

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

**December 12, 2018 – 1:30 p.m.  
BAWSCA Offices – 155 Bovet Rd., San Mateo – 1<sup>st</sup> Floor Conference Room**

<b>MINUTES</b>
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1. **Call to Order:** Committee Chair, Gustav Larsson, called the meeting to order at 1:33 pm. A list of Committee members who were present (8), absent (1) and other attendees is attached.

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

2. **Comments by Committee Chair:** Chair Larsson welcomed members of the Committee. He noted that the State Water Resources Control Board is holding its hearing on the Bay Delta Plan Phase I in Sacramento. Tom Francis is at the hearing and is keeping Nicole informed.

3. **Public Comments:** There were no public comments.

4. **Consent Calendar:** Approval of Minutes from the October 10, 2018 meeting.

**Director Kasperzak made a motion, seconded by Director Zigterman, that the minutes of the October 10, 2018 Board Policy Committee meeting be approved.**

**The motion carried, with an abstention from Director Benton, who was not present at the October 10<sup>th</sup> meeting.**

5. **Action Calendar:**

- A. **Proposed Fiscal Year 2019-20 Bond Surcharges:** Finance Manager, Christine Tang, presented the process BAWSCA does annually to meet the financial obligations associated with the 2013 revenue bonds. The surcharges are used to make debt service payments to reimburse expenses associated with the bond administration, and to replenish the Stabilization Fund, as necessary. Based on the review, there are no replenishment funds needed at this time.

The methodology used for the calculations are the same from last year. The FY 2019-20 total surcharge of \$24,697,896 is equivalent to \$0.39/Ccf or \$170/AF, assuming projected wholesale water consumption from the San Francisco Regional Water System (SFRWS) of 130 mgd. Ms. Tang noted that based on FY 2018-19 first quarter actual sales, water consumption is on target.

A table of each agency's monthly and annual proposed surcharge was presented and included in the staff report. Ms. Tang stated that the surcharge and the pre-payment program saves the agencies over \$3.5 million collectively each year, until 2034.

In response to Director Zigterman, Ms. Tang explained that there will always be a 2-year lag in the surcharge setting. The allocation among the agencies for FY 2019-20, for example, uses data from FY 2017-18 because that is the most recent whole-year data for actual sales. A true up process will be done when actual sales for FY2019-20

becomes available. This will be included in the surcharge setting process for FY 2021-22.

**Director Kasperzak made a motion, seconded by Director Pierce, to recommend Board approval of the proposed FY 2019-20 bond surcharges.**

**The motion passed unanimously.**

- B. Annual Review and Consideration of BAWSCA's Statement of Investment Policy: Ms. Tang reported that BAWSCA's Statement of Investment Policy requires the Board's annual review of the policy itself. The last review occurred in November 2017, which resulted to no changes. Legal counsel's review of the policy confirms that it is consistent with State law.

The policy specifies the investment vehicles which include Money Market Mutual Funds, Certificates of Deposit (CD), and Federal Securities. BAWSCA's review and consultation with its investment advisor confirms that the current permitted investment vehicles remain appropriate for BAWSCA, and are consistent with BAWSCA's risk tolerance and investment objectives, which include safety, liquidity and yield. There are no recommended changes to the policy or the permitted bond investment instruments.

Ms. Tang noted that in previous years, the investment strategy for the bond funds has been reviewed separately from the investment policy review. This year, both reviews occurred simultaneously and are presented in this agenda item and memo.

BAWSCA's bond funds are invested in accordance with the bond indenture and the investment policy. As of November 30, 2018, there was a total of \$20,261,578 in bond funds held by the Trustee, Bank of New York. The bond funds include \$7.7 million of bond surcharges collected to pay the upcoming semi-annual debt service payment, and the \$12.6 million stabilization fund, which serves as a reserve in the event of shortfalls in the surcharge collection.

Based on BAWSCA's evaluation, performed with the agency's investment advisor's assistance, the current 0-5 year laddered maturity portfolio structure continues to be appropriate for the agency. The current strategy provides the agency opportunities to pursue higher yields while satisfying the primary objectives for the investments.

Ms. Tang noted that the 3 permitted investment vehicles were determined in November 2012 as part of the establishment of the bond structure. The Board amended the investment policy to restrict allowable investments vehicles for bond proceeds to Money Market Mutual Funds, CD's, and Federal Securities.

BAWSCA, along with the investment advisors, reviewed the three permitted investment vehicles according to credit quality, market price risks, and liquidity features. The analysis showed that the only other alternative investment vehicles for BAWSCA to consider at this time are Local Agency Investment Fund (LAIF) and Commercial Paper (CP). However, there are no recommended changes to the current strategy to include investments in LAIF or CP for the following reasons.

Based on the market as of November 30, 2018, BAWSCA's current portfolio structure out-performs LAIF by approximately 50 basis points. In terms of CP's, due to Securities and Exchange Commission (SEC) regulations, the availability of CP is very limited with nearly zero supply of CP's available to local governments and agencies such as BAWSCA. BAWSCA will continue to monitor market conditions for opportunities that may arise.

Ms. Tang presented a bar graph to demonstrate BAWSCA's 0-5 year laddered maturity investment portfolio which consists of US Treasury Securities that mature in 6-month intervals out to 5 years. The graph reflects the current transition from the prior 6-month rolling and 0-3 year laddered maturity structure to a 0-5 year laddered maturity strategy. Ms. Tang explained that it will take up to 3 years to complete the transition.

The current strategy provides BAWSCA a modest extension of maturity, as well as the opportunity to benefit from longer maturity and higher yielding investments over time.

It is anticipated that the next evaluation of the investment strategy and BAWSCA's circumstances will occur during next year's investment policy review.

The recommendation is for the Committee to recommend re-affirmation of the current Statement of Investment Policy.

Director Mendall thanked staff for its effort on maximizing the agency's investments.

Director Schmid commented that yields of 2-year treasuries are now close to the yields of 10-year treasuries, and noted whether BAWSCA is tying up investments over 3,4,5 years if the yields do not provide substantial difference. Secondly, Director Schmid asked if earnings from the stabilization funds are transferred into the General Reserve.

Ms. Tang explained that the bond indenture requires BAWSCA to put investment earnings from the stabilization funds back into the Trustee account. All earnings earned as a result of the investments in the Trustee remains with the Trustee and are used for debt service payment purposes only.

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

**The motion passed unanimously.**

- C. Authorization of CEO to enter into a Contract with a Selected Consultant to Develop a Regional Water Demand and Conservation Projections Study: Sr. Water Resources Specialist, Andree Johnson reported that BAWSCA is seeking to enter into a consultant agreement to update BAWSCA's Regional Water Demand and Conservation Projections (Demand Study). BAWSCA has done a regional Demand Study approximately every 5 years.

Consistent with past studies, the goal of the Demand Study is to develop long term water demand and conservation savings projections for each of the BAWSCA agencies and for the region as a whole using consistent methodologies.

Ms. Johnson explained that the existing Decision Support System (DSS) model, developed for each of the member agencies in 2014, will be updated using the most current data on population, employment projections, and water use. The updated DSS model will then be used to develop new demand projections and water conservation savings estimates through 2045.

The last Demand Study was done in 2014 and since then, several factors have occurred in the region that has affected, and will continue to affect, the member agencies' demand patterns. Those factors include a historic drought, significant new state conservation requirements, major economic growth, and the new long-term population and employment growth projections by the Association of Bay Area Government (ABAG). Given those factors, the timing is appropriate to update demand projections. Additionally, Ms. Johnson noted that the Demand Study will assist member agencies in completing their 2020 Urban Water Management Plans required by the State, and due by July 2021.

Ms. Johnson noted that while the scope of work will be similar to the scope of work used in 2014, there are 2 areas that she wanted to focus her comments on. The task of data collection and review will be the first most critical task, and will have the longest timeline in the project. She noted that the quality of the results are only as good as the data entered in the model, therefore, gathering the data will be an extensive process with both the member agencies and outside sources. BAWSCA will work closely with the agencies to ensure accurate assumptions are used in the process.

A second critical and new piece in the scope of work is a stakeholder engagement process. Given the current level of interest on demands and conservation potential in the service area, BAWSCA is planning for a stakeholder engagement component as part of the project development. The objective is to obtain stakeholder feedback on what conservation measures should be analyzed as part of the demand study. Two workshops will be held in which the first will obtain input from environmental groups, business, and regional agencies on potential conservation measures. The second workshop would report the results of the analysis.

The Request for Proposals was released on November 9<sup>th</sup>. Responses were due December 11<sup>th</sup>, and Two proposals were received, both of which were within the recommended project budget.

Member agencies have been invited to participate in the selection process, including review of the proposals and in consultant interviews, if interviews are needed. The schedule for the selection process has been aligned so that a consultant recommendation can be presented to the Board for approval at its meeting in January.

The recommended funding source for the Demand Study is the General Reserve and the Long-Term Planning Fund, which currently has a combined balance of \$1,493,348.

BAWSCA is recommending the use of the General Reserve and the Long-Term Planning Fund for the Demand Study as well as the Los Vaqueros Expansion (LVE) Project next phase Memorandum of Understanding (MOU), which is the next item that will be presented to the Committee for discussion.

Ms. Johnson noted that both the demand study and the LVE Project MOU currently have a cost range. A single cost estimate is not yet available. For planning purposes, BAWSCA completed an analysis to forecast the impact to the funding sources should both projects move forward at a low-end cost or at a high-end cost of the range. Ms. Johnson presented a breakdown of the analysis.

For both projects, the funds would be taken from the Long-Term Planning Fund first, leaving it with a zero balance. The remainder would be paid through the General Reserve. If both projects move forward in FY 2018-19 at the estimated low-end cost, the General Reserve balance would be at 27% of the Operating Budget. If the projects move forward at the estimated high-end cost, the General Reserve balance would be at 16% of the Operating Budget.

Ms. Johnson noted that both projects are multi-year projects, and in the case of the demand study, majority of the expenditures would occur in fiscal year 2019-20. The Board would have the opportunity to evaluate alternative funding mechanisms for the project during the budget setting process.

Selection of the consultant for the Demand Study was originally planned for beginning of FY 2019-20. The schedule was accelerated at the request of the agencies so that the results of the Demand Study would be available by June of 2020 for their use in preparing their Urban Water Management Plans that are due to the State by July 2021.

The Committee was asked to recommend Board authorization of the CEO/General Manager to negotiate and execute an agreement with a selected consultant to complete the Regional Water Demand and Conservation Projection Study, and provide input on additional information that should be presented to the Board in January.

Director Schmid recommended that the Plan Bay Area be taken into specific account. He noted that there are agencies that have resident employees living elsewhere, and he questioned whether the targets and goals of Plan Bay Area are met by the agencies throughout the service area. He urged that the demand study take a closer look at the housing forecasts.

Ms. Johnson stated that the ABAG population and employment projections for the region have been and will be a critical piece of BAWSCA's Demand Study. Most of the member agencies have used the ABAG projections in their models and BAWSCA intends to reach out to ABAG and engage them as part of the stakeholder process.

Director Schmid noted that past ABAG models for Plan Bay Area never reached their residential projections, but their job numbers do. He questioned if they are realistic for local agency projections.

Ms. Sandkulla noted that because BAWSCA is not a land use agency, it relies upon the land use authorities' adopted plan, whether it is ABAG or otherwise.

In response to Director Schmid's reference to the Regional Housing Needs Allocation (RHNA) numbers, Director Pierce noted that while cities plan for RHNA's housing projection, cities are not responsible for building them. As long as cities are taking into account the projected number, which the jurisdictions are indicating for their growth, then cities can ensure water supply. "We" the member agencies do their best to make the most accurate projections. Improved models are helpful, as well as the requirement to complete UWMPs to ensure water supply availability for developments.

Director Mendall asked that financial reporting on the use of the General Reserve and the Long-Term Planning Fund be broken out to show the balance, and perhaps the estimate end balance of year 1 and year 2 noted in a simple table. This would be helpful for future budget planning.

Director Pierce agreed and requested that staff closely review the prioritization of projects accordingly with staff and financial resources

**Director Mendall made a motion, seconded by Director Breault, that the Committee recommend that the Board authorize the CEO/General Manager to negotiate and execute an agreement with a selected consultant, subject to legal counsel's review, to complete the Regional Water Demand and Conservation Projection Study.**

Director Larsson clarified that the Committee is making a recommendation based on information that is currently available. Staff has yet to select a consultant and will have further and specific information on the consultant for the Board to take action at the January meeting.

**The motion passed unanimously.**

- D. Los Vaqueros Expansion Project MOU: Ms. Johnson reminded the Committee that Los Vaqueros is Contra Costa County Water District's (CCWD) existing off-stream reservoir. The Los Vaqueros Expansion (LVE) Project would expand the reservoir from 160 TAF to 275 TAF, which is more than what CCWD has a local need for.

In 2016 CCWD reached out to neighboring agencies with an interest in a portion of the new storage to become project partners. BAWSCA and the SFPUC expressed interest in the project and entered a cost share agreement with CCWD in 2017 for the early planning work.

Through that cost share agreement, CCWD completed several planning tasks including securing Prop 1 funding for the project. The grant provides \$459 million to cover the public benefit share of the project, which is approximately half of the \$980 million project cost.

The work under the existing cost share agreement is substantially complete and CCWD has reached the next decision point on the LVE project. Project partners are being asked to re-affirm their participation, as well as for their interest in entering into a new cost share agreement to cover final planning stages of the project.

The new cost share agreement would cover planning work through calendar year 2019. It is anticipated that a formal government structure, most likely a Joint Powers Authority (JPA), will form during the course of the upcoming planning work. This governmental structure would carry the project through design, construction and ultimately, project operation.

The amount of the new cost share will be based on the number of project partners. The exact cost for each partner will be determined when the number of project partners confirm their commitment to continue on to the next phase. CCWD has received indication that some agencies may prefer to take part in the project through their membership with San Luis Delta Mendota Water Authority (SLDMA) as the single partner entity.

If the current number of partners continue to participate, CCWD estimates the cost for each partner agency in the \$202,000 range. With the consolidation of some agencies under one, the cost estimate increases in the \$354,000 range.

Ms. Johnson noted that BAWSCA is proposing participation in the project independently from the SFPUC due to BAWSCA and the SFPUC having differing priorities, objectives and interests in the project at this time. BAWSCA is primarily interested in the project for dry-year supply to meet dry-year level of service goals that is consistent with the Strategy. SFPUC's interests are for normal-year and ongoing supplies. The differing interests require different modeling needs and different cost assumptions, therefore, participating separately is most appropriate. Opportunities for joint participation may arise in the future, and will be considered, as the project further develops. Ms. Johnson noted that non-participation in the next phase would likely eliminate opportunities for BAWSCA to participate in the future.

Substantial planning work has been completed under the existing cost share agreement including modeling to identify project benefits, conceptual design and environmental work, as well as an analysis on the government and financial structure.

The next phase would complete additional planning work needed for the project such as refinement of the models to evaluate cost and supply reliability, completion of environmental work and federal feasibility study, finalization of a financing plan and development of a governance structure. Ms. Johnson reported that a "Proforma Financial Model" has been developed and is being used to evaluate under different scenarios what the different costs associated with the project would be, how partners would use the facilities, and how costs should be allocated according to the partners' use.

In addition to the regional activities under the new cost share agreement, BAWSCA is concurrently working on several items that are outside of CCWD's scope of work for the LVE project, but are critical to BAWSCA's decision on whether to participate in the LVE project.

First is an independent audit of CCWD's and EBMUD's proposed costs for the use of their locally owned facilities that would be required as part of the project. Alameda County Water District (ACWD) has indicated a willingness to conduct this independent audit on their proposed user fees to ensure the fees are equitable. The second is discussions with the Santa Clara Valley Water District (SCVWD), ACWD, Zone 7, and

City of Milpitas for the potential use of the South Bay Aqueduct and the Milpitas intertie to move water from Los Vaqueros reservoir to the BAWSCA agencies. The third is discussions with the SFPUC about their interests in the project to further assess independent or joint participation in the future.

The cost estimate presented currently includes both a low-end and high-end range because of the unknown number of participation partners. As previously mentioned, the funding source would be the General Reserve and the Long-Term Planning Fund. Ms. Johnson referred to the breakdown of BAWSCA's analysis to forecast the impact to the funding sources should both projects move forward at a low-end cost or at a high-end cost of the range.

Similar to the Demand Study, the LVE project is a multi-year project with the anticipation that half of the expenditures will occur in FY 2019-20. The Committee and the Board will have the opportunity to consider alternative funding mechanisms during the FY 2019-20 budget planning process.

The recommendation is for the Committee to recommend Board authorization of the CEO/General Manager to enter into an MOU with CCWD, subject to legal counsel review, for an amount not to exceed \$354,129 for completion of the final planning stage of the LVE Project.

Director Kasperzak asked about BAWSCA's long term vision on BAWSCA's participation in the LVE project. Does BAWSCA perhaps become a water agency as opposed to a facilitator? Would BAWSCA own the water or would the member agencies own it? Would the RFA play a role in funding the project? He noted a concern that the amount of \$400 million cannot be collected through assessments.

Ms. Sandkulla stated that those questions are not fully answered yet given the current stage of the project planning. However, those questions are all appropriate and all those ideas are possible. Because of BAWSCA's and SFPUC's differing interests in the project, it is important for BAWSCA to participate in this phase separate from the SFPUC. The project's development, and factors that affect it, changes as we speak, but nevertheless, BAWSCA needs to keep an independent voice because it can, indeed, potentially be an independent partner in LVE project. This would mean that we could potentially be a member of the JPA and purchase the water via a sales contract. BAWSCA would not own or operate the system, but would be a member of the entity responsible for the operation of that system. BAWSCA, therefore, would be responsible for its share of the operation costs. The RFA could play a part, but that has not been closely examined.

Director Kasperzak suggested for staff to present to the Board what the possible vision of this project is, as discussions move forward, to prepare the Board of the potential actions and what those actions mean for the future of BAWSCA.

Ms. Sandkulla agreed and noted that this project and other similar water supply development projects may be leading BAWSCA to more fully take on the role that was specified in the legislation that formed BAWSCA; "...a multicounty agency authorized to plan for and acquire supplemental water supplies...on a regional basis." While it was not an obligation, the legislative language gave BAWSCA the authority and the



right to step into this position to serve the water supply interests of the region. This scenario was anticipated, and it could change BAWSCA's role.

Director Benton agreed with having a clear understanding of whether the investment is realistic to avoid having wasted the money spent only to find out that the efforts are not viable. It would be helpful for the Board to have a clear understanding of the "end game" to support making the large investment. Secondly, he asked where the water would come from and if BAWSCA would be in competition with the SFPUC for water if its interests differs with BAWSCA.

Ms. Johnson explained that CCWD has surplus water from the Delta that they would likely be able to make available to project partners. In addition, the expansion of the reservoir can provide BAWSCA additional storage capacity should BAWSCA choose to execute a water transfer from another water entity.

On the point about having a clear understanding of the "end game", Director Breault commented that conducting the study for the development of the Strategy 10 years ago was controversial because many agencies believed there was enough water and investments for future water supply reliability was unnecessary. Based on the staff report and presentation, there is still significant amount of work in the LVE project study that need to be finalized including settling agreements for the use of interconnecting facilities that will move the water from the reservoir to the agencies, as well as the identification of BAWSCA member agencies who will clearly benefit. We need to get closer to the finalization of those efforts to get a better understanding of which agencies will benefit and whether they are interested to invest. Director Breault asked when the study is expected to be completed.

Ms. Johnson stated that the study will be completed in calendar year 2019, and it is anticipated that the entire LVE project would be completed in 2027.

In response to Director Mendall's question, Ms. Sandkulla stated that in the 2017 cost-share agreement, BAWSCA is paying 2/3rds of SFPUC's share.

Director Mendall noted that a \$200 k - \$350 k investment for a study on water supply reliability is reasonable, but a higher stake with a higher cost would require further discussions, and a robust justification and clear understanding of the benefits for the member agencies.

Ms. Sandkulla explained that there is a specific reason the scope is written the way it is. This phase is the last level of planning stage at this lower level of cost for the LVE project. It is in the interests of BAWSCA and the SFPUC to participate as project partners in this phase of the study to be able to have access to information on who will benefit, who will pay, and why.

Ms. Sandkulla does not have enough information to answer the questions presented by the committee because BAWSCA is not yet a direct party to this phase of CCWD's LVE project. That is why the recommendation is to independently participate in the final planning phase of the project. This provides BAWSCA access to information needed in the interests of the member agencies to be able to make the next level of decisions, which will be at a higher investment.

Director Schmid noted two concerns. He suspects that other agencies are signing up for dry-year allocations like BAWSCA, and if so, how are allocations made? Are there priority rankings for which agency gets the first cut, and where would BAWSCA be on the list?

Secondly, the use of interties to get water to the BAWSCA member agencies require key interties owned by SCVWD who have issues of their own during dry years. What are the legal agreements BAWSCA would have that ensures access to water supply in extreme dry years?

Ms. Johnson explained that extensive modeling has been done during the course of the study that are based on the project partners' various interests. Based on the current requests in place from the project partners, BAWSCA would get the water in nearly all of the years when BAWSCA would need it out of Los Vaqueros.

With regards to the use of the South Bay Aqueduct, that investigation is high on the priority list for this phase of the study this year.

Director Pierce appreciated hearing the questions and comments raised by committee members about the technical aspects of the project which made her look back to the history behind the development of the Strategy. She noted that the agency's past experience has proven that circumstances can suddenly change, and for some agencies, reliance on a single source of supply can bring a lot of uncertainties. She commented that the future that seems important for all member agencies to be thinking about climate change, drought, future growth, and what those factors mean for the region.

On behalf of Redwood City, her interest would be for the member agencies to be able to grow and build collaboratively to balance the pressure among the agencies. As brought up by one of the comments, there is value to have a region that works properly such as having the appropriate infrastructure necessary to move the water effectively and efficiently. Additionally, she believes that obtaining water reliability for San Jose and Santa Clara so they can build to their full potential provides a regional benefit. In some ways, BAWSCA is pushed to think much broader than just pipes and water. It was forward thinking for the legislation, AB2058, to have a broad definition for the agency that enables it to support the interests of the member agencies when it comes to its water resources.

Director Zigterman echoed the need for further information to justifiably moving forward with the LVE project. He asked if the scope of the effort that BAWSCA is proposing to engage in, and that the Committee is recommending approval of the Board in January, would include the following three factors; that the study will look at the need for additional supply and storage, how BAWSCA and/or SFPUC's role in the governance would work, and provisions of the connecting infrastructure to move water.

Ms. Sandkulla stated yes, and that those are the anticipated end results of the study. She added that the LVE project is controlled by CCWD, and that BAWSCA's evaluation of the value of the study to the member agencies is based on the 10 TAF that the project can potentially provide. While 10 TAF does not provide everything BAWSCA needs in future water supply reliability, it certainly provides a benefit.

Additionally, the project cost is as cost-effective as anything else at this level of knowledge.

Director Benton asked how an MOU that multiple agencies are paying for provide information on something unique to BAWSCA. Ms. Sandkulla explained that the aspect of the MOU that is unique to BAWSCA, and a subset of the project participants including the SFPUC, is the use of the South Bay Aqueduct. The project has the capability to model and evaluate multiple scenarios. BAWSCA's participation will allow the project to model scenarios specific to the needs of the BAWSCA region, which is why participation separate from San Francisco is recommended.

Ms. Sandkulla explained that if BAWSCA was to participate with SFPUC, the cost would be the low-end cost or the high-end cost in addition to 2/3's of the SFPUC's cost. Additionally, if CCWD limits the number of modeling for project partners, BAWSCA would have to share that with SFPUC which may require negotiation. Participating independently of SFPUC will provide BAWSCA access to information it needs to clearly identify the potential benefits of the project to the member agencies.

In response to Director Benton's question, Ms. Sandkulla stated that \$350K is worth having that level of independence on the modeling runs.

Director Mendall added that BAWSCA can potentially face an investment decision on the LVE project next year that is of significant cost. The Board would want to be able to make a well-informed decision for that investment, and the \$200-\$350K cost on the MOU is a justifiable investment.

Ms. Sandkulla re-stated that the questions presented by the committee members as far as the end results of the study are what she will have to present to the Committee and the Board to decide whether the LVE project is a project BAWSCA wants to be a part of in the future. It is the same information all project participants are looking for.

Director Zigterman sees the question of whether BAWSCA can potentially be in competition with San Francisco as a water supplier as an important one. However, he would hesitate, without further discussion, for BAWSCA to go into the water supply infrastructure management role because although BAWSCA has the right to have the role, it is a big role. BAWSCA can take the steps to get to that point, but the Policy Committee and the Board would have to take that into serious consideration.

In response to Director Breault, Ms Sandkulla stated that the identification of which BAWSCA member agencies will benefit from the LVE project will be a part of the information presented to the Committee and the Board in the next phase of work.

Participation in the MOU will provide BAWSCA access to information on what kind of benefit comes into the regional water system, including how much water comes into the system to address dry-year needs. With that information, we can see if there is an agency or whether all the agencies would have interest in the identified supply and whether they would be willing to pay for it to reduce drought shortages by a percentage. That is the level of detail Ms. Sandkulla expects to bring to the Board in the next phase of work so that it can consider taking the next step.

Director Breault commented that \$350 K for 10 TAF is a considerable amount as it would take approximately 7 years of the increased investment savings to replenish that cost.

In response to Director Larsson, Ms. Sandkulla stated that she anticipates substantial discussion on the results of the study and next steps for the LVE Project beginning May 2019, and continuing to July and September. There will also be discussions on the potential developments in the Bay Delta and the Demand Study as those items are connected to overall water supply reliability.

Director Pierce asked if the demand study will be completed by then so that the agencies can know how much supply is needed, and whether the region is close to its 184mgd.

Ms. Sandkulla cannot answer that question until the RFP process is completed.

**Director Kasperzak made a motion, seconded by Director Pierce, that the Committee recommend the Board to authorize the CEO/General Manager to enter into an MOU with CCWD, subject to legal counsel review, for an amount not to exceed \$354,129 for completion of the final planning stage of the LVE project.**

**The motion passed unanimously.**

**6. Report and Discussion:**

- A. Mid-Year 2018-19 Work Plan and Budget Review: Ms. Sandkulla reported that implementation of the FY 2018-19 work plan is on schedule. Mid-year review of the work plan identifies the need for three modest changes.

The first change is postponement of the audit of SFPUC asset management practices to FY 2019-20. This change accommodates the acceleration of the demand study. The second change is the delay in completion of two regional pre-feasibility studies for two purified water projects. This change to the work plan reflects the schedule delay for the Phase 2 of the Potable Reuse Exploratory Plan (PREP) with Silicon Valley Clean Water, and Phase 2 of the BAWSCA/SCVWD/SFPUC joint project. Phase 1 of the SCVWD joint project was completed in Summer 2018, and SCVWD has asked to delay Phase 2 until they complete a countywide water reuse master plan. The third change is to add the initiation of the demand study for completion in FY 2019-20 instead of FY 2020-21. This work was scheduled to begin in FY 2019-20 but is being accelerated to begin in FY 2018-19 so that results can be available to support the member agencies' completion of their UWMPs due by June 2020.

Ms. Sandkulla presented a table showing the progress of the work plan's 11 key tasks, most of which are 50%-75% complete, with a slight delay in the Strategy implementation.

BAWSCA is on track in monitoring the SFPUC's progress in the WSIP, 10-year CIP and Asset Management Program. In January, Ms. Sandkulla and Strategic Counsel, Bud Wendell will pursue extension of the State oversight on the WSIP as well as the Regional Financing Authority (RFA) through legislative actions. Ms. Sandkulla

reported that with the SFPUC's adoption of the WSA amendments at its December 11, 2018 meeting, BAWSCA's oversight of the 10-year CIP is now a part of the WSA. BAWSCA continues to focus on SFPUC's progress on the repairs of Mountain Tunnel and the Moccasin Reservoir.

Progress in the implementation of the Strategy recommendations is affected by the noted delays of the two pre-feasibility studies on purified water projects.

In response to new State requirements, BAWSCA is implementing several new water conservation and drought response programs. First is a residential indoor/outdoor water use study that will be completed in May 2019. Results of this study will feed into the Demand Study. Second is a pilot self-audit tool for commercial customers that will be launched in March 2019. Third is a water loss control subscription program that has been implemented to meet state requirements in tracking non-revenue water use. BAWSCA will continue to represent member agencies at the state-wide level on conservation and in meeting the new State requirements.

Additionally, BAWSCA is scheduled to conduct an AMI workshop in March 2019, in coordination with SCVWD. A questionnaire will be distributed to the member agencies in advance of the workshop so that agency responses can be used as part of the workshop preparation and discussions.

Protecting the member agencies' water supply interests in the administration of the WSA has been BAWSCA's major focus for the past several months. Ms. Sandkulla reminded the Committee that the Board extended the Tier 2 drought allocation plan until December 31, 2019. Another extension may be required this fiscal year and staff will begin to work with the agencies in January 2019. As part of the WSA amendments recently adopted by the SFPUC, the Tier 1 issue was addressed, and SFPUC's 2018 decisions are extended another 10-years.

Efforts in addressing the threats to the region's water supply continues, and BAWSCA will remain engaged to protect the member agencies' interest in water supply reliability.

BAWSCA will continue to pursue grant opportunities that become available. Reporting on, and tracking of, agency water supply and conservation activities is ongoing with the yearly release of the Annual Survey anticipated in February 2019.

Financial matters under the WSA administration are addressed in Christina's work on the Wholesale Revenue Requirement and asset allocations.

As part of the proposed changes to the work-plan and mid-year budget review, there are no recommended changes to the current budget.

Separate funding mechanisms are recommended for the Regional Demand Study and LVE project, which are separate actions from the mid-year budget review.

The budget for Legal Counsel is 57% expended through October. It is tracking high, but that was anticipated given the extended work over the Summer and Fall associated with water supply reliability threats. Ms. Sandkulla will work closely with Legal Counsel to monitor legal activities and expenditures, and noted that a potential

contract amendment may be brought forward in Spring 2019. All other work plan expenses are within budget.

Ms. Sandkulla reported that as part of the mid-year budget review, there are no recommended changes to the General Reserve. She presented a breakdown of the balance and activities of the General Reserve, as well as the balance of the recently established Long-Term Planning Fund. The General Reserve balance as of December 5, 2018 is \$1,365,380, or 35% of the Operating Budget.

The combined balance of the 2 funds is 1,493,348. Ms. Sandkulla referred to the funding and cost breakdown previously presented on BAWSCA's analysis of the impact to the funding sources should the Demand Study and LVE Project MOU move forward at a low-end cost or at a high-end cost. She deemed it necessary to present the same funding and cost breakdown analysis for each item; Demand Study, LVE Project MOU, Mid-Year Budget Review; as they are separate items that required separate actions.

A broader table with the cost ranges and multi-year expenditures will be provided for the Demand Study and LVE Project MOU staff memos for the Board's consideration at the January Board meeting, as well as for further discussions of the budget planning.

The Committee supported the new format of the mid-year review update table which now clearly indicates the progress of each key area of the workplan.

Director Mendall supports the recommendation, but expressed his concern with the postponement of the audit of the SFPUC's asset management practices. He understands the need to postpone it, and does not oppose it. But he discouraged the potential for further postponement of the task year after year because it is a critical pre-cursor to BAWSCA's oversight of the 10-year CIP.

He noted that the Mid-year Budget Review presentation should come before the presentation of the Demand Study and LVE project MOU.

Director Benton asked what the loss would be by postponing the audit of SFPUC's asset management program.

Ms. Sandkulla explained that the first part of the effort was to complete a CIP benchmarking study, where an analysis of other utility CIP practices, including the SFPUC, was conducted. That report will be provided at the January Board meeting. The next step of evaluating SFPUC's asset management practices against that analysis is what is being postponed. Ms. Sandkulla anticipates a 6-month delay as opposed to a 1-year delay. The RFP is ready for release, and if the Board chooses, it can consider including the task as part of the FY 2019-20 budget to move it forward right away.

Director Kasperzak made a motion, seconded by Director Pierce, to move staff recommendation on the Mid-Year Budget Review. Further Committee discussions ensued.

In response to Director Schmid, Ms. Sandkulla explained two funding alternatives that BAWSCA can use instead of the Long-Term Planning Fund. One is the Water

Management Charge, which was previously used to fund the Long-Term Reliable Water Supply Strategy (Strategy). This mechanism is allowed per the WSA, and has a specific procedure that enables SFPUC to charge wholesale customers a certain amount over a period of time to pay costs approved by the BAWSCA Board. This funding tool works well for a multi-month/year consultant study as opposed to a one-time cost. Another alternative is the use of the Balancing Account that exists under the WSA. It can be used for efforts specifically associated with water supply and conservation development. The use of the mechanism has been discussed for the implementation of the Pilot Water Transfer and can be considered for the LVE MOU. The current estimated balance in the Balancing Account is \$60 million by the end of FY 2017-18.

Director Mendall asked the value for having the balance so high and should it be used prudently.

Ms. Sandkulla explained that the Balancing Account have specific priorities dictated by the WSA. Details of those priorities can be provided to the Board at its January meeting. Essentially, the Balancing Account has a role to help balance fluctuations in the wholesale rates. There is an annual conversation between the SFPUC and the wholesale customers about the use of the Balancing Account towards wholesale rate settings versus rate stabilization. Coming out of the recent drought and with the uncertainties of what the rate could be as a result of water use reductions, it was the member agencies who expressed a specific interest to use the funds to reduce potential drastic rate fluctuations.

Legal Counsel, Allison Schutte, added that there are procedures and recommendations in the WSA for the purpose of smoothing the balance out. The balance can be brought down to zero over 3 years, but Ms. Sandkulla noted that the WSA allows for discretion in certain scenarios. Ms. Sandkulla can provide further information at the January Board meeting as part of the discussion on funding alternatives.

**With no further discussions, the recommendation was moved by Director Kasperzak, and seconded by Director Pierce, that the Committee recommend Board approval of the revisions to the FY 2018-19 Work Plan as follows:**

**1. Scope Reduction/Delay:**

- **Postpone initiation of an audit of the SFPUC's asset management practices until FY 2019-20**
- **Delay completion of two Phase 2 pre-feasibility studies for purified water projects**

**2. Scope Addition:**

- **Initiate Regional Water Demand and Conservation Projections Study for completion in FY 2019-20**

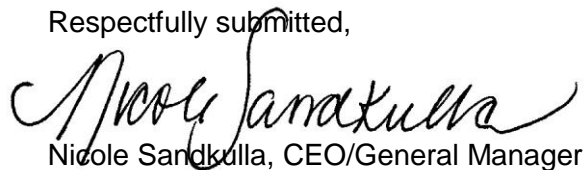
**The motion passed unanimously.**

7. **Reports:** Ms. Sandkulla reported that water supply conditions are good. Precipitation at Hetch Hetchy is at median level, while the snowpack is slightly higher than normal. Total deliveries remain below the pre-drought level. Total water use in the service area remains 14% less than in October 2013. There was a dip in water use during the month of September 2018 compared to 2017, which may be associated with the fact that September 2017 was hot.

Ms. Sandkulla reminded the Committee that the January Board meeting will include a Budget Planning Session to discuss the long-range view of BAWSCA's work plan for FY 2019-20 and beyond. A preliminary work plan and budget will be presented to the Committee in February for discussion before it goes to the Board in March. BPC review of the Preliminary Work Plan and Budget will occur in April, for Board consideration at the May 2019 Board meeting.

8. **Closed Session:** The meeting adjourned to Closed Session at 3:18pm
9. **Open Session:** The meeting convened to Open Session at 3:37pm. Legal Counsel, Allison Schutte reported that no action was taken during Closed Session.
10. **Comments by Committee Members:** There were no further comments from Committee Members.
11. **Adjournment:** The meeting was adjourned at 3:38 pm. The next meeting is February 13, 2019.

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 Meeting  
Attendance Roster**

Agency	Director	Dec. 12, 2018	Oct. 10, 2018	Aug. 8, 2018	Jun. 13, 2018	Apr. 11, 2018
Hillsborough	Benton, Jay	✓		M T G  C A N C E L L E D	✓	✓
Guadalupe	Breault, Randy	✓	✓		✓	✓
Stanford	Zigterman, Tom (Vchair)	✓	✓		✓	✓
Mountain View	Kasperzak, Mike	✓	✓		✓	✓
Cal Water	Kuta, Rob		✓		✓	✓
Sunnyvale	Larsson, Gustav (Chair)	✓	✓		✓	
Hayward	Mendall, Al	✓	✓		✓	✓
Redwood City	Pierce, Barbara	✓			✓	✓
Palo Alto	Schmid, Greg	✓	✓		✓	✓

✓: present

**December 12th Meeting Attendance**

**BAWSCA Staff:**

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

**Public Attendees:**

Lisa Bilir City of Palo Alto  
 Michelle Novotny San Francisco Public Utilities Commission