,936	\$28,328	San Bruno	\$63,516	\$5,293
Estero Municipal ID	\$869,496	\$72,458	San Jose (North)	\$901,572	\$75,131
Guadalupe Valley	\$43,548	\$3,629	Santa Clara	\$515,328	\$42,944
Hayward	\$2,878,824	\$239,902	Stanford University	\$222,996	\$18,583
Hillsborough	\$479,664	\$39,972	Sunnyvale	\$1,970,568	\$164,214
Menlo Park	\$507,876	\$42,323	Westborough WD	\$180,984	\$15,082
Total				\$24,686,376	\$2,057,198

Table 2. Impact of FY 2016-17 True-up Adjustment on FY 2018-19 Proposed Surcharges

Agency	FY 2016-17			FY 2018-19	
	Surcharge Collected (Based on FY 2014-15 Purchase)	Surcharge Obligation (Based on FY 2016-17 Purchase)	Difference: True-up Amount	Surcharge To Be Collected (Based on FY 2016-17 Purchase)	Proposed Surcharge Incl. True-up Amount for FY 2016-17
Alameda County WD	\$1,534,627	\$1,330,911	(\$203,716)	\$1,330,129	\$1,126,416
Brisbane Water	\$55,030	\$73,204	\$18,174	\$73,161	\$91,332
Burlingame	\$707,520	\$691,021	(\$16,499)	\$690,615	\$674,112
Coastside County WD	\$295,555	\$229,578	(\$65,978)	\$229,443	\$163,464
CWS - Bear Gulch	\$2,046,819	\$1,795,194	(\$251,625)	\$1,794,139	\$1,542,516
CWS - Mid Peninsula	\$2,458,307	\$2,444,352	(\$13,954)	\$2,442,916	\$2,428,968
CWS - South SF	\$1,093,794	\$950,302	(\$143,492)	\$949,744	\$806,256
Daly City	\$640,472	\$815,060	\$174,588	\$814,581	\$989,172
East Palo Alto WD	\$303,423	\$321,773	\$18,350	\$321,584	\$339,936
Estero Municipal ID	\$767,267	\$818,622	\$51,355	\$818,141	\$869,496
Guadalupe Valley	\$59,749	\$51,665	(\$8,085)	\$51,634	\$43,548
Hayward	\$2,620,161	\$2,750,300	\$130,139	\$2,748,684	\$2,878,824
Hillsborough	\$505,936	\$492,948	(\$12,988)	\$492,658	\$479,664
Menlo Park	\$507,318	\$507,748	\$430	\$507,450	\$507,876
Mid Pen WD	\$487,931	\$497,554	\$9,623	\$497,262	\$506,880
Millbrae	\$368,957	\$402,241	\$33,285	\$402,005	\$435,288
Milpitas	\$1,009,537	\$1,033,846	\$24,310	\$1,033,239	\$1,057,548
Mountain View	\$1,467,335	\$1,477,589	\$10,254	\$1,476,721	\$1,486,980
North Coast WD	\$561,812	\$472,419	(\$89,393)	\$472,141	\$382,752
Palo Alto	\$1,844,855	\$1,918,859	\$74,004	\$1,917,732	\$1,991,736
Purissima Hills WD	\$317,247	\$297,231	(\$20,015)	\$297,057	\$277,044
Redwood City	\$1,543,858	\$1,648,212	\$104,354	\$1,647,244	\$1,751,604
San Bruno	\$252,849	\$158,227	(\$94,622)	\$158,134	\$63,516
San Jose (North)	\$864,646	\$883,367	\$18,721	\$882,849	\$901,572
Santa Clara	\$341,649	\$428,613	\$86,964	\$428,361	\$515,328
Stanford University	\$385,496	\$304,338	(\$81,159)	\$304,159	\$222,996
Sunnyvale	\$1,501,376	\$1,736,483	\$235,107	\$1,735,463	\$1,970,568
Westborough WD	\$130,209	\$155,645	\$25,436	\$155,554	\$180,984
Totals	\$24,673,735	\$24,687,301	\$13,566	\$24,672,800	\$24,686,376

Table 3. Actual Savings to Each Agency for FY 2016-17 Resulting from BAWSCA 2013A and 2013B Bond Issuance

Agency	FY 2016-17				
	SFPUC Capital Recovery Payment	Annual Surcharge Collected in FY 2016-17	True-ups To Be Collected or Refunded in FY 2018-19	BAWSCA Annual Surcharge Plus True-ups	Actual Savings
	A	B	C	D = B + C	E = A - D
Alameda County WD	\$1,520,283	\$1,534,627	(\$203,716)	\$1,330,911	\$189,372
Brisbane Water	\$83,620	\$55,030	\$18,174	\$73,204	\$10,416
Burlingame	\$789,344	\$707,520	(\$16,499)	\$691,021	\$98,324
Coastside County WD	\$262,244	\$295,555	(\$65,978)	\$229,578	\$32,666
CWS - Bear Gulch	\$2,050,628	\$2,046,819	(\$251,625)	\$1,795,194	\$255,434
CWS - Mid Peninsula	\$2,792,153	\$2,458,307	(\$13,954)	\$2,444,352	\$347,801
CWS - South SF	\$1,085,518	\$1,093,794	(\$143,492)	\$950,302	\$135,216
Daly City	\$931,033	\$640,472	\$174,588	\$815,060	\$115,973
East Palo Alto WD	\$367,558	\$303,423	\$18,350	\$321,773	\$45,784
Estero Municipal ID	\$935,102	\$767,267	\$51,355	\$818,622	\$116,480
Guadalupe Valley	\$59,016	\$59,749	(\$8,085)	\$51,665	\$7,351
Hayward	\$3,141,633	\$2,620,161	\$130,139	\$2,750,300	\$391,334
Hillsborough	\$563,088	\$505,936	(\$12,988)	\$492,948	\$70,140
Menlo Park	\$579,994	\$507,318	\$430	\$507,748	\$72,246
Mid Pen WD	\$568,350	\$487,931	\$9,623	\$497,554	\$70,796
Millbrae	\$459,475	\$368,957	\$33,285	\$402,241	\$57,234
Milpitas	\$1,180,950	\$1,009,537	\$24,310	\$1,033,846	\$147,104
Mountain View	\$1,687,832	\$1,467,335	\$10,254	\$1,477,589	\$210,243
North Coast WD	\$539,638	\$561,812	(\$89,393)	\$472,419	\$67,219
Palo Alto	\$2,191,889	\$1,844,855	\$74,004	\$1,918,859	\$273,030
Purissima Hills WD	\$339,524	\$317,247	(\$20,015)	\$297,231	\$42,292
Redwood City	\$1,882,732	\$1,543,858	\$104,354	\$1,648,212	\$234,520
San Bruno	\$180,741	\$252,849	(\$94,622)	\$158,227	\$22,514
San Jose (North)	\$1,009,060	\$864,646	\$18,721	\$883,367	\$125,692
Santa Clara	\$489,599	\$341,649	\$86,964	\$428,613	\$60,986
Stanford University	\$347,641	\$385,496	(\$81,159)	\$304,338	\$43,303
Sunnyvale	\$1,983,563	\$1,501,376	\$235,107	\$1,736,483	\$247,080
Westborough WD	\$177,792	\$130,209	\$25,436	\$155,645	\$22,146
Totals	\$28,200,000	\$24,673,735	\$13,566	\$24,687,301	\$3,512,699

Background:

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

BAWSCA has been collecting the bond surcharge from member agencies since July 2013 through the SFPUC as a separate item on their monthly water bills to member agencies. FY 2018-19 will be the sixth year for BAWSCA to collect the bond surcharge payments that are used to make debt service payments on BAWSCA's revenue bonds.

Calculating the "True Up" Adjustment

Consistent with the Indenture, the FY 2018-19 bond surcharge setting includes a "true up" adjustment included in the calculation. This "true up" adjustment is used to reflect each agency's actual percentage of water purchases in FY 2016-17 and to reimburse BAWSCA for some expenses incurred in FY 2016-17 in connection with the bond administration that were paid through BAWSCA's FY 2016-17 Operating Budget. Those expenses include the fees to Bank of New York for its Trustee services and the costs of legal, financial advisor, investment advisor, and arbitrage rebate consultant. A "true up" adjustment is anticipated every year as part of the calculation of the Annual Bond Surcharge.

The annual surcharges collected from the member agencies in FY 2016-17 were calculated by multiplying the obligated debt service in 2017 by each agency's percentage of total wholesale customer purchases in FY 2014-15. FY 2014-15 purchases were used as a surrogate for FY 2016-17 purchases, which were not known when the FY 2016-17 bond surcharges were adopted.

Now that the actual wholesale customer purchases for FY 2016-17 and the actual expenses incurred in FY 2016-17 in connection with the bond administration are available, the actual surcharges for FY 2016-17 are calculated again by multiplying a sum of the obligated debt service in 2017 and the actual expenses incurred in FY 2016-17 by each agency's percentage of total wholesale customer purchases in FY 2016-17. The difference between the surcharges that were actually collected in FY 2016-17, which were based on the surrogate purchase values, and the actual surcharges for FY 2016-17, which are based on actual FY 2016-17 purchases, are one component of the "true up" adjustments to be included in the annual surcharge setting for FY 2018-19.

The second component of the "true up" adjustment is inclusion of \$13,566 of actual expenses incurred by BAWSCA in FY 2016-17 in connection with the bond administration, which represents 0.05% of the annual debt service of the bonds in 2019. In addition, pursuant to the Prepayment and Collection Agreement between BAWSCA and San Francisco, BAWSCA shall reimburse San Francisco for specific expenses incurred for compliance with tax-exempt regulations. BAWSCA didn't receive any relevant bill from San Francisco in FY 2016-17. A "true up" adjustment for FY 2018-19 will be included in the surcharge setting for FY 2020-21.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Overview of Current Investment Strategy of BAWSCA's Bond Proceeds Associated with Revenue Bonds Series 2013A & 2013B**

Summary:

BAWSCA's current bond fund investment strategy is consistent with the primary objectives of BAWSCA's investment policy of safety, liquidity, and return on investment. As of October 31, 2017, all BAWSCA bond proceeds of \$18,068,680 are held at the Trustee, the Bank of New York. The funds are comprised of (1) collected bond surcharges of \$5,565,069 from the member agencies to pay for semi-annual debt service payments and (2) the stabilization fund of \$12,503,611 that is designed as a general reserve to ensure that BAWSCA has sufficient funds to pay debt service payments notwithstanding any potential shortfalls in the surcharge revenue received from the BAWSCA agencies. Therefore, the stabilization fund should generally be available as needed to make required debt service payments.

Based on BAWSCA staff and investment advisor's review and analysis of alternative investment options for the stabilization fund, the agency determined that an investment strategy that involves both a 6-month rolling and a ladder security structure would provide the agency with the most appropriate balance of safety, liquidity, and yield.

BAWSCA's Investment Policy delegates the management and oversight of BAWSCA's investments to the CEO. Comments from the Committee on the current investment strategy for BAWSCA's bond funds are welcome at this time.

Fiscal Impact:

No impact on BAWSCA's annual operating budget.

Recommendation:

There is no recommended action for this item. This item is for information only.

Discussion:

BAWSCA's bond proceeds are invested in accordance with the Bond Indenture and the agency's Investment Policy. The Bond Indenture specifies investments, in which BAWSCA is permitted to invest bond proceeds. In November 2012, as part of the establishment of the bond structure, the BAWSCA Board amended the Investment Policy to further restrict allowable investments for bond proceeds to three specific investment vehicles: Federal Securities, Money Market Mutual Funds, and Certificates of Deposit.

In order to ensure that BAWSCA always has sufficient funds to make the required debt service payments, BAWSCA's investment strategy assumes that 80% of the necessary bond surcharge revenues are collected and available for scheduled debt service payments and, therefore, 20% of the necessary debt service payment must be accessible to BAWSCA through the stabilization fund to supplement bond surcharge revenues collected.

To accomplish this goal, current investment strategy for the bond stabilization fund involves the rolling of \$3.6 million in six-month securities to provide liquidity in the event of a potential shortfall in surcharge revenue to cover BAWSCA's semi-annual debt service payment obligations. This short-term portion of the portfolio participates in any upward or downward movements in short-term interest rates. The remaining stabilization fund balance is invested in a laddered portfolio of securities maturing in six-month intervals that provide BAWSCA with exposure to longer-term and higher yielding securities to enhance current earnings. A summary of the current investment portfolio maturity distribution for BAWSCA's stabilization fund is shown in Table 1 below.

A question has been asked as to whether BAWSCA's investment portfolio has underperformed compared to other agencies. For purposes of this evaluation, BAWSCA compared the investment performance of the stabilization fund with four member agencies with various sizes of investment portfolios as of October 31, 2017. The results of this comparison are provided in Table 2. Please note that each agency has different circumstances or characteristics and different permitted investment vehicles by its investment policy. In general, the investment portfolios with longer average maturities generate higher average yield. However, given the multiple factors that impact these results, this comparison should not be used for other interpretations.

Results of Prior Evaluations of Investment Strategy

In September 2015, BAWSCA reviewed the investment strategy. As a result, the assumption of percentage of bond surcharge revenues collected was changed from 30% to 20% based on BAWSCA's experience in collecting bond surcharges. The result of this change to BAWSCA's stabilization fund investment portfolio was a reduction in the value of the 6-month rolling portion, an increase in the value of the laddered portion, an increase in the weighted average maturity, and an overall increase in the current yield.

In October 2017, BAWSCA reviewed the investment strategy again to determine whether a change in the agency's circumstances, surcharge revenue experience, or market conditions may justify a change in the investment strategy to better align the agency's objectives and risk tolerance. Due to a limited history of bond surcharge payment collection from the member agencies and the recently delayed surcharge deposits to the Trustee due to the SFPUC's wire transfer error and agreement misinterpretation, BAWSCA was not comfortable in making any changes to the current annual on-time surcharges collection assumption of 80%.

The CEO/General Manager anticipates another evaluation of the circumstances and all investment tools allowed by the Bond Indenture in October 2018. The result of the evaluation will be reported to the Committee.

Table 1: Stabilization Fund Investment Portfolio Maturity Distribution as of 10/31/2017

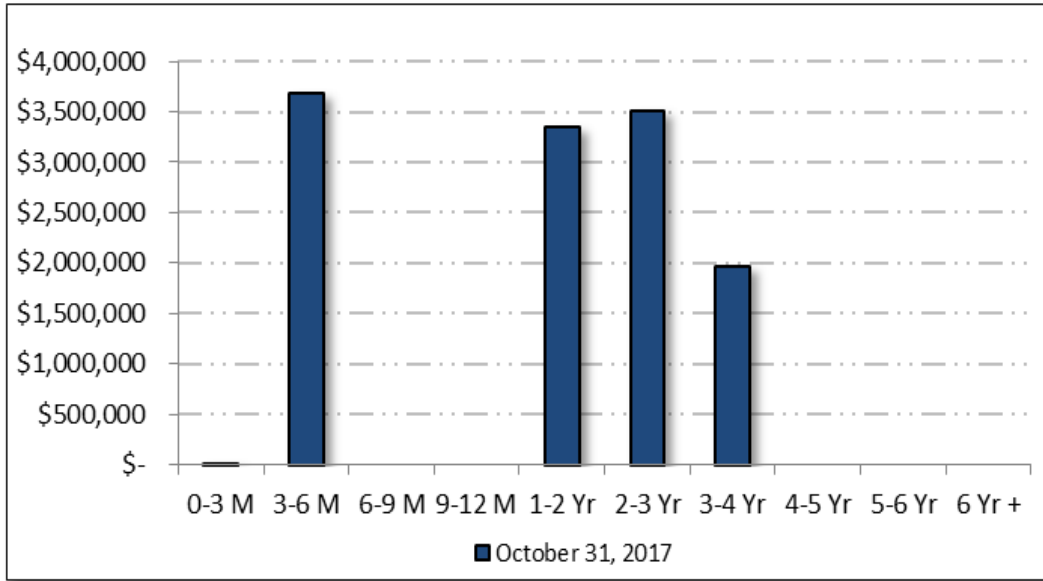


Table 2: Comparison of Investment Portfolio Performance as of 10/31/2017

	BAWSCA (Stabilization Fund)	City of Brisbane	ACWD	City of Hayward	City of Palo Alto
Investment Portfolio (Market Value)	\$12.5M	\$15.0M	\$99.4M	\$121.8M	\$498.0M
Average Market Yield	1.5%	1.4%	1.8%	1.6%	2.0%
Weighted Average Maturity	1.8Yrs	2.0Yrs	2.7Yrs	2.0Yrs	4.0Yrs

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Mid-Year 2017-18 Work Plan and Budget Review**

Summary:

To ensure continued access to reliable supplies of high quality water at a fair price, two revisions to the adopted FY 2017-18 Work Plan are recommended. The first change would postpone development of principles for a new Tier 1 and Tier 2 drought allocation plan pending ongoing legislative activity. This delay is necessary to ensure that the result will be informed by state requirements, which are not yet final. The second change would modify the plan for a benchmarking study of the SFPUC. Originally planned as a benchmarking study to evaluate the SFPUC's Regional Water System (RWS) operational efficiency and cost effectiveness, the proposed modification would instead focus the benchmarking study on the SFPUC's Capital Improvement Program (CIP) development process. This change is proposed due to the SFPUC's interest in joining with BAWSCA to perform this benchmarking study this fiscal year, thereby increasing its overall benefit. At this time, the resources to address these issues and produce necessary results can be provided within the currently approved Operating Budget for FY 2017-18 of \$3,704,572.

This memorandum presents: (1) the two proposed changes to the FY 2017-18 Work Plan, (2) a discussion of the potential budget implications, and (3) a discussion of management of the General Reserve.

Fiscal Impact:

No changes to the Operating Budget are necessary or recommended at this time.

Recommendation:

That the Committee recommend Board approval of the following revisions to the FY 2017-18 Work Plan:

- 1. Scope Reduction/Delay:**
 - a. Postpone development of principles for a new Tier 1 and Tier 2 drought allocation plan pending ongoing legislative activity with anticipated completion in FY 2018-19**
- 2. Scope Modification:**
 - a. Conduct benchmarking study of the SFPUC's CIP development process instead of evaluating the SFPUC's RWS operational efficiency and cost effectiveness**

Prior Board Approved Work Plan and Budget Actions for FY 2017-18:

On May 18, 2017, the Board approved the following:

- Proposed FY 2017-18 Work Plan and Results to be Achieved;
- Proposed Operating Budget of \$3,704,572; and
- Recommended funding plan which includes FY 2017-18 assessments of \$3,543,957 and a transfer of \$160,615 from the General Reserve.

Discussion:

The mid-year review included (1) examining progress toward completing the Work Plan as adopted, (2) considering anticipated work that should be performed during the balance of this fiscal year, and (3) reviewing any new Work Plan items.

Implementation of the Work Plan is on schedule as of December 7, 2017. Two changes to the Work Plan are proposed below. Following the Work Plan review, a budget review was performed which confirmed that the FY 2017-18 Work Plan can be completed within the approved budget.

Proposed FY 2017-18 Work Plan Modifications and Budget Implications

Table 1 presents the Board-approved Work Plan for FY 2017-18 and highlights recommended revisions to the Work Plan. Explanations for the two recommended revisions and resulting budget implications appear below.

1. Scope Reduction and Delay: Development of Principles for a New Tier 1 and Tier 2 Drought Allocation Plan That Aligns with the Proposed State Water Shortage Contingency Plan Requirements and New State Conservation Requirements. Work Plan Item 4b. The purpose of this task was to align the development of new Tier 1 and Tier 2 principles with the anticipated new state requirements. Final legislation incorporating these new requirements has not yet passed, but legislative efforts are anticipated to restart in January 2018. This item should be delayed until Spring 2018 or later, pending future legislative activity and any associated state requirements. Possible budget savings associated with deferral of legal counsel's support to staff on this work plan item will be accrued and used, if necessary, for other critical legal tasks.
2. Defer: Pursue SFPUC Benchmarking Study to Evaluate SFPUC's RWS Operational Efficiency and Cost-Effectiveness. Work Plan Item 10b. This work plan item was originally planned as a benchmarking study to evaluate the SFPUC's RWS operational efficiency and cost effectiveness. The proposed modification would instead focus the benchmarking study on the SFPUC's CIP development process. This change is proposed due to the SFPUC's interest in joining with BAWSCA to perform that particular benchmarking study this fiscal year, thereby increasing its overall benefit and depth of analysis possible. This effort is being tracked and reported on as part of Work Plan Item 1b. There are no anticipated budget savings from this proposed change.

Capacity to Accommodate Potential or Unanticipated Issues

As always, if potential or unanticipated issues arise during the Spring, they will be brought to the attention of the Committee and the Board with recommendations to further reallocate and/or augment existing resources, if necessary.

Budget Modifications Needed to Complete Work Expected During FY 2017-18:

A preliminary budget review has been performed at this time and no budget modifications are necessary.

Management of General Reserve:

No changes to the General Reserve are requested at this time. The current General Reserve balance of \$1,561,144 reflects the (1) approved withdrawal and transfer to BAWSCA's Operating Fund to fund the FY 2017-18 approved budget and (2) the deposit of FY 2016-17 unspent funds transferred to the General Reserve in November 2017:

\$1,202,592 General Reserve balance as of June 30, 2017
-\$160,615 May 2017 approved transfer to Operating Fund
+\$519,167 FY 2016-17 Unspent Funds transferred to General Reserve Nov. 2017
\$1,561,144 General Reserve balance as of December 1, 2017

This level of General Reserve represents 42% of the approved Operating Budget. This is above the upper limit of the 35% budgetary guideline adopted by the Board in September 2011.

Given the high level of uncertainty with several critical areas of work (Restore Hetch Hetchy Litigation and the SWRCB's Bay Delta Water Quality Control Plan Update Phase 1) and the potential need for significant additional legal resources, the current General Reserve balance provides a resource for additional funding needs that may arise. Further discussions on this issue will continue as part of regular Work Plan and Budget updates with the Board. In addition, potential future uses of these funds will be discussed with the Board as part of the FY 2018-19 Work Plan and Budget development process.

Attachments:

1. Table 1. Work Plan and Results to be Achieved in FY 2017-18: Progress and Proposed Changes

Table 1. Work Plan and Results to be Achieved in FY 2017-18: Progress and Proposed Changes
(Progress Shown in Brackets and Underlined; *Proposed Changes Shown in Bold Blue Italic Font*)

RELIABLE WATER SUPPLY

1. Facility Reliability: Monitor the SFPUC's WSIP, 10-Year CIP, and Asset Management Program

- a. Monitor WSIP scope, cost, and schedule as San Francisco continues an aggressive construction schedule through 2019. Press the SFPUC and the city's political leadership to meet the city's adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. [Ongoing, including review of Quarterly Reports and regular meetings with SFPUC to address issues and concerns. Current focus on Alameda Creek Recapture Project EIR recirculation, Regional Groundwater Storage and Recovery Project implementation, and anticipated Winter 2018 re-baselining.]
- b. Review and monitor SFPUC's Regional 10-Year Capital Improvement Program to ensure that identified projects and programs meet the needs of the BAWSCA member agencies in a cost-effective and appropriate manner. [*On track with scope modification; Major activity associated with early review and input on SFPUC's planned update to 10-year CIP, SFPUC's reporting on 10-year CIP implementation, and review of next steps for Mountain Tunnel rehabilitation. As a scope modification of Work Plan Item 10b, BAWSCA has initiated a benchmarking study of the SFPUC's CIP development and implementation best practices which is anticipated to include an element associated with asset management. Additional consultant expertise (J. Ortiz) added to BAWSCA's expert team to support these efforts.*]
- c. Review and monitor SFPUC's Asset Management Program to ensure long-term protection of system assets. [On track. The CIP benchmarking study is anticipated to include an element associated with asset management.]

2. Long-Term Supply Solutions: Implement Long-Term Reliable Water Supply Strategy to Ensure a Reliable, High Quality Supply of Water is Available Where and When Needed

- a. Complete pre-feasibility studies for up to four potential purified water projects in partnership with SFPUC, Silicon Valley Clean Water, Santa Clara Valley Water District and others. Engage with advocacy groups (e.g. WaterReuse) to access and exchange critical technical, legislative, and legal information to support these studies. [Prefeasibility studies for three of four potential purified water projects will be completed this fiscal year. Examination of pre-feasibility study with ACWD and Union Sanitary District on hold at this time.]
- b. Finalize Pilot Water Transfer Agreements with EBMUD, Hayward, and others necessary to implement a pilot water transfer in FY 2018-19. [On track; Continued development of agreements in support of a pilot transfer in FY 2018-19 (or later) as part of recent grant awarded to BARR Partner Agencies.]
- c. Complete development of Bay Area Regional Reliability (BARR) Drought Contingency Plan in partnership with other Bay Area water agencies and investigate additional project opportunities including a federal grant for a pilot project. [Complete. BARR Drought Contingency Plan completed. The BARR Partner Agencies have been awarded a new \$400k federal grant to pursue further development of a Bay Area water market.]
- d. Participate in CCWD's Los Vaqueros Expansion Studies to ensure participation in upcoming project decisions. [On track; Draft EIS/EIR completed in Summer 2017 and grant application to CA Water Commission submitted in August 2017.]

- e. Promote the continued sustainable use of San Mateo Plain Groundwater Basin (Basin) for long-term water supply reliability through the Basin Partnership, participation in San Mateo County’s Basin Assessment Program, and other multi-party efforts. [On track.]
- f. Facilitate development of other local water supply options including monitoring/tracking member agency efforts. [Ongoing. BAWSCA’s annual data gathering effort has been expanded to include information about local supply development.]
- g. Develop a new, regional water supply reliability model to improve BAWSCA’s ability to analyze long-term water reliability in the BAWSCA service area, including potential impacts of availability of existing water supplies and development of additional regional water supplies. [On schedule for planned tasks completion by June 2018.]

3. Near-term Supply Solutions: Water Conservation and Drought Response

- a. Partner with Alliance for Water Efficiency to complete a study, “Use and Effectiveness of Municipal Irrigation Restrictions During Drought”. [On schedule; Study currently in progress and scheduled for completion in December 2018.]
- b. Support BAWSCA member agency efforts as related to meeting the new State of California “Making Water Conservation a Way of Life” requirements with the following specific BAWSCA results:
 - Assessment of member agency existing data and technical capabilities to complete required landscape area measurement calculations and to assess their existing processes and capabilities for necessary CII account classifications. [On track for completion in June 2018; Maddaus Water Management (MWM) has been contracted to complete this work.]
 - Implement new subscription conservation program, the Water Audit Third Party Validation Program, to meet new State conservation requirements. [On schedule for evaluation as part of Conservation Strategic Plan.]
 - Implement a new subscription conservation program, the Landscape Measurement and Verification Program, to meet new State conservation requirements. [On schedule for evaluation as part of Conservation Strategic Plan; Implementation will be delayed pending adoption of State requirements.]
 - Develop a plan that identifies respective BAWSCA and member agency roles in developing information necessary for compliance with new State conservation requirements. [On track for completion in June 2018; MWM under contract to complete development of this work (Conservation Strategic Plan).]
 - Represent member agencies in regional and State-level discussions relative to the development of regulations and guidelines as needed to implement the “Making Water Conservation a Way of Life” framework. [On track.]
- c. Represent agencies in regional and State-level discussions related to water conservation-related regulations. [Ongoing.]
- d. Administer, implement, and expand core water conservation programs that benefit all customers. [On track.]
- e. Administer subscription conservation rebate programs that benefit, and are paid for by, participating member agencies. [On track.]

4. Take Actions to Protect Members’ Water Supply Interests in the Administration of the 2009 Water Supply Agreement

- a. Prepare temporary extension of existing Tier 2 drought allocation plan that expires Dec. 2018. [Slight delay; Initial discussions with legal counsel regarding potential administrative options scheduled for January 2018.]

- b. Develop principles for a new Tier 1 and Tier 2 drought allocation plan that aligns with the proposed State Water Shortage Contingency Plan requirements and new State conservation requirements. [*On hold pending ongoing legislative action; Reconsider schedule and anticipated results in Spring 2018 and defer completion to FY 2018-19.*]
- c. Protect members' water supply and financial interests in the SFPUC's upcoming 2018 decisions and associated Water Management Action Plan (MAP). [Ongoing; Facilitating active discussions with Santa Clara, San Jose, and SFPUC regarding potential alternative next steps.]
- d. Protect members' water supply interests to ensure that the SFPUC meets its adopted Water Supply Level of Service Goals. [Ongoing; Provided comment on recent updates to SFPUC level of service goals considered by the Commission; Actively facilitating discussions among BAWSCA agencies, and with SFPUC, related to minimum purchase issues and potential options.]

5. Protect Members' Interests in a Reliable Water Supply

- a. Participate in the Restore Hetch Hetchy litigation in which BAWSCA is a named party. [Ongoing; On appeal to the Fifth District Court of Appeal.]
- b. Participate in SWRCB Bay Delta Plan Update to ensure member agency interests are represented. [Ongoing; Actively monitoring settlement discussions and SWRCB activity.]
- c. Ensure that necessary legal & technical resources for participation in the Don Pedro Project/La Grange Project FERC licensing are sufficient to protect customers' long-term interests in Tuolumne River water supplies. [Ongoing.]

6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts

- a. Pursue and use grant funds for water conservation programs and for regional supply projects and programs, such as CCWD's Los Vaqueros Enlargement Project. [On schedule; Participant in grant application for Los Vaqueros Enlargement Project submitted in August 2017; Provided support for several BAWSCA member agency grant applications for local recycled and other projects.]
- b. Pursue, with regional partners, grant funding to support studies that aim to improve regional water supply reliability, such as BARR Phase 2 effort(s). [Ongoing; Successful award of a new federal grant for BARR to support potential Bay Area water transfer market.]
- c. Investigate potential for grant funds to support the implementation of the Strategy, including 2014 California Water Bond. [Ongoing; No new grant opportunities identified at this time.]

7. Reporting and Tracking of Water Supply and Conservation Activities

- a. Complete BAWSCA FY 2016-17 Annual Survey. [On schedule.]
- b. Complete BAWSCA FY 2016-17 Annual Water Conservation Report. [On schedule.]
- c. In partnership with member agencies, implement BAWSCA's updated Water Conservation Database. [On schedule.]

HIGH QUALITY WATER

8. Support Member Agencies in Receiving Reliable Communication of Water Quality Issues

- a. Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs. [Ongoing.]
- b. Relay important water quality information (notices as received from SFPUC) to BAWSCA member agencies when made aware of changes that have the potential to impact water quality (taste, odor, blending particulars, etc.). [Ongoing.]
- c. Review and act on, if necessary, State legislation affecting water quality regulations. [Ongoing, including assisting agencies with understanding and responding to new State legislation relating to lead in water systems.]

FAIR PRICE

9. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement

- a. Administer the Water Supply Agreement with SF to protect the financial interests of member agencies. [Annual review on track.]
- b. Support development and member agency adoption of up to two contract amendments to address resolution of FY 2010-11 WRR settlement and implementation of the Regional Groundwater Storage and Recovery Project. [Slow progress in final resolution of the FY 2010-11 WRR settlement; Other contract amendments on hold pending resolution of settlement agreement with SFPUC.]
- c. Administer bonds issued by BAWSCA to retire capital debt owed to San Francisco. [On track.]

10. Provide Other Support to Protect Financial Interests of Member Agencies

- a. Organize a workshop to review water utility financial best management practices to identify potential actions to better protect BAWSCA member agencies from the financial impacts of drought. [On track; Workshop scheduled for Spring 2018.]
- b. Conduct a benchmarking study to evaluate SFPUC's RWS operational efficiency and cost effectiveness. [*Scope modification; See Work Plan Item 1b.*]

AGENCY EFFECTIVENESS

11. Maintain Community Allies and Contacts with Environmental Interests

- a. Maintain close relationships with BAWSCA's local legislators and allies, and activate them if necessary, to safeguard the health, safety, and economic well-being of residents and communities.
- b. Maintain a dialogue with responsible environmental and other groups, who will participate in the permitting and approval process for efforts to maintain system reliability.
- c. Maintain effective communications with member agencies, customers, & others to achieve results and support goals.
- d. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants.

12. Manage the Activities of the Agency Professionally and Efficiently

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BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
FROM: Nicole Sandkulla, CEO/General Manager
DATE: December 8, 2017
SUBJECT: Chief Executive Officer/General Manager's Letter

Additional Investment Income Received from SFPUC Due to Its Wire Transfer Error to BAWSCA's Trustee

According to the Prepayment and Collection Agreement between BAWSCA and the City and County of San Francisco, San Francisco shall transfer all surcharge payments received through the end of the preceding month, plus any investment earnings on the investment of received surcharge payments until the remittance, to BAWSCA's Trustee (BNY) for deposit by no later than the fifteenth day of each month. Due to the change of city-wide financial system, the SFPUC incorrectly remitted BAWSCA's bond surcharges of \$2,024,041.86 collected in the month of August 2017 to a BNY account that belongs to San Francisco Airport. BAWSCA was notified by the SFPUC on September 15, 2017, the day after the remittance, because BNY couldn't locate the fund in BAWSCA's account. With the BNY's assistance of an internal account transfer, the \$2 million surcharge revenue arrived in BAWSCA's BNY account correctly on September 19, 2017. As a result of this error, BAWSCA received additional investment income of \$219.15 from the SFPUC, due to its three-day delay in the September remittance, which will be used to pay for future debt service payments.

Potable Reuse Exploratory Plan – Update

In November 2016, BAWSCA, California Water Services Company (Cal Water), San Francisco Public Utilities Commission (SFPUC), and Silicon Valley Clean Water (SVCW) finalized a Memorandum of Understanding (MOU) to perform an initial exploration of potential potable reuse/purified water opportunities on the Peninsula. SVCW operates a wastewater treatment plant located in Redwood Shores that serves residents from Belmont in the north to Menlo Park in the south.

The MOU sets forth the respective roles and responsibilities of BAWSCA, Cal Water, SFPUC, and SVCW regarding a study of potable reuse feasibility, and the development of a Potable Reuse Exploratory Plan (PREP). Phase I of the study is currently being finalized. Phase I results indicate there may be viable purified water opportunities to study further.

During Phase I, the scope of the study expanded and two additional organizations joined the effort. Redwood City became involved in the study, as there may be opportunities to potentially repurpose infrastructure owned by Redwood City for a purified water project. In addition, City of San Mateo also became involved in the study, as the City of San

Mateo/Estero Municipal Improvement District Wastewater Treatment Plant also may have effluent that could be used for a purified water project on the Peninsula.

A technical advisory panel comprised of staff from each of the six agencies is meeting monthly and working to develop a scope of work for a second phase of the PREP. A new MOU will be developed for this next phase of work to set forth updated roles and responsibilities of the agencies that choose to carry the study forward into Phase II.

Making Conservation a Way of Life – Status Update

The BAWSCA “Making Conservation a Way of Life” Strategic Plan – Phase 1 continues to be on schedule. The Plan will support BAWSCA member agencies in meeting the new water use efficiency targets as established by Governor Brown’s “Making Conservation a Way of Life” Executive Order and subsequent legislative actions. Phase 1 includes: a) an assessment of member agency existing data and technical capabilities to comply with the anticipated state requirements and b) development of a roadmap for compliance with the proposed state requirements that identifies respective BAWSCA and member agency roles.

The BAWSCA consultant team, led by Maddaus Water Management, is currently reviewing data provided by member agencies to assess the agencies’ ability to comply with the legislation as currently written. Plans are being made for the January 10, 2018, member agency workshop, where the team will review BAWSCA agencies’ current practices and water industry best practices for conducting landscape area measurements, classifying commercial, industrial, and institutional customer accounts, and managing water loss.

Two bills to implement the new water use efficiency requirements, SB 606 and AB 1668, are anticipated to be the focus of renewed attention by the California Legislature when the legislative session resumes in January 2018. In preparation for the legislative session, BAWSCA has expedited Phase 1 tasks to develop cost estimates for agency actions that would need to be taken to comply with the proposed requirements in SB 606 and AB 1668. This information will support BAWSCA’s efforts to evaluate impacts of the proposed legislation and to advocate for member agency interests.

WaterNow Alliance Grant Application

WaterNow Alliance (WaterNow) is a San Francisco based nonprofit formed in 2014 with a focus on the development and promotion of water use efficiency. They are one of several operating divisions of the Trust for Conservation Innovation (T4CI), a nonprofit incubator.

On November 30, 2017, WaterNow applied for a grant from the Santa Clara Valley Water District (SCVWD) through its Safe, Clean Water and Natural Flood Protection Program’s Water Conservation Research Grant Program. \$50,000 is being requested and those monies will be used to supplement existing WaterNow funds earmarked to evaluate water conservation and leak notification benefits of “smart home” devices. If WaterNow is awarded grant funding, they plan to enter into an agreement with BAWSCA and subsequent partner agreements with two (or more) of BAWSCA’s Santa Clara County member agencies to pilot test up to 100 such devices.

Through the program, “smart home” water conservation devices would be installed at residential locations in which homeowners are willing to take part in the pilot and who also agree to share their experience with installed device. The purpose of this pilot study is to characterize the typical water savings experienced – both from leak detection and water conservation behavior – by the volunteer households following installation of a “next generation” leak detection device. The study will evaluate devices found to have design features well-suited to encouraging water

conservation (all devices chosen will be capable of monitoring flow in a home's water main to detect abnormal or consistent flow that may be indicative of a leak).

BAWSCA's role in providing help on WaterNow's effort would be to connect them to BAWSCA member agencies, provide guidance during the pilot test, review proposed work plans, provide homeowner outreach assistance, and review reports prepared and documentation produced. The cost of the meters, including meter installation, will be covered by WaterNow coupled with grant funds received. Multiple smart meter vendors are envisioned. BAWSCA and its participating member agencies would be asked to contribute staff time but not to provide a financial contribution to the effort. For BAWSCA, the intent is to use this program as a pilot test for a future new subscription conservation program that may be offered by BAWSCA to its member agencies.

SCVWD expects to announce grant awards in January of 2018. Agreements between WaterNow and SCVWD, BAWSCA, and participating BAWSCA member agencies would be secured by June 30, 2018. The pilot program would run from mid-2018 thru until late 2019.

Water Leader Program

Each year, the Water Education Foundation (WEF) implements the Water Leaders Program, a one-year program which identifies up-and-coming leaders from a variety of backgrounds and educates them about water issues. The program enhances individual leadership skills and prepares participants to take an active, cooperative approach to decision-making about water resource issues. Prior BAWSCA staff members that have participated in the Water Leaders Program include Nicole Sandkulla and Anona Dutton.

In 2017, BAWSCA staff member Andree Johnson graduated from the program. Each Water Leader is assigned a leading stakeholder or policymaker to serve as a mentor. Water Leaders attend several WEF tours and briefings throughout the program, and jointly complete a project on a topic assigned by WEF. The 2017 Water Leaders Class final report provides policy recommendations for addressing challenges in California's water storage system. The final report will be posted on the Water Education Foundation website:
<http://www.watereducation.org/yearly-class-reports>.

2018 Silicon Valley Water Conservation Awards

The Silicon Valley Water Conservation Awards are presented to organizations, agencies, businesses and individuals whose programs and leadership have advanced water conservation and reuse (recycling) in Silicon Valley (San Mateo County, Santa Clara County and Alameda County from Hayward south). The application and nomination process is now open for the 2018 Silicon Valley Water Conservation Awards.

As a member of the organizing coalition for the awards, BAWSCA encourages its member agencies to apply for an award or to nominate businesses, organization, or individuals within their communities. Applications are now being accepted for the 2018 awards at <http://www.waterawards.org> and will remain open until January 19, 2018.

The award ceremony will be held on March 22, 2018 in the evening. All BAWSCA Board Members are invited to attend. Details on the awards ceremony will be provided when available.

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Board Policy Committee

Policy Calendar Through July 2018

Committee Meeting	Purpose	Issue or Topic
December 2017	D&A D&A R R	Consideration of BAWSCA Bond Surcharges for FY 2018-19 FY 2017-18 Mid-Year Work Plan and Budget Review, and Management of General Reserve SFPUC WaterMAP and 2018 Decisions Review of Water Supply Forecast
February 2018	D&A R&D R R	Review of Agency Personnel Handbook Presentation of Preliminary FY 2018-19 Work Plan and Budget Update on BAWSCA's Phase I "Making Conservation a Way of Life" Strategic Plan Review of Water Supply Forecast
April 2018	D&A D&A R	Consideration of Proposed FY 2018-19 Work Plan and Budget Consideration of Annual Consultant Contracts Review of Water Supply Forecast
June 2018	R R	Update on BAWSCA's Regional Water Supply Modeling Tool Development Update on Long-Term Reliable Water Supply Strategy Implementation