

**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.

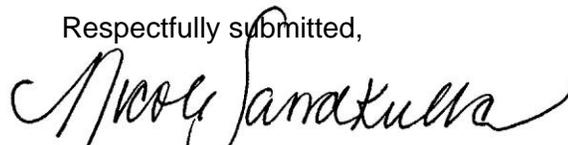
Ms. Sandkulla added that BAWSCA's regional groundwater model developed in 2013 has served as a valuable tool for the agencies surrounding the regional basins, and established a solid foundation for use by others in the region. BAWSCA hopes to achieve the same for the regional water supply reliability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

Respectfully submitted,



Nicole Sandkulla, CEO/General Manager

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Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – 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:

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| 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