

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

December 11, 2019

1:30 p.m.

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

(Directions on page 3)

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>)	(Zigterman)	Pg 3
2. <u>Comments by Chair</u>	(Zigterman)	
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>	(Zigterman)	
4. <u>Consent Calendar</u> A. Approval of Minutes from the October 9, 2019 meeting (<i>Attachment</i>)	(Zigterman)	Pg 5
5. <u>Action Items</u> A. Annual Review and Consideration of BAWSCA's Statement of Investment Policy (<i>Attachment</i>) <u>Issue:</u> BAWSCA's Investment Policy requires the Board to act on it annually irrespective of any changes. No changes are recommended. <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> That the Board Policy Committee recommend Board re-affirmation of the current Statement of Investment Policy.	(Tang)	Pg 15
6. <u>Report and Discussion</u> A. Mid-Year 2019-20 Work Plan, Budget and General Reserve 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)	Pg 23
7. <u>Reports</u> A. Water Supply Update B. Pilot Water Transfer Update C. LVE Update D. Review of FY 2019-20 Work Plan and Operating Budget Preparation Process	(Sandkulla)	

E. CEO's Letter (*Attachment*)

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F. Board Policy Committee Calendar (*Attachment*)

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G. Correspondence Packet ([Under Separate Cover](#))

8. Closed Session

A. Conference with Legal Counsel – Existing Litigation pursuant to Paragraph (1) of subdivision (d) of Government Code Section 54956.9 Federal Energy Regulatory Commission Final License Application Proceedings for Don Pedro Hydroelectric Project, P-2299-082, and La Grange Hydroelectric Project, P-14581-002. (Schutte)

B. Conference with Legal Counsel – Existing Litigation pursuant to Paragraph (1) of subdivision (d) of Government Code Section 54956.9 San Joaquin Tributaries Authority, et al. v. California State Water Resources Control Board (Tuolumne County Superior Court Case No. CV62094). (Schutte)

9. Comments by Committee Members (Zigterman)

10. Adjournment to the next meeting on February 13, 2019 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo. (Zigterman)

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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:

Tom Zigterman, Stanford University (Chair)

Thomas Chambers, Westborough Water District (Vice Chair)

Alison Cormack, City of Palo Alto

Sam Hindi, City of Foster City

Rob Kuta, California Water Service Co.

Gustav Larsson, City of Sunnyvale (BAWSCA Vice Chair)

Al Mendall, City of Hayward

Barbara Pierce, City of Redwood City (BAWSCA Chair)

Sepi Wood, City of Brisbane

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

October 9, 2019 – 1:30 p.m.
BAWSCA Offices – 155 Bovet Rd., San Mateo – 1st Floor Conference Room

MINUTES

1. **Call to Order:** Committee Chair, Tom Zigterman, called the meeting to order at 1:30 pm. A list of Committee members who were present (8), absent (1) and other attendees is attached.

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

2. **Comments by Committee Chair:** Committee Chair Zigterman cited the correspondence packet and the high number of articles associated with water policy. He encouraged members of the Committee to reach out to Nicole for any questions.

The order of the agenda items will be moved in the interest of allowing a committee member to participate in Closed Session. Agenda Item 5B will be the first item under Action Calendar, immediately followed by the Closed Session.

3. **Public Comments:** Public comments were made by Peter Drekmeier regarding the Bay-Delta Plan.
4. **Consent Calendar:** Approval of Minutes from the June 12, 2019 meeting.

Director Larsson made a motion, seconded by Director Chambers, that the minutes of the June 12, 2019 Board Policy Committee meeting be approved.

The motion carried. Director Zigterman abstained.

5. **Action Calendar:**

- B. **Implementation of BAWSCA's Pilot Water Transfer:** Tom Francis, Water Resources Manager, presented an update on BAWSCA's pilot water transfer.

BAWSCA will purchase the transfer water for the pilot from Amador Water Agency (AWA), which gets water from the Mokelumne River. East Bay Municipal Utility District (EBMUD) will wheel the water through its distribution system, and the City of Hayward will receive the water through the Hayward Intertie. The Hayward Intertie was built as part of the seismic upgrade of the San Francisco Regional Water System (SF RWS) through the Water System Improvement Program (WSIP). It connects EBMUD with the SFRWS and runs through Hayward.

A total of 1,000 acre feet (AF) of water will be purchased. Approximately 800 AF will be delivered through the intertie with an anticipated 20% system loss. The delivery rate is estimated at 15 million gallons per day (mgd) within a 21-day period. Some flow will continue past Hayward into the SFRWS, depending on Hayward's demand. Implementation of the transfer is expected to occur in January 2020.

Mr. Francis noted that during the pilot transfer, water will flow through the Hayward water distribution system from north to south, which is opposite of Hayward's normal flow of south to north when it receives water from the SFRWS. Furthermore, Mr. Francis explained that the use of the Hayward Intertie will require operation of two pumping facilities to meet the pressure needs of the Intertie's 30 mgd capacity. Typically, San Francisco's system pressure is enough to push water through Hayward's distribution system.

In addition to AWA, EBMUD, Hayward, and SFPUC, other entities that will have some level of involvement in BAWSCA's pilot water transfer include PG&E and the State Water Resources Control Board (SWRCB). Because PG&E operates dams along the Mokelumne River, AWA will need to coordinate with PG&E in setting release rates needed to move water for the transfer. SWRCB – Division of Drinking Water will also be involved in coordinating with the City of Hayward regarding water Hayward will receive from Mokelumne River for the transfer. Mr. Francis explained that Mokelumne River is a water source Hayward is not regularly permitted to receive water from.

BAWSCA will be entering into four agreements which will be brought to the BAWSCA Board for its consideration and approval at its meeting in November. They include an agreement between AWA and BAWSCA for the purchase of the water, a wheeling agreement between BAWSCA and EMBUD to move and treat the transfer water, an agreement between BAWSCA and SFPUC to allow BAWSCA's use of the SF RWS for the transfer, and a pilot transfer agreement between BAWSCA and Hayward for the City of Hayward to take delivery of the transfer water.

Mr. Francis went over additional agreements that, while outside of BAWSCA's purview, BAWSCA is tracking and supporting as needed. He explained that the Hayward Intertie is a facility owned by the SFPUC and EBMUD, and operated by the City of Hayward. It was built and permitted for emergency use only. Because the pilot water transfer is not within the realm of the intertie's intended use, there will need to be a side-agreement to allow the use of the facility for the one-time transfer.

Additionally, Hayward's current agreement with the SFPUC does not allow it to receive water from sources other than Hetch Hetchy. The SFPUC will be preparing a letter of agreement that would allow Hayward to receive water from Mokelumne River for the purpose of the one-time pilot water transfer.

Finally, both EBMUD and AWA have water rights to the Mokelumne River. They are both very protective of their water rights, including how those rights should be used in the future. Some form of an agreement, perhaps a one-time agreement for the purpose of the transfer, needs to be in place to address the agencies' sensitivities. The agencies, however, have identified that the water rights concern is a potential issue that goes beyond the pilot water transfer, and one that may take some time to sort through. Because water rights matters can be contentious, Mr. Francis noted that reaching agreement on said matters can be tricky and work remains in resolving this issue for the pilot water transfer.

Several supplemental documents are needed in addition to the agreements.

Hayward, EBMUD and the SFPUC are developing an operations plan, in terms of staffing, that would detail how they would operate the intertie and move water from EBMUD to Hayward during the pilot.

Hayward is also coordinating with EBMUD on water quality data that Hayward must receive in advance of the transfer process to allow for the time required to issue proper notification of water quality changes to both residential and commercial customers. Mr. Francis noted that in BAWSCA's agreement with EBMUD and commitment to Hayward, BAWSCA is working with EBMUD to ensure that the water quality data is provided to Hayward in advance of the transfer.

Specific correspondence with the SWRCB includes the SFPUC and Hayward informing the Division of Drinking Water about a change in Hayward's water source for the purpose of the pilot water transfer. Another document that must be filed with the SWRCB is an annual "Statement of Diversion and Use" of water. PG&E prepares that report each year for their Mokelumne facilities, and the report references AWA's water diversions as well as PG&E's. The report prepared for 2020 would need to indicate that a portion of AWA's diversions was delivered to BAWSCA for the pilot water transfer.

AWA will provide a release schedule to document that water will be delivered on a daily basis at the required rate during the pilot water transfer.

Finally, during the transfer, primary points of contacts for each agency involved will be listed and documented as reference.

BAWSCA will be the lead agency for CEQA. At its November meeting, the Board will be asked to approve BAWSCA's Notice of Exemptions (NOE). Mr. Francis explained that because the pilot water transfer will use existing facilities, no construction will be involved nor will there be environmental impacts anticipated, and the concept called "Existing Facilities" common sense exemption will apply.

BAWSCA will file the NOE following the Board's action in November. There will be a 35-day comment period. BAWSCA has met with a key environmental group active in AWA's service area and does not anticipate major comments, but will be prepared to respond to and address any concerns that arise.

BAWSCA will file in the eight counties that are in the path of the transfer water. They include Amador, Calaveras, San Joaquin, Contra Costa, Alameda, Santa Clara, San Mateo, and San Francisco.

Because BAWSCA is the lead agency for the transfer, there is no need for the other agencies involved to file, unless they choose to. BAWSCA is in discussions with the SFPUC on their intentions to file. AWA, EBMUD, and Hayward have indicated their intention to file as responsible parties.

No new permits are needed to conduct the pilot. All permits required are in place.

Total estimated cost for the pilot water transfer is \$1.2M. The cost includes the purchase of the water; wheeling the water which requires treatment, staffing, and

power costs; and delivery of the water, which will require Hayward to modify its water system operations and incur costs to the resources needed for the modifications.

The use of the Balancing Account is the recommended funding source for the pilot water transfer.

Most of the cost are on a per acre-ft basis, which means that BAWSCA will only pay for the water delivered. Mr. Francis explained that while the total water to be purchased is 1,000 AF, if for some reason the transfer process is shut down after a few days, BAWSCA will only pay for the amount of water that was moved. There will be upfront costs that will need to be paid, but the primary costs will be based on a per acre-ft basis. A few outstanding cost items are still being negotiated but are not anticipated to change the estimated cost of \$1.2M

BAWSCA and the participating agencies are scheduled to bring the agreements to their governing bodies in November for approvals. The pilot water transfer is expected to start in January of 2020. The process will begin with the flushing of the Hayward Intertie, and the pilot water transfer is anticipated to run from January 13th through February 3rd.

This schedule aligns with the SFPUC's Hetch Hetchy system shutdown to accommodate work on Mountain Tunnel, as per BAWSCA's agreement with Hayward.

The purpose of the pilot water transfer is to validate BAWSCA member agencies' ability to act collectively and independently of the SFPUC to secure a reliable supply of water. It is an effort under BAWSCA's Long-Term Reliable Water Supply Strategy (LTRWSS) that the BAWSCA Board guided and approved staff to pursue.

The pilot water transfer will provide lessons learned about the processes (finding water sellers, negotiating agreements, identifying CEQA needs, recognizing pitfalls, etc.) required to conduct water transfers in the region. Specifically, the use of the Hayward Intertie is unique for the one-time pilot water transfer. Since it was intended for emergency use only, it's use is disruptive to Hayward's normal system operations, and is not practical under normal circumstances. The pilot water transfer will demonstrate if and how changes to normal operation impact Hayward's distribution system. Those results are expected to prove useful for evaluating how other water systems may or may not experience similar disruptions when and if future transfers were conducted.

The pilot has provided information on the processes of acquiring institutional approvals and performing environmental review. It has also provided information on how much water transfer costs might be. However, Mr. Francis noted that the costs for the pilot water transfer cannot serve as a hard and fast number that can be applied in future transfers simply because the pilot water transfer partner agencies have reduced, absorbed, and/or omitted some of the typical charges associated with water transfers.

Mr. Francis noted that environmental groups as well as the State have indicated strong support for water transfers as a way to meet water supply needs during dry

years. BAWSCA's pilot water transfer will demonstrate how water transfers compare against other water supply alternatives such as potable use and desalination.

BAWSCA is addressing and mitigating potential risks through the agreements between the agencies. Specifically, BAWSCA is committing to purchase limited insurance coverage of Hayward's water system for the period of the pilot water transfer since there could be potential damage to Hayward's distribution system as a result of change in water flow during the period of the pilot water transfer.

Additionally, in case of a natural disaster, such as an earthquake, or poor water quality event takes place that will require the pilot water transfer to be halted, as stated previously, it has been negotiated that the majority of the costs are on a unit basis, and only the water that is moved will be paid for.

Following implementation of the pilot water transfer, BAWSCA will put together a document that will detail the efforts from start to finish and outline lessons learned to inform future decision-making.

In response to Director Cormack's questions of how will BAWSCA measure the success of the pilot water transfer, Mr. Francis stated that the ability to move water from an alternative source through the system into the BAWSCA region is a demonstration of BAWSCA member agencies' ability to address it's own water needs during a drought. That is success. But success is having knowledge. If the pilot water transfer process does not work, knowing why the pilot couldn't be executed will prove useful. Also, gaining the knowledge of what risks would be encountered if a pilot water transfer were to occur and how could those risks be mitigated will prove useful and hence gaining that knowledge is a success.

The 20% water loss estimate was based on EBMUD's 2017 water loss data of 14% in their service area. Water loss reports are required by the State under the new law associated with "Making Conservation a California Way of Life". Because of the distance the transfer water has to travel between AWA to EBMUD's service area, an additional 6% was added by EBMUD to represent the overall water loss along the wheeling route.

The payment to Hayward of up to \$ 190,000 is for staffing and electricity costs associated with their water system operation modifications, as well as for addressing water quality issues that may come up during the transfer.

In terms of water quality being a measure of success, Mr. Francis noted that EBMUD's Mokelumne River is a high-quality supply and certainly the water quality from the pilot water transfer will meet state standards. Hetch Hetchy water delivered by the SF RWS is of high quality. Whether the transfer water will be of equal quality remains to be seen, and will depend on various factors for future transfers.

In response to Director Hindi, Mr. Francis stated that if there are CEQA challenges, the consensus among the partnering agencies is to walk away from the project since CEQA challenges can be very expensive.

Director Kuta appreciated the ongoing efforts and acknowledged the risks to Hayward's facilities. He asked if there are limitations on what claims could be put forward in the insurance.

Dr. Carr stated that the insurance coverage is facility related and is focused on pipes, pumps and tanks. Expenses incurred from outreach costs due to water quality issues are included in the costs BAWSCA is paying Hayward, and are outside the insurance coverage. She added that if there are significant water quality issues that arise from the pilot water transfer, Hayward, according to the agreement with BAWSCA, has the capacity to suspend the pilot.

Mr. Francis reported that Hayward provided BAWSCA the cost maximum to set the insurance coverage. The insurance mitigates any risks to BAWSCA should there be significant damage to Hayward's facilities as a result of the transfer.

Mr. Francis reported that the pilot water transfer will be metered at the Hayward Intertie which will read 15 mgd. It will also meter at the end of Hayward's system where it connects into the regional water system so that Hayward is only billed for water they use.

Director Mendall expressed his appreciation for everyone's efforts on the pilot water transfer over the past seven years. It has been a lot more complicated than originally perceived and getting this far is a success. BAWSCA has gained institutional knowledge and now has a better sense of the complexities involved in such an endeavor.

He stated that Hayward does not view this agreement as a template or model for future long-term transfers. It was mentioned that there is a price one has to pay to meet the demand during a drought, and that is accurate. Given the way that this pilot water transfer is set up, all of the price, in terms of water quality and risks, are paid for by Hayward, and no one else.

He cautioned against assuming that the pilot water transfer, and everything it has in place, can be duplicated the next time there is a drought.

Hayward's biggest concern is with the risk to the physical infrastructure brought on by the switch from having the highest pressure in the South and lowest in the North, to having the highest pressure in the North and lowest in the South. There is a non-trivial risk to potential damage in the infrastructure which is what the insurance is for.

Peter Drekmeier, Tuolumne River Trust, provided public comments. Offering the concept of purchasing water from TID and MID, following land and paying farmers a comparable pay they would have earned from their crops. The State could pass legislation to have this happen. Perhaps BAWSCA could mobilize its legislators to pass legislation to make this happen and remove the risks of design drought.

Director Pierce made a motion, seconded by Director Cormack, that the Committee recommend the Board:

- 1. Approve the Pilot Water Transfer Project, determine that the pilot water transfer is exempt from the California Environmental Quality Act**

(CEQA) under Guidelines sections 15301(b) and 15061, and authorize the CEO/General Manager to file a notice of exemption under CEQA;

2. Authorize the CEO/General Manager to negotiate and execute the four agreements necessary to implement the Pilot Water Transfer Project; and
3. Authorize the CEO/General Manager to direct SFPUC to transfer up to \$1,200,000 from the 2009 Water Supply Agreement Balancing Account, in accordance with Section 6.05.B.2.a of the 2009 Water Supply Agreement, for water supply projects administered by BAWSCA.

The motion carried unanimously.

6. **Closed Session:** The meeting adjourned to Closed Session at 2:25pm
7. **Open Session:** The meeting re-convened to Open Session at 3:30pm. Legal Counsel, Allison Schutte, reported that no action was taken for Items A and B of the Closed Session. For Item C, directions were given to the Labor Negotiator. No action was taken.

Committee Vice-Chair convened the remainder of the meeting.

5. **Action Calendar:**

- A. **Tier 2 Drought Implementation Plan Extension:** BAWSCA's discussions with agency appointed Water Management Representatives are reflected in the staff memo. The Committee was presented with the recommendations for the Tier 2 Plan.

Director Mendall noted that the action is a formality, and moved the item.

Director Mendall made a motion, seconded by Director Cormack, that the Committee recommend the Board adopt Resolution 2019-02 adopting the Tier 2 Plan drought allocation methodology for the year January 1, 2020 through December 31, 2020.

Director Pierce commented that she is pleased that BAWSCA responded to concerns expressed by the WMRs to reach their comfort level with the current plan.

The motion carried unanimously.

- C. **Authorization to Enter into an Agreement with the Selected Contractor to Implement a Customer Water Meter Accuracy Testing Program:** Ms. Sandkulla presented the recommended action and opened the floor for Committee member questions.

In response to questions, Ms. Johnson stated that BAWSCA will select the service provider that best demonstrates efficiency and cost-effectiveness.

BAWSCA has a contract with Water Systems Optimization (WSO) for the Water Loss Management Program. They have assisted in the RFP process, but they do not specifically perform the customer meter testing.

The goal of the program is to get better data to determine apparent losses and support BAWSCA agencies in preparing annual water audits required by the State (SB 555).

Director Mendall made a motion, seconded by Director Cormack, that the Committee recommend the Board adopt authorize the CEO/General Manager to:

- 1. Negotiate and execute a contract with the selected contractor(s), subject to legal counsel review, to implement the Customer Water Meter Accuracy Testing Program; and**
- 2. Offer participation in the program to interested BAWSCA agencies on a subscription basis.**

The motion carried unanimously.

6. Reports:

- A. Water Supply Update: Ms. Sandkulla reported that potable water use continues to track closely to 2018 water use. BAWSCA will continue to monitor water use trends.

Ms. Sandkulla noted that the Regional Water System anticipates no issues with PG&E's power shutdowns. The system operates through gravity, and most importantly, the system has redundancy and emergency plans in place at all critical locations as a result of the WSIP and other efforts. BAWSCA, through the WSIP process, was very adamant about the system's ability to operate through unforeseen emergency circumstances, such as what PG&E is having to deal with.

In response to Director Kuta, Nicole stated that SFPUC power does not serve the BAWSCA service area, with the exception of the Tesla facility, because of its location.

The first draft of the Demand Study will be brought to the Board in April or May. Information on the pre-conservation results will be available in November.

- 7. Comments by Committee Members:** Appreciation for the email from Tom Francis to the member agencies regarding the potential impacts to the SFRWS from a PG&E shutdown was expressed. Such an email gives agencies comfort that BAWSCA pays attention to developments.
- 8. Adjournment:** The meeting was adjourned at 3:37 pm. The next meeting is December 11, 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	Oct. 9, 2019	Aug. 14, 2019	Jun. 12, 2019	Apr. 10, 2019	Feb. 13, 2019	Dec. 12, 2018
Stanford	Zigterman, Tom (Chair)	✓	M T G C A N C E L L E D		✓	✓	✓
Westborough	Chambers, Tom (VChair)	✓		✓	✓	✓	n/a
Palo Alto	Alison Cormack	✓		✓	✓	n/a	n/a
Foster City	Hindi, Sam	✓		✓			n/a
Cal Water	Kuta, Rob	✓		✓	✓	✓	
Sunnyvale	Larsson, Gustav	✓		✓	✓		✓
Hayward	Mendall, Al	✓		✓	✓	✓	✓
Redwood City	Pierce, Barbara	✓		✓	✓	✓	✓
Brisbane	Wood, Sepi			✓	✓	✓	n/a

✓: present

☎: Teleconference

October 9, 2019 Meeting Attendance

BAWSCA Staff:

Nicole Sandkulla CEO/General Manager
 Tom Francis Water Resources Manager
 Adrienne Carr Sr. Water Resources Specialist
 Andree Johnson Sr. Water Resources Specialist
 Christina Tang Finance Manager
 Lourdes Enriquez Assistant to the CEO/General Manager
 Allison Schutte Legal Counsel, Hanson Bridgett, LLP
 Nathan Metcalf Legal Counsel, Hanson Bridgett, LLP
 Nicole Witt Legal Counsel, Hanson Bridgett, LLP

Public Attendees:

Michelle Novotny SFPUC
 Jan Lee Hayward
 Peter Drekmeier Tuolumne River Trust
 Susan Rowinski Self
 Drew Self

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: Annual Review and Consideration of BAWSCA’s Statement of Investment Policy

Summary:

The Board’s Investment Policy states the CEO/General Manager shall annually submit a Statement of Investment Policy to the Board, which the Board will consider at a public meeting. The previous review occurred on January 17, 2019 and resulted in no changes to the policy. Quarterly investment reports are provided to the Board as required by the policy. The last investment report was provided to the Board on November 21, 2019.

BAWSCA’s Investment Policy also specifies permitted investment instruments for the bond proceeds associated with the Revenue Bonds Series 2013A and 2013B and delegates the management and oversight of BAWSCA’s investments to the CEO/General Manager. Based on a recent review of the agency’s circumstances and liquidity needs, BAWSCA believes the current permitted investment instruments are consistent with the agency’s risk tolerances and primary investment objectives. In consideration of the long-term nature of the stabilization fund, BAWSCA has determined that the current 0-5 year ladder maturity investment strategy is appropriate and continues to provide the agency opportunities to pursue higher yields and benefit from longer maturity and higher yielding investments over time.

Legal counsel confirmed that the current Investment Policy reflects language consistent with current State law. A copy of the current policy is attached. No changes to the policy, including the permitted investments for the bond proceeds, are recommended at this time.

Fiscal Impact:

No impact on BAWSCA's annual operating budget.

Recommendation:

That the Board Policy Committee recommend Board re-affirmation of the current Statement of Investment Policy.

Discussion

The primary objectives of BAWSCA’s Investment Policy are safety, liquidity, and return on investment. All BAWSCA funds are invested in accordance with the Investment Policy and the California Government Code. Legal counsel has reviewed the applicable State law and believes that BAWSCA’s current Investment Policy reflects language consistent with current State law.

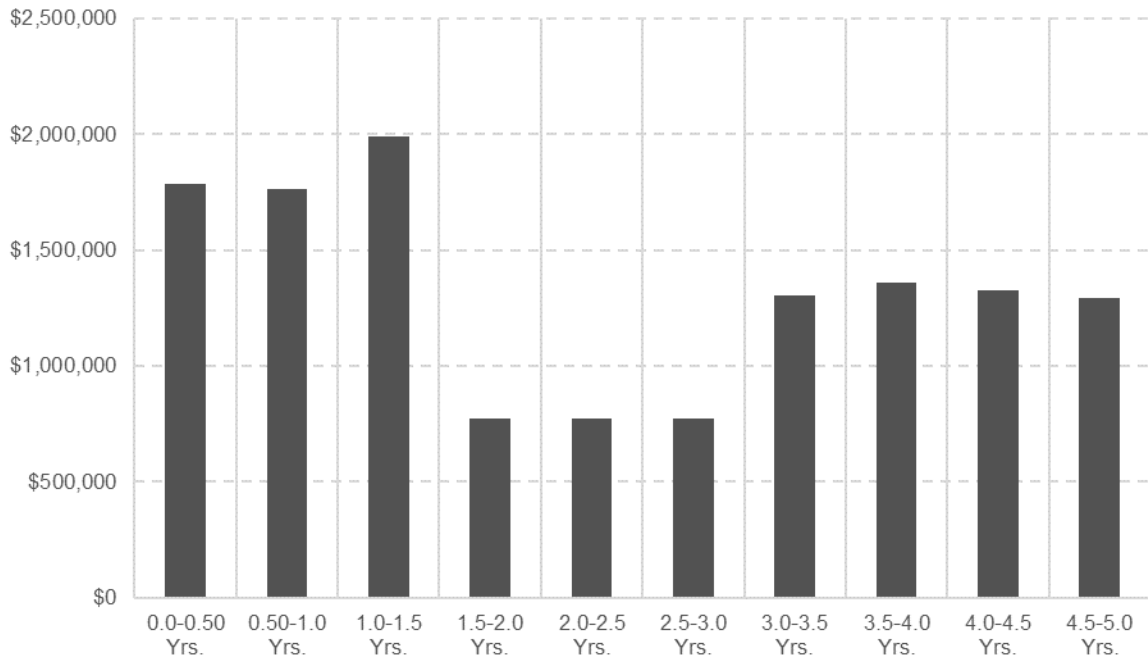
BAWSCA’s bond proceeds are invested in accordance with the Bond Indenture and the agency’s Investment Policy. The Bond Indenture specifies investments in which BAWSCA is permitted to invest bond proceeds. In November 2012, as part of the establishment of the bond structure, the BAWSCA Board amended the Investment Policy to further restrict allowable investments for bond proceeds to three specific instruments: Federal Securities, Money Market Mutual Funds, and Certificates of Deposit. As of November 30, 2019, the total balance held by the bond trustee, Bank of New York, was \$21,044,440, which includes:

(1) the bond surcharges of \$7,903,530 collected from the member agencies to pay the next semi-annual debt service payment, and (2) the stabilization fund of \$13,140,910 that is a reserve to cover the debt service payments in the event of potential shortfalls in the surcharge revenue received from the BAWSCA agencies.

BAWSCA reviews the investment strategy for the stabilization fund in connection with the agency’s circumstances and the market conditions on a regular basis. In November 2019, BAWSCA reviewed the investment strategy again, in consultation with the investment advisor, in light of recent market developments and changes to interest rate policy made by the Federal Reserve. Year-to-date, the Federal Reserve has reduced the Fed Funds rate three times by 25 basis points at each of its July, September, and October FOMC meetings to a current range of between 1.50-2 percent. At its October meeting, the Fed appears to have signaled a shift towards a more data dependent approach suggesting it may be nearer to the end of its easing cycle based upon the FOMC’s interpretation of currently available data. Against this backdrop, the yield curve has re-steepened but remains extremely flat by historical standards. Historically, the flattening/inverting of the yield curve has preceded periods of economic slowdown and often times declining future interest rates. Accordingly, BAWSCA and its investment advisor believe that the current 0-5 year laddered portfolio strategy remains appropriate as such longer-maturity strategies have historically provided greater investment returns and income while protecting against the reinvestment rate risk associated with potential declines in short term interest rates and earnings.

A summary of the current investment portfolio maturity distribution for BAWSCA’s stabilization fund is shown in Figure 1 below. No changes to the policy, including the investment strategy for the bond proceeds, are recommended at this time. The CEO/General Manager anticipates another evaluation of the agency’s circumstances and the investment strategy during next year’s investment policy review. The result of the evaluation will be reported to the Committee and the Board.

Figure 1: Stabilization Fund Investment Portfolio Maturity Distribution as of 11/30/2019



Results of Prior Evaluations of Investment Strategy with Investment Advisor's Assistance

In July 2013, BAWSCA implemented an investment strategy that assumed 70% of the necessary bond surcharge revenues are collected on time and available for scheduled debt service payments. Therefore, 30% of the necessary debt service payment must be accessible to the bond trustee through the stabilization fund to supplement bond surcharge revenues. The stabilization fund was invested by purchasing US Treasury Securities (a subset of Federal Securities as defined in the Investment Policy) with 6 month or one-year maturities coinciding with the debt service payment dates.

In September 2015, the annual on-time surcharges collection assumption was changed from 70% to 80% based on BAWSCA's experience in collecting bond surcharge revenues. BAWSCA also implemented an investment strategy that involved both a 6-month rolling and a 0-3 year laddered security structure designed to provide the agency an appropriate balance of safety, liquidity and 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 a then recent delay in surcharge deposits to the Trustee due to the SFPUC's wire transfer error and agreement misinterpretation, no changes were made to the investment strategy at that time.

In April 2018, BAWSCA re-evaluated the investment strategy and determined that a modest extension of portfolio maturity was appropriate to pursue higher yields while still satisfying the primary objectives of safety and liquidity. Following the April debt service payment, BAWSCA began to transition to a 0-5 year laddered portfolio strategy without an on-time surcharge collection assumption. It was anticipated to take about 3 years to smooth out the ladder.

In November 2018, BAWSCA evaluated the credit quality, market price risk, and liquidity characteristics of all investment instruments permitted by the Bond Indenture. As a result, BAWSCA determined that only the State of California's Local Agency Investment Fund (LAIF) and the Commercial Paper (CP) are considered available to BAWSCA as alternative options, in addition to the three specific investment vehicles allowed by the Investment Policy. Both LAIF and CP are short-term investment vehicles with a term to maturity of less than 270 days. BAWSCA's 0-5 year laddered portfolio strategy consists of US Treasury Securities maturing in 6-month intervals out to a final maturity of 5 years. Per BAWSCA's investment advisor, longer-term portfolios have historically outperformed LAIF as evidenced by the average annual returns over the preceding 20 years. Any CP that may be appropriate for the shortest maturity in BAWSCA's portfolio strategy would have supply constraints due to the Securities and Exchange Commission's 4(2) exemption. Based on the results of the evaluation, no changes in the investment strategy to include investment in LAIF or CP are anticipated at that time.

Attachment:

1. Statement of Investment Policy

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BAY AREA WATER SUPPLY & CONSERVATION AGENCY
STATEMENT OF INVESTMENT POLICY

Adopted February 19, 2004

Amended by the Board, July 15, 2010

Amended by the Board, July 21, 2011

Amended by the Board, November 15, 2012

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF INVESTMENT POLICY

1. Introduction

The investment policies and practices of the Bay Area Water Supply & Conservation Agency (BAWSCA) are based on state law and prudent money management. All funds will be invested in accordance with the Agency's Investment Policy and the California Government Code.

2. Scope

This policy applies to all funds and investment activities under the direction of the Agency, including funds held in the name of the Bay Area Water Users Association (BAWUA), a California nonprofit corporation of which the Agency is the sole member.

3. Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency.

Investments shall be made with the judgment and care which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived, and in accordance with the provisions of Government Code Section 53600 et seq.

4. Objectives

The primary objectives, in priority order, of the Agency's investment activities shall be:

A. Safety. Safety of principal is the foremost objective of the investment program. The Agency's funds shall be invested in a manner that seeks to ensure preservation of capital.

B. Liquidity. The Agency's investments will remain sufficiently liquid to enable the Agency to meet its cash flow requirements.

C. Return on Investment. The Agency's investments shall be designed with the objective of attaining a market rate of return consistent with the constraints imposed by its safety and liquidity objectives.

5. Delegation of Authority

The management and oversight responsibility for investments is hereby delegated to the CEO/General Manager who shall monitor and review all investments for consistency with this Investment Policy.

6. Investment of Funds

A. Permitted Investments and Depositories

(i) Agency funds may be deposited only in state or national banks and state or federal savings associations with offices in California that meet the requirements and conditions of the Government Code, as it may be amended from time to time.

(ii) Funds not deposited in banks or savings associations shall be invested in the Local Agency Investment Fund administered by the Treasurer of the State of California, in accordance with Government Code Section 16429.1.

B. Other Limitations

(i) The maximum amount of funds deposited with any bank or savings association shall be \$250,000; provided that if funds are each separately insured by the Federal Deposit Insurance Corporation ("FDIC"), the General Manager may maintain separate accounts for the Agency and for BAWUA (to a maximum of \$250,000 for each entity) at one bank or savings association. The temporary increase from \$100,000 to \$250,000 in the standard maximum deposit insurance amount has been permanently extended by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

(ii) Investment maturities shall be based on a review of cash flow forecasts and shall be scheduled so as to allow the Agency to meet all projected obligations. The maturity of any certificate of deposit shall not exceed 12 months.

7. Investment of Bond Proceeds

Permitted Investments and Depositories. Pursuant to Government Code section 53601(m), a local agency may invest bond proceeds "in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance of those bonds." Typically, a local agency will specify in its investment policy that the investment of bond proceeds is out of the scope of the investment policy because permitted investments are specified in the bond indenture.

Instead, BAWSCA has determined that it would like to at least temporarily use its Investment Policy to restrict the vehicles permitted for the investment of bond proceeds to more conservative investments than are permitted by the Revenue Bond Indenture, dated January 1, 2013, by and between BAWSCA and the Trustee (the "Indenture"). This gives BAWSCA the flexibility to, through amendments to future Investment Policies, gradually expand permitted investments for bond proceeds to include some or all of the investment vehicles permitted in the Indenture. As

such, notwithstanding language allowing a broader range of investment vehicles in the Indenture, bond proceeds may be invested only in the following instruments:

(i) “Federal Securities” meaning direct and general obligations of the United States of America, or those which are fully and unconditionally guaranteed as to timely payment of principal and interest by the same;

(ii) “Money Market Mutual Funds” meaning funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor’s of “AAAm-G” or “AAAm” and, if rated by Moody’s, having a rating by Moody’s of “Aaa,” including money market funds from which the Trustee or its affiliates derive a fee for investment advisory or other services to the fund or for which the Trustee or any of its affiliates serve as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee; and

(iii) “Certificates of Deposit” (including those placed by third parties pursuant to an agreement between the Agency and the Trustee), trust funds, trust accounts, overnight bank deposits, interest bearing money market accounts, time deposits, savings accounts, deposit accounts, bankers’ acceptances or money market deposits which are fully insured by the Federal Deposit Insurance Corporation, including those of the Trustee or its affiliates.

8. Reporting Requirements

The CEO/General Manager shall provide the Board a quarterly investment report, which shall include the information specified in Government Code Section 53646.

9. Annual Review of Investment Policy

The CEO/General Manager shall annually submit a Statement of Investment Policy to the Board, which the Board will consider at a public meeting.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Mid-Year 2019-20 Work Plan, Budget and General Reserve Review**

Summary:

A review of the FY 2019-20 Work Plan has been performed, with the results presented in the attached Table 1. To ensure continued access to reliable supplies of high quality water at a fair price, efforts on two items in the adopted FY 2019-20 Work Plan are recommended for adjustment. The proposed modifications delays the development of a new Tier 2 Drought Allocation Plan until further notice. This deferral is proposed based on feedback from the member agencies that further work at this time is not useful given the outstanding necessary information from the State and results of BAWSCA's Demand Study.

Separately, there has been a significant expansion of BAWSCA efforts related to ensuring that the SFPUC meets its long-term water supply obligations to the member agencies, including meeting its adopted Water Supply Level of Service Goals. While no change to the adopted Work Plan is necessary to support this critical work at this time, this expanded effort is presented as part of this mid-year review given its importance to BAWSCA's overall Work Plan.

For all other Work Plan items, expenses are tracking within the currently approved Operating Budget for FY 2019-20 of \$4,569,750.

This memorandum presents: (1) the proposed modifications to the FY 2019-20 Work Plan including the expanded effort related to water supply reliability, (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 deletion of item 4b “Develop new Tier 2 Drought Allocation Plan” in the FY 2019-20 Work Plan.

Prior Board Approved Work Plan and Budget Actions for FY 2019-20:

On May 16, 2019, the Board approved the following:

1. Proposed FY 2019-20 Work Plan and Results to be Achieved;
2. Proposed Operating Budget of \$4,569,750; and
3. Proposed funding plan of a 3% assessment increase, transfer of \$77,971 from the General Reserve, and transfer \$805,000 from the 2009 Water Supply Agreement Balancing Account.

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 5, 2019. One change to the Work Plan is proposed below. Following the Work Plan review, a budget review was performed, which confirmed that the FY 2019-20 Work Plan can be completed within the approved budget.

Proposed FY 2019-20 Work Plan Modifications and Budget Implications

Table 1 presents the Board-approved Work Plan for FY 2019-20 modified to show recommended revisions to the Work Plan. Explanations for the one recommended revision and the area of major expansion of work effort are discussed below.

1. **Scope Modification: Delay development of a new Tier 2 Drought Allocation Plan until further notice.** Work Plan item 4a. The purpose of this task was to develop a new Tier 2 Drought Allocation Plan that aligns with the “Making Conservation a Way of Life” state requirements. BAWSCA has worked closely with the Water Management Representatives to review the current Tier 2 Plan and consider alternatives at this time given that the State has not yet provided the necessary information related to the “Making Conservation a Way of Life” requirements. Given the current status of the Tier 2 Plan and the lack of information from the State, the Water Management Representatives expressed support for the delay of this work plan item until future notice and information from the State.
2. **Scope Expansion: Protect members’ water supply interests to ensure that the SFPUC meets its adopted Water Supply Level of Service Goals.** Work Plan item 4d. In Summer 2019, the SFPUC provided information to the member agencies identifying the potential significant impact to water supply reliability from the potential implementation of the adopted Bay Delta Water Quality Control Plan. Since that time, BAWSCA has significantly increased its efforts to ensure that the SFPUC is increasing its planning work to pursue new water supplies necessary to meet the SFPUC’s existing water supply obligations including the 184 mgd Supply Assurance and limiting drought reductions to no more than 20% system wide. To date, these efforts have already resulted in SFPUC increasing staff and consultant resources for this work. In addition, it is anticipated that the upcoming 10-year Capital Improvement Program, to be considered by the Commission beginning in January 2020, will include more resources to address this issue as well as a schedule for results.

Capacity to Accommodate Potential or Unanticipated Issues

As always, if potential or unanticipated issues arise during Spring 2020, 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 2019-20:

A preliminary budget review has been performed as part of this mid-year review and no budget modifications are proposed as part of this action. For all Work Plan items and Legal Counsel, expenses are tracking within the currently approved Operating Budget for FY 2019-20 of \$4,569,750.

Review and Management of General Reserve:

BAWSCA’s General Reserve Policy states the CEO/General Manager shall evaluate the General Reserve balance as part of each year’s mid-year budget review. Based on the review, if the General Reserve balance is estimated to fall outside the guidelines established by the policy, the budget shall include a prudent and practical schedule for restoring the reserve balance to within those guidelines. The attached Table 2 presents the history of BAWSCA’s assessments, operating budget, and General Reserve balance.

The current General Reserve balance of \$1,037,877 reflects the approved withdrawal and transfer of \$77,971 to BAWSCA’s Operating Fund to fund the FY 2019-20 approved budget as authorized by the Board in May 2019. This level of General Reserve represents 23% of the approved Operating Budget, which is within the current guideline on the General Reserve balance for budgetary purposes of 20% to 35% of the annual operating expense.

Based on results of the FY 2019-20 mid-year work plan and budget review, no changes to the General Reserve are requested at this time. Given that the current level of General Reserve is within the budgetary guidelines, no actions on the management of General Reserve are recommended at this time.

Attachment:

1. Table 1. Work Plan and Results to be Achieved in FY 2019-20: Progress and Proposed Changes
2. Table 2. Historical Annual Assessments and Year-End Reserves

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Table 1. FY 2019-20 Work Plan and Results to Be Achieved; Progress and Proposed Changes
(Progress Shown in Brackets and Underlined; Proposed Changes Shown in *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 to completion. Press the SFPUC and the city's political leadership to meet the adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. Work with the legislature to extend State oversight of WSIP and RFA. [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. AB 699 (Hill) signed into law in September 2019 extended State oversight of WSIP and RFA bonding authority.]
- 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; Current focus on SFPUC's update to 10-Year CIP, including BAWSCA's formal role in CIP oversight included in adopted WSA amendments.]
- c. Review and monitor SFPUC's Asset Management Program to ensure long-term protection of system assets, including performing an audit of SFPUC's asset management practices per WSA Section 3.10.c. [On track; Consultant has been hired and begun work. Audit will be complete in early Spring 2020 and will include recommendations for next steps for consideration in FY 2020-21 Work Plan.]
- d. Perform an Initial Emergency Response Review for the San Francisco Regional Water System. [On track; BAWSCA will be hosting a brainstorm workshop with the Water Management Representatives in early 2020 to identify areas of interest and possible options for consideration in FY 2020-21.]

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

- a. Complete Regional Water Demand and Conservation Projections Study. [On schedule; Study will be complete by June 2020.]
- b. Complete Potable Reuse Exploratory Plan (PREP) Phase 2 pre-feasibility study with SFPUC, Cal Water, City of Redwood City, City of San Mateo, and Silicon Valley Clean Water and plan for next phase of work. Engage with advocacy groups to access technical, legislative, and legal information to support these studies. [On track; PREP Phase 2 complete and partners developing scope for Phase 3 for consideration in FY 2020-21.]
- c. Implement Pilot Water Transfer in winter FY 2019-20. [On schedule for January 2020.]
- d. Participate in development of Bay Area Regional Reliability (BARR) Phase 2 (Water Marketing Strategy) in partnership with other Bay Area water agencies & promote implementation of BAWSCA's Pilot Water Transfer as a component of the Phase 2 work effort. [On track; BAWSCA's Pilot Water Transfer is moving forward separate from BARR given BAWSCA's current schedule, however discussions continue about other potential partnership opportunities.]
- e. Participate in CCWD's Los Vaqueros Expansion Project Studies to evaluate BAWSCA's interest and ensure key information is available to support upcoming decisions. [On track; BAWSCA continues to be an active participant in the LVE effort. A workshop was held with the Water Management Representatives in November. An updated agreement with CCWD for the next phase of work is anticipated to be presented to the BAWSCA Board for consideration by end of FY 2019-20.]

- f. Promote the continued sustainable use of San Mateo Plain Groundwater Basin for long-term water supply reliability. [Ongoing; San Mateo County is continuing its coordination with BAWSCA and the relevant BAWSCA member agencies to secure CASGEM (California Statewide Groundwater Elevation Monitoring Program) compliance for the basin.]
- g. Facilitate development of other local water supply options including monitoring/tracking member agency efforts. [Ongoing, including providing assistance to Palo Alto and Mountain View in conjunction with their recently adopted recycled water project with Valley Water.]
- h. Complete water supply reliability model scenario studies to evaluate proposed drought supply projects, potential impacts of regulatory decisions or changing conditions, and incorporate Tier 2 proposal(s) into model. [Ongoing; BAWSCA's modelling tool is being used to support LVE evaluation and negotiations. A modeling workshop was held with the Water Management Representatives on October 29th. No modeling of Tier 2 proposals will be done this fiscal year given the recommendation from the Water Management Representatives to postpone the redevelopment of the Tier 2 Plan.]

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

- a. Implement Phase 3 of BAWSCA's "Making Water Conservation a Way of Life" work plan:
 - Estimate Urban Water Use Objective for each agency through Regional Demand Study [Ongoing. Estimates will need to be refined in FY 2021-22 when additional information from the State becomes available.]
 - Expand implementation of the Regional Commercial/Industrial/Institutional (CII) Audit Subscription Program. [Ongoing. Expanded pilot program, in partnership with Moulton Nigual Water District and Metropolitan Water District, to be implemented in early 2020.]
 - Facilitate and implementation of a Regional Source Meter Testing Plan with the SFPUC. [Ongoing. Consultant review of current development SFPUC meter testing practices to be complete in early 2020.]
- b. Represent agencies in regional and State-level discussions related to water conservation-related regulations. [Ongoing]
- c. Administer, implement, and expand core water conservation programs that benefit all customers, including BAWSCA participation in a region-wide training and certification effort titled the "Qualified Water Efficient Landscaper Program" (QWEL), designed to train and certify landscapers regarding drought tolerate designs. [On schedule; two QWEL classes are scheduled for early 2020.]
- d. Administer and expand subscription conservation rebate programs that benefit, and are paid for by, participating member agencies, including an expanded Outdoor Landscaping Rebate Program with a stormwater retention feature **and** a new weather-based irrigation controller rebate and installation subscription program. [On schedule. Weather-based irrigation controller program to launch in early 2020. Outdoor Landscaping Rebate Program under development for launch in July 2020.]

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

- a. Adopt temporary extension of existing Tier 2 drought allocation plan that expires Dec. 2019. [Complete; Board action on November 21, 2019 extended expiration to Dec. 2020.]
- b. Develop new Tier 2 Drought Allocation Plan that aligns with the "Making Conservation a Way of Life" requirements. **[Proposed modification; Progress delayed until further notice, based upon feedback from the Water Management Representatives, pending further information from State and completion of Demand Study.]**

- c. Protect members' water supply and financial interests in the SFPUC's 2028 decisions and Water Mgmt. Action Plan (WaterMAP). [On going; BAWSCA working to engage San Jose and Santa Clara further.]
- d. Protect members' water supply interests to ensure that the SFPUC meets its adopted Water Supply Level of Service Goals. [Significant expansion in effort though no change in work plan required; BAWSCA actively engaged in the SFPUC's increased efforts to pursue new water supplies necessary to meet the SFPUC's existing water supply obligations in the face of Bay Delta Plan implementation and other threats.]

5. Protect Members' Interests in a Reliable Water Supply

- a. Participate in SWRCB Bay Delta Plan Update to ensure member agency interests are represented. [Ongoing; Actively engaged in State Board proceedings including monitoring settlement discussions and other SWRCB activity.]
- b. Participate in the Don Pedro Project/La Grange Project FERC licensing process, via legal intervention, to protect customers' long-term interests in Tuolumne River water supplies. [Ongoing; BAWSCA remains engaged in the FERC relicensing efforts and will comment on Draft EIS/EIR when circulated.]

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. [Ongoing. BAWSCA has submitted a Proposition 1 Integrated Regional Water Management grant application, in partnership with other Bay Area water agencies, for Regional Water Conservation projects. BAWSCA has also submitted an application to the WaterNow Alliance Initiative Project Accelerator Program that would provide financial support for the redevelopment of BAWSCA's Outdoor Landscaping Rebate Program.]
- b. Pursue, with regional partners, grant funding to support studies that aim to improve regional water supply reliability, such as possible future BARR Phase 3 effort(s). [Ongoing; BAWSCA has supported Contra Costa Water District's application for federal grant funds for the LVE project. In addition, BAWSCA has supported Silicon Valley Clean Water's application for WaterSMART Title XVI Water Recycling Grant monies that would be used to evaluate treatment technologies for the purification of municipal wastewater for non-potable and potable reuse.]
- c. Investigate potential for grant funds to support the implementation of the Strategy. [Ongoing]

7. Reporting and Tracking of Water Supply and Conservation Activities

- a. Complete BAWSCA FY 2018-19 Annual Survey. [On schedule]
- b. Complete BAWSCA FY 2018-19 Annual Water Conservation Report. [On schedule]
- c. In partnership with member agencies, operate and maintain BAWSCA's Water Conservation Database. [Ongoing]

HIGH QUALITY WATER

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

- a. Coordinate member agency participation in Joint Water Quality Committee 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 (e.g., taste, odor, blending, etc.). [Ongoing]

- c. Review and act on, if necessary, State legislation affecting water quality regulations. [Ongoing]

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. [On schedule]
- b. Administer bonds issued by BAWSCA to retire capital debt owed to San Francisco. [On schedule]

AGENCY EFFECTIVENESS

10. 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. [Ongoing; Significant communication with elected officials to support passage of SB 699 (Hill) and associated with the potential negative impact of the SWRCB's Bay Delta Plan on BAWSCA's member agencies.]
- 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. [Ongoing]
- c. Maintain effective communications with member agencies, customers, & others to achieve results and support goals. [Ongoing]
- d. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants. [Ongoing; Tour of Peninsula Watershed held in October; BAWSCA will schedule a tour of Hetch Hetchy in June for Board Members and others.]

11. Manage the Activities of the Agency Professionally and Efficiently

Table. 2 Historical Annual Assessments and Year-End Reserves

Fiscal Year	Assessments	Year-End Reserves	Operating Budget	Reserve as a % of Budget
2003-04	\$1,668,550	\$276,480	\$1,821,350	15%
2004-05	\$1,641,995	\$246,882	\$1,838,490	13%
2005-06	\$1,953,998	\$240,000	\$2,099,975	11%
2006-07	\$2,117,904	\$654,000	\$2,291,904	29%
2007-08	\$2,117,904	\$691,474	\$2,508,967	28%
2008-09	\$2,309,000	\$507,474	\$2,763,196	18%
2009-10	\$2,517,000	\$407,192	\$2,766,945	15%
2010-11	\$2,517,000	\$653,763	\$2,680,394	24%
2011-12	\$2,517,000	\$916,897	\$2,619,705	35%
2012-13	\$2,517,000	\$985,897	\$2,780,504	35%
2013-14	\$2,516,812	\$521,897	\$3,280,189	16%
2014-15	\$2,642,653	\$225,461	\$2,939,286	8%
2015-16	\$3,276,889	\$776,620	\$3,201,679	24%
2016-17	\$3,440,734	\$1,202,592	\$3,468,008	35%
2017-18	\$3,543,957	\$1,561,144	\$3,704,572	42%
2018-19	\$3,579,397	\$1,115,848	\$4,278,585	26%
2019-20	\$3,686,779	\$1,037,877*	\$4,569,750	23%

**Preliminary projection is same as the reserve balance as of November 30, 2019*

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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 6, 2019
SUBJECT: Chief Executive Officer/General Manager's Letter

Demand Study – Update:

The Regional Water Demand and Conservation Savings Projections Study (Demand Study) continues to be on schedule for completion in May 2020. On November 18th, BAWSCA and its consultant, Maddaus Water Management (MWM), hosted the first project workshop for the BAWSCA member agencies. The workshop included: 1) presentation of draft demand modeling results; 2) a summary of the contents of Technical Memorandum #2 (TM-2), which documents the pre-conservation demand projections for each BAWSCA agency; 3) an overview of an approach to select conservation measures which agencies will consider for implementation as part of the effort to manage future water demand; and 4) next steps in the study effort.

BAWSCA agencies are currently reviewing TM-2 and are asked to sign-off on their individual pre-conservation demand projections by January 8th. Following member agency sign-off, BAWSCA and MWM will move forward with the remaining phases of the work scheduled for calendar year 2020, including the conservation program analysis.

BAWSCA has initiated the formation of a Demand Study Stakeholder Workgroup. The Workgroup will provide input on the conservation analysis portion of the project, in particular, on what types of conservation measures should be considered for evaluation. BAWSCA is seeking a diverse group of stakeholders to participate in the workgroup, including environmental organizations, business groups, regional planning agencies, landscape experts, and others with specific interests or expertise that may be helpful to BAWSCA's efforts. It is anticipated that the first workgroup meeting will be held in late January.

Lawn Be Gone Program Update:

BAWSCA formed the Lawn Be Gone (LBG) Revamp Workgroup with participation from various water agencies and the City/County Association of Governments of San Mateo County (C/CAG). BAWSCA's new program is scheduled to launch by July 2020. Two meetings were held on October 28 and November 22 to discuss ways to increase participation, improve customer experience, and reduce the administrative burden on participating water agencies.

Several concepts were evaluated for accomplishing these new goals, including:

1. **Integrating the rain barrel rebate program into the lawn replacement program for a multi-pronged approach to maximize water conservation and prevent stormwater pollution.** BAWSCA is interested in further collaborating with C/CAG to further incentivize additional measures, such as incorporating rain gardens into lawn

replacements or providing revised dollar-per-gallon rebates for rainwater harvesting to support larger cistern-type systems. This stackable rebate program would allow water customers to pick and choose from several interrelated rebate options.

2. **Developing an online toolkit to assist customers during the lawn replacement process.** The toolkit would include acceptable plant lists, video tutorials, landscape designs, and other online resources to make it easier for participants to apply to multiple rebates, develop a plan for a water resilient landscape, and to educate customers on ways to use water more efficiently.

BAWSCA continues to work closely with water agencies and C/CAG to identify opportunities to expand the program. For example, BAWSCA recently submitted an application to the WaterNow Alliance Initiative Project Accelerator Program to seek funding (\$25,000) in the implementation of the new stackable rebate program.

BAWSCA will additionally release a Request for Proposals (RFP) in early January 2020 for upgrades to the LBG online platform and user support of the Water Conservation Database. Proposals will be due in late January 2020. BAWSCA anticipates that a contract with the recommended consultant will be brought to the Board for approval at its March meeting. The redeveloped LBG program will be offered to BAWSCA member agencies as a Subscription Water Conservation Program, and all BAWSCA member agencies will have the option to participate in the program to provide conservation rebates to their customers.

Board Policy Committee

Policy Calendar Through May 2020

Meeting Date	Purpose	Issue or Topic
December 2018	D&A D&A R	FY 2019-20 Mid-Year Work Plan, Budget, and General Reserve Balance Review Annual Review and Consideration of BAWSCA's Statement of Investment Policy Review of Water Supply Forecast
February 2020	D&A D&A R&D R&D R&D R	Consideration of BAWSCA Bond Surcharges for FY 2020-21 Consideration of Consultant Contract to Support Lawn Be Gone Revamp Presentation of Preliminary FY 2020-21 Work Plan and Budget Los Vaqueros Expansion Update Demand Study Update Review of Water Supply Forecast
April 2020	D&A D&A D&A R	Consideration of Proposed FY 2019-20 Work Plan and Budget Consideration of Annual Consultant Contracts Review of Agency Personnel Handbook Review of Water Supply Forecast
June 2020	R	Update on Long-Term Reliable Water Supply Strategy Implementation