



## BOARD OF DIRECTORS MEETING

Thursday, November 19, 2020

6:30 P.M.

DUE TO COVID-19, THIS MEETING WILL BE CONDUCTED AS A TELECONFERENCE PURSUANT TO THE PROVISIONS OF THE GOVERNOR'S EXECUTIVE ORDERS N-25-20 AND N-29-20, WHICH SUSPEND CERTAIN REQUIREMENTS OF THE RALPH M. BROWN ACT. MEMBERS OF THE PUBLIC MAY NOT ATTEND THIS MEETING IN PERSON.

The following members of the BAWSCA Board are listed to permit them to appear telephonically at the Board Meeting on November 19, 2020: Jay Benton, Randy Breault, Tom Chambers, Alison Cormack, Debi Davis, Laura Davis, Sam Hindi, Steve Jordan, Kirsten Keith, Rob Kuta, Gustav Larsson, Sam Liccardo, Juslyn Manalo, Lisa Matichak, Al Mendall, Chris Mickelsen, Carmen Montano, Larry Moody, Rosalie O'Mahony, Tom Piccolotti, Barbara Pierce, Dan Quigg, Lou Vella, John Weed, Sepi Wood, and Tom Zigterman.

Members of the public wanting to participate in the meeting may do so by:

Participating via Video Conference:

Click on the link to Join the meeting, <https://us02web.zoom.us/j/87511707006>

- Meeting ID: 875 1170 7006
- Password: 479426
- The web browser client will download automatically when you start or join your first Zoom meeting. It is also available for [manual download here](#).

OR,

Participating via Telephone:

- **Dial (888) 788-0099** US Toll-free, and entering **Meeting ID 875 1170 7006** and **Password 479426** when prompted.
- To Mute or UnMute, Press \*6.
- To Raise Hand, Press \*9.
- The Presentation will be available prior to the meeting at [www.bawasca.org](http://www.bawasca.org).

In the event of technical malfunction on Zoom, the meeting will be conducted via the Call-In #.

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### AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page</u>
1. Call to Order/Roll Call/Salute to Flag	(Pierce)	
2. Comments by the Chair	(Pierce)	
3. Board Policy Committee Report	(Chambers)	Pg 5
4. Public Comments <i>Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Pierce)	
5. SFPUC Report A. Sophie Maxwell, Commission President	(Maxwell)	
6. Consent Calendar A. Approve Minutes of the September 17, 2020 Meeting ( <i>Attachment</i> ) B. Receive and File Budget Status Report – As of Sept. 30, 2020 ( <i>Attachment</i> ) C. Receive and File Annual Audit Report for BAWSCA and Compilation Report for BAWUA for FY 2019-20 ( <i>Under Separate Cover</i> ) D. Receive and File Directors' Reimbursement Report – As of Sept. 30, 2020 ( <i>Attachment</i> ) E. Receive and File Bond Surcharge Collection, Account Balance and Payment Report – As of Sept. 30, 2020 ( <i>Attachment</i> ) F. Receive and File Investment Report – As of Sept. 30, 2020 ( <i>Attachment</i> ) G. Adopt Resolution 2020-03 Approving Tier 2 Drought Allocation Plan Extension( <i>Attachment</i> ) <i>The Committee voted unanimously to recommend approval of the proposed Board action.</i>	(Pierce)	Pg 19 Pg 23 Pg 25 Pg 27 Pg 29 Pg 33 Pg 35
7. Action Calendar A. Annual Review of BAWSCA's Statement of Investment Policy and Consideration of Proposed Modification to Add New Permitted Investment Vehicles ( <i>Attachment</i> ) <i>The Committee voted unanimously to recommend approval of the proposed Board action.</i>	(Tang)	Pg 41

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|---|----------------------|--------------|
| <b>8. Reports</b>   | <b>(Sandkulla)</b>   |              |
| A. CalPERS Pension Plan Fund Status Update ( <i>Attachment</i> )  |                      | <i>Pg 55</i> |
| B. OPEB/CERBT Fund Status Update ( <i>Attachment</i> )  |                      | <i>Pg 59</i> |
| C. Water Supply Update  |                      |              |
| D. FERC/Bay Delta Plan Update   |                      |              |
| E. CEO/General Manager's Letter ( <i>Attachment</i> )   |                      | <i>Pg 61</i> |
| F. Board of Directors Policy Calendar ( <i>Attachment</i> )   |                      | <i>Pg 65</i> |
| G. Correspondence Packet ( <a href="#">Under Separate Cover</a> )   |                      |              |
| <br><b>9. Closed Session</b>  | <br><b>(Schutte)</b> |              |
| <b>A. Conference with Legal Counsel – Existing Litigation pursuant to</b><br>Paragraph (1) of subdivision (d) of Government Code Section 54956.9<br>Federal Energy Regulatory Commission Final License Application<br>Proceedings for Don Pedro Hydroelectric Project, P-2299-082, and La<br>Grange Hydroelectric Project, P-14581-002. |                      |              |
| <b>B. Conference with Legal Counsel – Existing Litigation pursuant to</b><br>Paragraph (1) of subdivision (d) of Government Code Section 54956.9<br>State Water Board Cases (Sacramento County Superior Court Case<br>No. 5013).  |                      |              |
| <br><b>10. Report from Closed Session</b>   | <br><b>(Schutte)</b> |              |
| <b>11. Directors' Discussion: Comments, Questions and Agenda Requests</b>   | <b>(Pierce)</b>      |              |
| <b>12. Date, Time and Location of Future Meetings</b><br>(See attached schedule of meetings)  | <b>(Pierce)</b>      | <i>Pg 67</i> |
| <b>13. Adjourn to next meeting scheduled for January 21, 2021 at 6:30pm</b>   | <b>(Pierce)</b>      |              |

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# **BAWSCA**

**Bay Area Water Supply & Conservation Agency**

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## **MEMORANDUM**

TO: BAWSCA Board Members

FROM: Nicole Sandkulla, Chief Executive Officer/General Manager

DATE: November 13, 2020

SUBJECT: Summary of Board Policy Committee meeting held October 14, 2020

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1. **Call to Order:** Committee Chair, Tom Chambers, called the meeting to order at 1:30 pm. A list of Committee members who were present (9), absent (0) and other attendees is attached.

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

2. **Comments by Committee Chair:** Committee Chair Chambers welcomed members of the Committee and reviewed the general procedures for conducting the meeting virtually. He reminded the Committee that all actions by the committee will be done by roll call vote.
3. **Public Comments:** Peter Drekmeier spoke on recent reports published by the Pacific Institute on the state's per capita demand reductions and demand projections. He stated that the Pacific Institute's report indicates the region's efficient use of water and successful conservation efforts. He also commented on a recently released study by a consultant for the National Marine Fishery Service that critiqued the fishery models used by MID and TID for the FERC proceedings. He noted that there are opportunities for the region to restore the environment without threatening water supply.

4. **Consent Calendar:** Approval of Minutes from the August 12, 2020 meeting.

**Director Wood made a motion, seconded by Director Larsson, that the minutes of the June August 12, 2020 Board Policy Committee meeting be approved.**

**The motion carried unanimously by roll call vote.**

5. **Action Calendar:**

- A. **Tier 2 Drought Implementation Plan Extension:** CEO/General Manager, Nicole Sandkulla, reminded the Committee that drought shortage allocations on the San Francisco Regional Water System (SFRWS) are governed by two plans. The first is the Tier 1 Plan, which allocates water between the SFPUC retail customers and the wholesale customers collectively.

The second is the Tier 2 Plan, which allocates water among the wholesale customers. As required by the 2009 WSA, the Tier 2 Plan was adopted by the governing bodies of each BAWSCA member agency in the winter/spring of 2011.

Both plans apply during system-wide shortages on the SFRWS of 20% or less. Shortages above 20% requires a process in which the wholesale customers meet and confer with San Francisco on modifications to the allocation plans that may be necessary.

The SFPUC, in accordance with the WSA Section 3.11.c.3, will honor Tier 2 Plan allocations among the Wholesale Customers provided by BAWSCA or unanimously agreed to by the wholesale customers.

Ms. Sandkulla explained that the decision as to how the supply is allocated among the wholesale customers is strictly made by the agencies. The SFPUC is not a party to that decision. In the event that the wholesale customers do not unanimously adopt a plan, the BAWSCA Board can provide direction to the SFPUC. This is a specific role that is called out for the BAWSCA Board in the WSA.

In the 2009 WSA, the Tier 2 Plan term originally expired in December 31, 2018, consistent with the timing of SFPUC's anticipated 2018 decision related to the contractual status of San Jose and Santa Clara. Ms. Sandkulla reminded the Committee that in the most recent WSA amendment, SFPUC's 2018 decision was extended to 2028.

The WSA enables the BAWSCA Board to extend the Tier 2 plan by adopting the existing plan with a revised end date. The Board approved a 1-year extension in May 2018 to extend the plan until December 31, 2019, and took another action in November 2019 to extend the plan through December 31, 2020.

In 2019, BAWSCA held three workshops with the Water Management Representatives (WMR), a group comprised of representatives appointed by their respective BAWSCA member agency, to review the need to update the Tier 2 Plan or to extend the existing plan. The workshops reviewed the current plan's history and policy principles, analyzed the projected allocations to each member agencies for past and future drought scenarios, and evaluated potential modifications to the present plan and associated potential allocations.

As a result of the workshops, the WMR came to a consensus that the Tier 2 Plan continues to meet the policy principles upon which the plan is based, and that the policy principles remain appropriate. They supported an annual review of the Tier 2 Plan to evaluate its continued effectiveness, which supports a yearly review of the Plan as opposed to a multi-year. Furthermore, the WMR were interested in additional information on the process for water transfers between agencies in preparing for potential Tier 2 Plan implementation. This interest was reflective of the water transfer that was completed in 2017 between East Palo Alto and Mountain View, and the subsequent transfer between Palo Alto and East Palo Alto in 2018, which the agencies saw valuable in the consideration of developing a new plan.

The WMR supported a one-year extension of the existing Plan and BAWSCA did commit to an annual review of the Plan with the WMR. BAWSCA presented the results of the 2019 workshops to the Board and the BPC, and in November 2019, the Board adopted the second extension of the existing plan that expires on December 31, 2020.

The WMR reviewed the existing Tier 2 Plan at its October 2020 meeting and agreed that it continues to meet the policy principles upon which the plan is based, the policy principles remain appropriate, and a one-year extension is beneficial and appropriate. The WMR expect that the appropriate time to consider updating the Tier 2 Plan would be once the State guidance on water efficiency targets is provided.

Ms. Sandkulla reported that it is anticipated that the draft State guidance will become available in fall 2021, and the final guidance in summer 2022. This timeline builds the anticipated schedule for when BAWSCA and the member agencies can expect to begin work on updating the Tier 2 Plan.

The WMR are not opposed to a one-year extension of the existing Tier 2 Plan now and the possibility of another extension in the subsequent fiscal year based on the State's schedule for releasing its water efficiency targets.

BAWSCA's recommendation is to adopt Resolution 2020-03 which extends the Tier 2 Plan drought allocation methodology for calendar year January 1, 2021 through December 31, 2021.

In response to Director Mendall, Ms. Sandkulla explained that the Board may legally be able to make an extension for more than 1-year, but noted that the WMRs appreciate an annual action by the Board because it affirms and allows the review of the Tier 2 Plan at both the staff and policy level.

Director Jordan asked what happens if there is no unanimity among the agencies and if the existing Tier 2 Plan is not extended.

Ms. Sandkulla explained that the requirement for a unanimous agreement among all member agencies is for when a new Tier 2 Plan is being adopted or if the extension of the existing Plan is being considered by each member agency separately. At this time, action by the BAWSCA Board is sufficient to extend the existing Tier 2 Plan by one-year.

Legal Counsel, Allison Schutte, further explained that the WSA required that the first Tier 2 Plan be unanimously approved by each member agency. However, there are processes included in the WSA that provides options in case unanimity among the member agencies does not happen. One is the ability for the BAWSCA Board to develop a method and transmit it to the SFPUC for implementation. Another is for the SFPUC to unilaterally develop its own method for implementation in the absence of the member agencies' unanimous vote, or direction from the BAWSCA Board.

Ms. Schutte noted that after the 2009 negotiation of the WSA, the member agencies, for the 2<sup>nd</sup> time in history, did come to an agreement on how to allocate water during system-wide shortages, and approved the existing Tier 2 Plan in 2011. That plan, however, expired in December 31, 2018 and needs to be re-evaluated by the member agencies. Until the agencies are ready to update it and instead of each member agencies independently considering the extension of the Tier 2 Plan every year, BAWSCA is exercising the option for the Board to approve the one-year extension with the member agencies' consent via the annual review and workshops held with the WMR. This method allows the BAWSCA Board to provide direction to SFPUC, which would otherwise make a unilateral decision in the absence of the member agencies' unanimous vote.

Director Chambers called upon each Committee member to allow them to state their comments and ask their questions.

Director Zigterman prefers a multi-year renewal, but understands the annual approach. He asked what prevents BAWSCA and the members agencies from updating the Tier 2 Plan sooner.

Ms. Sandkulla explained that as an outcome from the most recent drought, the State passed legislation, Making Water Conservation a California Way of Life, which requires the State to develop water efficiency targets for normal year use and indications about drought applications. That information is critical to understanding where and what the State expectations are for efficient water use and droughts, and will be helpful to BAWSCA and the member agencies in developing a robust Tier 2 Plan that is consistent with the State's objectives.

While the State is not expected to have draft objectives until fall 2021, BAWSCA hopes to get more information during the development process. Additionally, member agencies will have completed their Urban Water Management Plans by June 2021, and will have demands and anticipated water supply management plans that can provide a good basis of information to begin Tier 2 negotiation. This effort will be in the workplan for FY 2021-22, and most definitely in the FY 2022-23 work plan.

Director Wood was interested in seeing the policy principles in which the Tier 2 Plan was based on, and what, if any, changes to the principles would impact the Plan.

Ms. Sandkulla stated that the policy principles require that drought allocations provide sufficient supply for all member agencies, conservation is not penalized, it serves as a basis for planning, and agencies' other sources are not reallocated.

Ms. Sandkulla noted that the reallocation of other supplies was an issue of conflict with the State during the last drought, and could be an area of focus in the process of developing an updated Tier 2 Plan. Historically, drought allocations are blind to the alternative supplies of agencies that have multiple sources, but the State did not do that during the recent drought. How the member agencies will work as a group with the State on this issue will require working together and will require significant engagement.

Mr. Francis added that the goal of the policy principles is to establish a fair allocation of the supply. The principles were revisited with the WMR and were confirmed as acceptable and appropriate for this extension and, possibly, for when work on updating the existing Tier 2 Plan begins.

If one of the policy requirements is not met, Director Wood asked if that would cause for the WMR's re-evaluation of the Tier 2 Plan.

Ms. Sandkulla explained that the expectation is that the individual member agency would act independently on the new Tier 2 plan that is developed by the WMR as a whole. BAWSCA will rely upon the member agencies to review the policy principles and identify where modifications are needed in updating the Tier 2 Plan. One of the objectives is making sure that the principles are in line with the State expectations and guidelines.



Ms. Sandkulla offered to include the policy principles in the staff memo to the Board for the November meeting. Additionally, as we move through the process of updating the Tier 2 Plan, BAWSCA will provide the Board regular updates on the progress.

Director Pierce agrees with the recommended action and supports staff with the work that can be done while waiting for the State's information.

Director Mendall agrees with Director Zigterman's preference on a multi-year renewal, but understands the annual process. He noted that for now it is an administrative, non-controversial item that remains the same as what has been done in the last 2 years. It will be in 2022 when potential changes are applied that thoughtful considerations by the Board is necessary.

Director Larsson had no further comments on the item.

Director Kuta asked how solid the State's target date is for the draft release, and will BAWSCA be in the position to have the budget for this task when the time comes.

Mr. Francis stated that the date of fall 2021 for the draft guideline is the first specific date released by the State. There is a lot of pressure from other state agencies besides BAWSCA for the information. With potential delays from the State, Mr. Francis anticipates the information by end of 2021 at the latest.

Ms. Sandkulla stated that the FY 2021-22 workplan and operating budget that will be proposed to the Board will include the anticipated staff and legal efforts for this item.

Director Jordan requested clarification that the Tier 2 Plan allocation ignores the alternate sources of agencies with multiple sources. Ms. Sandkulla confirmed.

Director Cormack supports the recommendation. She asked what the timeframe is for the 7-step allocation process if Tier 2 was to be implemented.

Ms. Sandkulla explained that the calculation is done routinely at the end of every fiscal year based on the data received from member agencies.

There were no comments from the public.

**With no further discussion, Director Mendall made a motion, seconded by Director Larsson, that the Committee recommend the Board to adopt Resolution 2020-03 adopting the Tier 2 Plan allocation methodology for the year January 1, 2021 through December 31, 2021.**

**The motion passed by roll call vote, 8:1.**

- B. Annual Review of BAWSCA's Statement of Investment Policy and Consideration of Proposed Modification to Add New permitted Investment Vehicles: BAWSCA Finance Manager, Christina Tang, noted the error on the recommended action printed on the agenda and stated that the staff memo provides the correct recommendation. She reported that as a result of the annual review of the Investment Policy, staff is proposing the addition of new permitted investment vehicles for the Board's consideration.

The primary objectives of BAWSCA's investment policy are safety, liquidity and yield. The policy was last reviewed by the Board in January 2020, and there were no changes made. Both agency funds and bond funds are invested in accordance with the policy. Ms. Tang noted that, in general, and agency's investment policies govern operating funds, not bond funds. Since BAWSCA includes the bond proceeds rules in its investment policy, the discussions on the rules for agency funds and the rules for the bond funds are separated in the memo. Legal counsel confirmed that the Investment Policy reflects language consistent with current State Law.

Based on the recent review of the agency's primary investment objectives and all investment instruments permitted by the bond indenture, BAWSCA recommends modifying the policy to include US Agency Securities as permitted investment vehicles for the bond proceeds, in addition to the investments currently allowed by the policy.

The current policy specifies three permitted investments for the bond proceeds associated with the Series 2013A and 2013B bonds. They include Money Market Mutual Funds, Certificates of Deposit, and Federal Securities. Ms. Tang explained that although the bond indenture allows for more investment vehicles, BAWSCA chose a limited group of investments in 2013 with the intention of providing the agency the flexibility to consider some or all of the vehicles included in the indenture and gradually expand permitted investments for bond proceeds through policy amendments.

The recent review of all investment vehicles permitted by the indenture determined that US Agency Securities are consistent with the primary objectives of the Investment Policy and the agency's risk tolerance. Additionally, it could potentially increase the portfolio's yield. Under the current market conditions, US Agency Securities provide yield premiums of between 5 and 15 basis points versus comparable Treasury Securities.

Ms. Tang presented the overview of the current investment strategy for the stabilization fund. She noted that while it is not part of the investment policy, it has been evaluated annually during the review of the investment policy.

In response to the COVID-19 pandemic, interest rates across the yield curve declined significantly, reflecting both federal reserve actions and expectations for slowing global growth and recession. Under these circumstances, BAWSCA's long-term strategy is performing well with previously purchased securities now providing fixed yields that are well above currently available interest rates. For example, the Treasury Securities maturing in 2023 were purchased 2 years ago and are currently earning a yield at almost 3%. If the same securities were purchased today, the market yield would only be 0.1%.

As of October 1, 2020, the total amount of bond funds held by the Trustee, Bank of New York, is \$17,664,849. This total is made up of \$4.0M in bond surcharges collected from member agencies to fund the semi-annual debt service payments, and \$13.7M in the stabilization fund, which is a reserve to cover debt service payments in the event of shortfalls in the surcharge collection.

Based on recent evaluation, it was determined that the current 0-5 year ladder portfolio investment strategy remains appropriate in light of the current circumstances. Ms. Tang presented a chart that illustrates the structure for the stabilization fund as of October 5, 2020. The 0-5 year ladder portfolio consist of investments in Treasury Securities maturing in 6-

month intervals out to 5 years. This strategy was implemented in 2018, and is expected to complete re-balancing the ladder in about 6 months. BAWSCA and its investment advisors believe that longer-maturity strategies have historically provided greater investment returns over time and protect the agency against reinvestment rate risks.

The action before the Committee is to recommend Board approval of the proposed modification to the current Statement of Investment Policy by including US Agency Securities as permitted investment vehicles for the bond proceeds.

Director Chambers called upon each Committee member for their comments and their questions.

Director Zigterman noted that flexibility is key given the current circumstances. What the future holds is unknown. He asked if there are any risks associated with this expansion.

Ms. Tang reported that US Agency Securities have low risks in comparison to the no-risk Federal Securities currently allowed in the Investment Policy. However, based on the evaluation, the associated credit risks on US Agency Securities are fairly low and are within the agency's risk tolerance.

Director Wood acknowledged the risks and agreed that it is low. She expressed her support for the recommendation.

Director Pierce appreciates the annual review and consideration of various vehicles. The US Agency Securities have been considered before, and it is the change in the economic conditions that is moving the decision to include them moving forward. She expressed her support for the recommendation.

Director Mendall appreciates the continuing improvement to BAWSCA's investment strategy. He believed it is a good modification and expressed his support for the recommendation.

Director Larsson echoed Director Pierce's comments and appreciates the opportunities to improve BAWSCA's investment strategy as the market changes, while meeting the agency parameters. He stated his support for the recommendation.

Director Kuta asked how will the allocation of funds in this vehicle be determined.

Ms. Tang explained that the Board's decision to include US Agency Securities in the Investment Policy allows BAWSCA to consider, based on market conditions, its use in future re-balancing opportunities. BAWSCA will work with its investment advisor in evaluating interest rate earnings, credit quality and incremental yield in comparison with the Federal Securities.

Ms. Sandkulla added that re-evaluation will take place in April following the bi-annual bond principal payment done in the months of April and October of every year. This would be an action that the BAWSCA CEO/General Manager will make in coordination with BAWSCA's investment advisor. Any action will be reported to the Board in the next quarterly bond surcharge collection report.

Director Jordan asked if the definition of US Agency Securities is limited to the four (4) vehicles provided in the resolution?

Ms. Tang confirmed that the use of US Agency Securities will be limited to the four (4) identified vehicles which were selected because they are well-protected senior agency securities that were identified as appropriate and within BAWSCA's risk tolerance. Ms. Tang added that BAWSCA only considers Treasury Securities with credit ratings of AA+ by Standard and Poor's and Aaa by Moody's. The same level of consideration will be applied to US Agency Securities. Additionally, Ms. Tang explained that BAWSCA will not sell current securities, and will only re-invest the ones that mature to re-balance the current portfolio.

Director Jordan asked whether BAWSCA has or should have a cap on what percentage of the portfolio is downgraded from Treasury to Agency.

Ms. Sandkulla responded that there is no cap written into the current policy.

Director Jordan commented that, to his understanding, this modification would allow for the potential conversion of investments that mature, as long as there's a premium greater than a given threshold, to US Agency Securities. For prudent measures, he inquired if BAWSCA should consider limiting the amount of funds flipped in any given time from treasury to agency, to avoid 100% allocation of funds in agency securities.

Ms. Tang commented that while the Investment Policy does not have a cap, BAWSCA's primary investment objectives are safety and liquidity. BAWSCA will not invest in funds solely for the yield. And with the addition of US Agency Securities, investments will continue to be made in accordance with the policy.

Director Cormack agreed with Director Jordan's suggestion to have a guideline or ranges for what can potentially be in each security. The current economic conditions caution against investing in the housing market. She would be interested in what staff knows about what happened to these securities in the aftermath of the prior recession in 2008, 2009, and 2010.

Ms. Sandkulla explained that unlike Treasury Securities, US Agency Securities are not 100% backed by the government. But in the economic downfall in 2008-2010, the Federal Government did step up and backed up Fannie Mae and Freddie Mac. The risk with US Agency Securities is that there is no 100% guarantee, but there is an indication and the continued expectation that the Federal Government will continue to do what they did in last economic recession.

Director Cormack noted the importance of knowing the risks the agency is taking given the historically unusual economic environment. She also pointed out that Standard and Poor's and Moody's did not cover themselves with glory during the last recession in terms of their ratings. While she does not see the need to increase investment yields, she is willing to support the recommendation to the Board. She will look forward to the investment report in terms of what re-balancing takes place after April, and stated that having some guidelines on the amount of investments in each security is beneficial.

Director Jordan commented that he believes Fannie Mae and Freddie Mac were placed into conservatorship, and that preferred stock were issued to relieve debt holders. He trusts that the investment advisors would have looked into this, but his concern stems from not knowing what to expect, therefore, having some cap could be something the Board can appreciate. He suggested looking at a cap or guideline between now and the Board meeting in November may be valuable.

Director Mendall appreciated the concerns expressed by Directors Jordan and Cormack. He pointed out that even if 100% of the funds that mature in six months are rolled over into US Agency Securities, the total funds would only be 20% invested in US Agency Securities. The Committee could try to set a cap between now and the next Board meeting or wait until the next review of the policy. Looking at the various categories, he would personally allow 100% investment in US Treasuries, CD's and Money Markets. It is really only the US Agency Securities that would require a non-100% cap. However, they are effectively capped at 20% for the next year if the staff recommendation is passed. He suggested that the recommendation can include the desire to come back to the Committee at its next policy review with an official number for a cap. He didn't believe it is necessary to set a limit on how much can be rolled over each year into a particular category because it is the total amount that matters.

Director Chambers added that the investment report should differentiate between Treasury Securities and US Agency Securities to see what the investment advisor recommended and what was done.

Director Wood expressed her concerns with the current housing market conditions, and stated that Director Jordan and Cormack brings up good points of caution. She encouraged staff and the Committee to revisit establishing a guideline for future Board consideration.

Director Zigterman suggested that perhaps members of the Board, after reading the Board Policy Summary report that reflects the Committee's substantial discussion, can provide their further input on this matter for further consideration and discussion before a decision is made in spring 2021.

With no public comments or further discussion, Chair Chambers called for a motion.

**Director Mendall made a motion on the recommendation, with one added direction to staff to consider capping the US Agency Securities to 40% of the total funds that could be invested in the US Agency Securities. Director Jordan seconded the motion.**

Director Jordan stated that something to give guidance to staff is worthwhile.

Ms. Tang clarified that the direction to cap 40% of the total funds that could be invested in US agency Securities would apply to the stabilization funds or the reserve funds only. The bond surcharges collected each month are for the debt service payments and are invested in the Money Market Fund.

Director Jordan asked if the 40% cap provides the portfolio enough flexibility because it takes a couple of years before 40% of the funds is achieved.

Director Cormack inquired if the maker and seconder of the motion would be amenable to keeping the amount open for staff to make the recommendation.

Directors Mendall and Jordan proposed "a number less than 50%" to provide staff some guideline. Director Cormack agreed.

**Director Mendall accepted the friendly amendment to his motion to approve the Board Policy Committee's recommendation for the Board to approve the**

**proposed modification to the current Statement of Investment Policy by including US Agency Securities as permitted investment vehicles for the bond proceeds, with the addition to direct staff to provide a number less than 50% as a recommended cap for the US Agency Securities.**

**Director Jordan seconded the friendly amendment to the motion.**

**The motion passed unanimously with a roll call vote.**

Ms. Sandkulla thanked the Committee for the discussion. BAWSCA staff will work with the investment advisor on the recommendation to the Board for consideration at the November Board meeting, as well as information on the experienced risks during the 2008-2010 recession.

**5. Reports:**

- A. Water Supply Conditions: Ms. Sandkulla reported that current water use data have yet to be published from the State. The BPC meeting dates are typically right on the edge for the release of the data. She hopes to provide data for October at the November Board meeting.
- B. Bay Delta Plan and FERC Update: Negotiations for a voluntary agreement on the Tuolumne River continues under the direction of Governor Newsom who is providing critical leadership in keeping the State Secretaries of Natural Resources and EPA engaged. BAWSCA is maintaining coordination with the SFPUC and other agencies but is not directly involved in the negotiations. BAWSCA and its member agencies continue to support the Bay Delta Plan objectives and remain committed to working with stakeholders to protect water quality in the Bay Delta for humans, fish and other wildlife. BAWSCA will continue to remain focused on a voluntary agreement and continues to support it as the best solution to resolve this critical issue.

The Federal Energy Regulatory Commission released the Final Environmental Impact Statement (FEIS) for New Don Pedro on July 7<sup>th</sup> 2020, which licenses the projects as proposed by the Districts with some staff modifications and additional measures. BAWSCA is working with the SFPUC in its review and analysis of the document. BAWSCA is particularly looking at the economic and environmental impacts to the BAWSCA service area, and the responses to BAWSCA's comments as well as comments submitted by the SFPUC and non-governmental organizations. Modesto Irrigation District and Turlock Irrigation District have just recently submitted their comments to FERC on the FEIS. BAWSCA's submittal of further comments is yet to be determined.

- C. BAWSCA Internship Program Update: Ms. Sandkulla reminded the Committee that in response to the Board's interest, part of the work plan development for FY 2020-21 was inclusion of an internship program. The goal of developing such a program was to provide an opportunity for underserved college students who are pursuing a technical or business degree that relate to BAWSCA's efforts to gain experience by working with BAWSCA. Unfortunately, as part of budget and cost control measures during the pandemic, that was removed from the workplan.

Since then, Board members continue to express interest in the program, and specifically, Direct Moody facilitated a connection between BAWSCA and East Side College Preparatory School in East Palo Alto.

Ms. Sandkulla has had several meetings with school Principal, Chris Bischoff, in exploring feasible opportunities for BAWSCA.

East Side Preparatory is a private 6-year institution from middle school to high school for students who will be the first in their families to go to college. It is a true college preparatory school that is funded by donations with all students on full scholarships.

There were 255 students in 2019. 80% of the students are from East Palo Alto and Menlo Park. The remainder of the student body are from other areas in the Bay Area.

The focus of the school is to prepare students from low-income families to attend and succeed in college. 99% of Eastside graduates are accepted in 4-year colleges, and 80% of Eastside's graduates are earning or hold a bachelors degree.

Their success rate is attributed, in part, to the Eastside Alumni Services Team that provides extensive support throughout the student's college career. College coaches maintain a strong connection with alumni and provide academic support and as well as support for how to navigate through the college processes. Career coaches help students in exploring career paths and in gaining professional experience through internships. These services are provided to Eastside alumni for free as part of the school's alumni support program.

Eastside is interested in partnering with BAWSCA on an internship program as part of their alumni support program.

One of the challenges BAWSCA has with internships is identifying the right intern. Eastside will identify candidates from a pool of alumni based on BAWSCA's job description, will assist BAWSCA in the selection of candidates to interview, and provide support for the intern before and during and after the internship.

BAWSCA's estimated cost for a program with Eastside would be \$8K which would pay for the intern salary for an 8-week period. 100% of that cost goes to the intern.

This approach provides a substantial cost reduction in comparison to working with a 3<sup>rd</sup> party for the administrative tasks that Eastside would provide as part of their alumni support program.

The internship would be a summer internship that could begin in May 2021. Given the schedule, Eastside would like to know by January 2021 if the partnership is feasible for BAWSCA, and would therefore become part of BAWSCA's budget of the current FY 2020-21.

While cost of the internship falls within the CEO/General Manager's spending authority, Ms. Sandkulla wanted a full and complete discussion by the Committee and the Board in November about the opportunity as it is an important issue that Board members have expressed interest in. She looks forward to the Committee's feedback and its interest in bringing this forward to the Board as part of the mid-year budget review for FY 2020-21 in January.

Ms. Sandkulla concluded her reports and welcomed comments and questions.

Public comments were provided by Peter Drekmeier on the Bay Delta Plan. He appreciated the opportunity to speak to the Board last fall and thanked Chair Pierce for enabling that. He encouraged conversation on facts, benefits and a solution, not just on water supply for the area, but the environment.

The Committee was supportive of the internship program, with Directors Wood, Larsson, Jordan, Cormack, Zigterman, and Mendall commenting in favor of the partnership opportunity between Eastside and BAWSCA.

Director Cormack asked if BAWSCA, as a public agency, can create a job specifically for a specific group, or is there a public process that applies and must be complied with.

Ms. Schutte will confirm the process with Hanson Bridgett's Labor and Employment Specialist, who has previously analyzed the approach and was comfortable with the program as written. This can be clarified and will provide further information to the Board as necessary.

Director Mendall encouraged staff to expand and improve the program to include other areas in the future.

**10. Closed Session:** The Committee adjourned to Closed Session at 2:56pm.

**11. Reconvene to Open Session:** The Committee reconvened from Closed Session at 3:29 pm. Ms. Schutte reported that no action was taken during Closed Session.

**12. Comments by Committee Members:** Director Jordan stated his interest in hearing from agencies within the BAWSCA Service are on how they address shared capital expenses between Fire Agencies and Water Districts.

Director Wood expressed support for Director Keith who is running for a seat in the San Mateo Harbor District.

**13. Adjournment:** The meeting was adjourned at 3:33 pm. The next meeting is December 9, 2020.



# Bay Area Water Supply and Conservation Agency

## Board Policy Committee Meeting Attendance Roster

Agency	Director	Oct. 14, 2020	Aug. 12, 2020	Jun. 10, 2020	Apr. 8, 2020	Feb. 12, 2020	Dec. 11, 2019
Westborough	Chambers, Tom (Chair)	✓	✓	✓	✓	✓	✓
Palo Alto	Cormack, Alison (V Chair)	✓	✓	✓	✓	✓	✓
Purissima	Jordan, Steve	✓	✓	✓	✓	✓	n/a
Cal Water	Kuta, Rob	✓	✓	✓	✓	✓	✓
Sunnyvale	Larsson, Gustav	✓	✓	✓	✓	✓	✓
Hayward	Mendall, Al	✓	✓	✓	✓	✓	✓
Redwood City	Pierce, Barbara	✓	✓	✓	✓	✓	✓
Brisbane	Wood, Sepi	✓	✓	✓	✓	✓	✓
Stanford	Zigterman, Tom	✓	✓	✓	✓	✓	✓

✓: present

☎: Teleconference

### Oct. 14, 2020 Meeting Attendance (Via Zoom in compliance with Gov. Order #29-20 due to COVID-19)

#### BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Tom Francis	Water Resources Manager
Danielle McPherson	Sr., Water Resources Engineer
Kyle Ramey	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
Bud Wendell	Strategic Communications

#### Public Attendees:

Leonard Ash	ACWD
Paul Sethy	ACWD
Karla Daily	Palo Alto
Alison Kastama	SFPUC
Peter Drekmeier	Tuolumne River Trust
Gordon Thubb	Self

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY  
BOARD OF DIRECTORS MEETING****September 17, 2020 – 6:30 p.m.**

DUE TO COVID-19, THIS MEETING WAS CONDUCTED AS A TELECONFERENCE PURSUANT TO THE PROVISIONS OF THE GOVERNOR'S EXECUTIVE ORDERS N-25-20 AND N-29-20, WHICH SUSPEND CERTAIN REQUIREMENTS OF THE RALPH M. BROWN ACT. MEMBERS OF THE BOARD, BAWSCA STAFF, AND OF THE PUBLIC COULD NOT ATTEND THIS MEETING IN PERSON.

<b>MINUTES</b>
----------------

**1. Call to Order/Pledge of Allegiance/Roll Call – 6:30 pm**

BAWSCA Chair, Barbara Pierce, called the meeting to order and led the salute to the flag. Nicole Sandkulla called the roll. Nineteen (19) members of the Board were present at roll call. A list of Directors present (22) and absent (4) is attached.

**2. Comments by the Chair:**

Chair Pierce was pleased to see that members of the Board are continuing to stay safe and healthy during such challenging times.

She noted that the action items on the agenda include policy decisions that have direct implications for BAWSCA to achieve its goal of ensuring a reliable supply of high quality water at a fair price for its member agencies and the customers they serve.

Additionally, BAWSCA strongly supported the SFPUC's inclusion of an Alternative Water Supply Planning effort in its 10-year CIP that was adopted by the Commission in spring 2020. She has asked Mr. Ritchie, SFPUC Assistant General Manager of Water Enterprise, to provide an update on the effort's progress, as it is critical work to the SFPUC's ability to meet its water supply reliability obligations to the BAWSCA member agencies.

**3. Board Policy Committee Report:**

Committee Chair Chambers reported the Committee's discussions on the establishment of a policy on the use of the Balancing Account, the pre-payment of an existing asset balance with the SFPUC as an appropriate use of funds from the Balancing Account, and staff recommendation on BAWSCA's participation in the LVE project. The Board Policy Summary Report included in the agenda packet reflects the Committee's discussions and recommendations to the Board.

**4. Public Comments:**

There were no public comments.

**5. SFPUC Report:**

SFPUC Assistant General Manager Steve Ritchie reported on the SFPUC's Alternative Water Supply Planning efforts. Prior to his report, he introduced Alison Kastama as the new

BAWSCA Liaison, and provided an update on the nominations for the 2 seats on the Commission that would be left vacant by Francesca Vietor and Ann Moller Caen.

**6. Consent Calendar:**

**Director Quigg made a motion, seconded by Director Vella, to approve the Consent Calendar, which includes the approval of Minutes of the July 16, 2020 meeting, the receipt and filing of the Pre-Audit Budget Status Report, the Investment Report for period ending June 30, 2020, and the Bond Surcharge Collection, Account Balance and Payment Report for Fiscal Year ending June 30, 2020.**

**The motion carried unanimously by roll call vote.**

**7. Action Calendar:**

**A. Establishing a Policy Relating to Water Supply Agreement Balancing Account**

**Director Mendall made a motion, seconded by Director Cormack, to approve Resolution No. 2020-02 establishing a Balancing Account policy.**

**The motion passed unanimously by roll call vote.**

**B. Proposed Use of Balancing Account to Prepay the Remaining Unpaid Existing Asset Balance (WSA Section 5.03C) as of September 30, 2020**

**Director Keith made a motion, seconded by Director Moody, to approve the proposed use of Balancing Account to prepay the remaining unpaid existing asset balance under WSA Section 5.03.C as of September 30, 2020.**

**The motion passed unanimously by roll call vote.**

**C. Los Vaqueros Reservoir Expansion Project – Multi-Party Agreement Amendment #2**

**Director Wood made a motion, seconded by Director Mendall, that the Board of Directors:**

- **not enter into Amendment #2 to the Multi-Party Cost Share Agreement for LVE Planning,**
- **strongly urge the SFPUC to remain engaged in LVE as a means to increase water supply reliability and implement its Alternative Water Supply Initiative, which is an update to its 2016 WaterMAP effort, and**
- **support BAWSCA's continued participation in the development of LVE, to the extent possible, despite no longer being a LAP.**

**The motion passed by roll call vote with one abstention.**

**8. Closed Session #1:** The meeting adjourned to Closed Session #1 at 8:05 pm.

**9. Report After Closed Session:** Closed Session #1 ended at 8:25 pm. Legal Counsel, Allison Schutte, reported that no action was taken during Closed Session.

**10. Reports:** Ms. Sandkulla provided an update on the Bay Delta Plan and FERC relicensing process, and current water use conditions.

**11. Closed Session #2:** The meeting adjourned to Closed Session #2 at 8:30pm.

**12. Report after Closed Session:** Closed Session #2 ended at 8:57pm. Legal Counsel, Allison Schutte, reported that there is no need for Items #13 and #14. The meeting can move on to Item #15.

**15. Action Item Following Closed Session:**

A. Consider Compensation Adjustment for CEO/General Manager for FY 202-21

**Director Wood made a motion, seconded by Director Keith, that the Board of Directors approve the Seventh Amendment to the Employment Agreement with the CEO/General Manager.**

**The motion passed unanimously by roll call vote.**

**16. Directors' Discussion: Comments, Questions and Agenda Requests:** Director Weed encouraged BAWSCA to investigate becoming a sub-contractor to the State Water Project for the purpose of meeting water supply needs that is more flexible. There are three contractors that BAWSCA can work with and they include ACWD, Valley Water and Zone 7.

Director Vella requested the CEO/General Manager's consideration of having a report to the Board from a Water Management Representative on the monthly meetings held with the appointed representatives from each member agencies. This is particularly important as the Water Management Representatives are the agency staff members who are affected and work with the BAWSCA CEO to administer the policy decisions the BAWSCA Board makes.

Director Moody recommended that there may be of value for the Board to hear from Rick Callendar, new General Manager of Valley Water, on their efforts with diversity and inclusion in the industry as well as the various aspects of water services they offer.

Director Jordan supported the suggestion of working with Valley Water, particularly if BAWSCA being a subcontractor is feasible. It could potentially offer possibilities for addressing drought shortages that the Board can consider.

**17. Date, Time and Location of Next Meeting:** The next meeting is scheduled on November 19, 2020 at 6:30 pm. Meeting format will be announced in accordance to State and local health guidelines.

**18. Adjournment:** The meeting adjourned at 9:07 pm.

Respectfully submitted,

Nicole M. Sandkulla  
Chief Executive Officer/General Manager

NMS/le  
Attachments: 1) Attendance Roster

# Bay Area Water Supply and Conservation Agency

## Board of Directors Meeting Attendance Roster

Director	Agency	Sept. 17, 2020	July 16, 2020	May 21, 2020	Mar. 19, 2020	Jan. 16, 2020	Nov. 21, 2019
Benton, Jay	Hillsborough	✓	✓	✓	Meeting Cancelled due to COVID-19 Shelter-in-Place Order	✓	✓
Breault, Randy	Guadalupe	✓	✓	✓			✓
Chambers, Tom	Westborough	✓	✓	✓		✓	✓
Cormack, Alison	Palo Alto	✓	✓	✓		✓	✓
Davis, Debi	Santa Clara	✓	✓	✓		✓	
Davis, Laura	San Bruno		✓	✓		vacant	✓*
Hindi, Sam	Foster City	✓	✓	✓		✓	✓
Jordan, Steve	Purissima	✓	✓	✓		✓	✓
Keith, Kirsten	Menlo Park	✓	✓	✓		✓	✓
Kuta, Rob	Cal Water	✓	✓	✓		✓	✓
Larsson, Gustav	Sunnyvale	✓	✓	✓		✓	✓
Liccardo, Sam	San Jose						
Manalo, Juslyn	Daly City	✓	✓	✓			✓
Matichak, Lisa	Mountain View	✓	✓	✓		✓	✓
Mendall, Al	Hayward	✓	✓	✓		✓	
Mickelsen, Chris	Coastside	✓	✓	✓		✓	✓
Montano, Carmen	Milpitas		✓	✓			✓
Moody, Larry	East Palo Alto	✓	✓			✓	✓
O'Mahony, Rosalie	Burlingame	✓	✓	✓		✓	✓
Piccolotti, Tom	North Coast		✓				✓
Pierce, Barbara	Redwood City	✓	✓	✓		✓	✓
Quigg, Dan	Millbrae	✓	✓	✓		✓	✓
Vella, Lou	Mid-Peninsula	✓	✓	✓		✓	✓
Weed, John	ACWD	✓	✓	✓		✓	✓
Wood, Sepi	Brisbane	✓	✓	✓		✓	✓
Zigterman, Tom	Stanford	✓	✓	✓			✓

✓ : Present

\* : Predecessor


**Bay Area Water Supply & Conservation Agency**

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

**TO: Nicole Sandkulla, CEO/General Manager**

**FROM: Deborah Grimes, Office Manager**

**DATE: October 29, 2020**

**SUBJECT: Budget Status Report as of September 30, 2020**

This memorandum shows fiscal year budget status for FY 2020-21. It includes major areas of spending, provides an assessment of the overall budget, and summarizes reserve fund balances. This report covers the budget and expenses for BAWSCA. The BAWSCA budget includes necessary resources for the RFA and BAWUA.

**Operating Budget Summary:**

For the three-month period ending September 30, 2020, 25 percent into the fiscal year, total expenditures were \$983,847 or 24 percent of the total budget of \$4,020,679.

**Table 1. Operating Budget Summary as of September 30, 2020**

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
<b>Consultants /Direct Expenditures</b>			
Reliability	1,114,850	229,202	21%
Fair Pricing	239,500	125,130	52%
Administration	100,000	51,985	52%
<b>Subtotal</b>	<b>1,454,350</b>	<b>406,317</b>	<b>28%</b>
<b>Administration and General</b>			
Salary & Benefits	2,075,354	493,754	24%
<b>Other Expenses</b>			
BAWSCA	427,400	83,776	20%
BAWUA	1,050	0	0%
<b>Subtotal</b>	<b>3,958,154</b>	<b>983,847</b>	<b>25%</b>
<b>Capital Expenses</b>	3,000	0	0%
<b>Budgeted Contingency</b>	57,500	0	0%
<b>Regional Financing Authority</b>	2,025	0	0%
<b>Grand Total</b>	<b>4,020,679</b>	<b>983,847</b>	<b>24%</b>

**Overview:**

Overall expenditures for FY 2020-21 are tracking within budget.

**Consultants**

The \$115,000 budget for technical review and tracking of the SFPUC's Water System Improvement Program was 26 percent expended. The Operating Budget allocation of \$150,000 for strategic counsel was 27 percent expended. The Operating Budget allocation of \$606,500 budget for legal counsel was 46 percent expended. The \$232,100 budget for water management and conservation-related activities was 7 percent expended. Over the next two months, the CEO will be closely reviewing consultant expenses, including legal counsel, as part of the mid-year budget review and will present her findings and potential Work Plan and Operating Budget modifications.

**Administration and Other Expenses**

Budgets for salaries and other expenses were 24 percent and 20 percent expended respectively.

**Use of CEO's Discretionary Spending Authority:**

No use of CEO discretionary spending authority occurred during this period.

**Use of Reserve and Reserve Fund Balance:**

Unspent funds at the end of FY 2019-20 were \$435,266. The BAWSCA reserve balance as of September 30, 2020, shown below, does not yet reflect this deposit. Once the audited financial report has been accepted by the Board of Directors, the unspent balance from FY 2019-20 will be transferred to the General Reserve.

In accordance with the adoption of the FY 2020-21 annual budget in May 2020, the Board approved transferring \$333,900 from the General Reserve to fund the FY 2020-21 budget. This transfer will occur once the audited financial report has been accepted by the Board of Directors as well. After the two transfers have been executed, the BAWSCA General Reserve balance will be \$1,139,243, 28% of the adopted FY 2020-21 Operating Budget.

**Table 2. General Reserve Fund Balance**

<b>Fund</b>	<b>Account Balance (As of 06/30/20)</b>	<b>Account Balance (As of 09/30/20)</b>
General Reserve	\$1,037,877	\$1,037,877



**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

**Agenda Title:**                **Receive and File Annual Audit Report for BAWSCA and  
Compilation Report for BAWUA for FY 2019-20**

**Summary:**

An independent auditor report for BAWSCA and a compilation report for Bay Area Water Users Association (BAWUA) have been completed for the year ending June 30, 2020. An audit of BAWSCA accounts is required by Division 31, Section 81426 of the Water Code. The compilation of BAWUA accounts is prepared in accordance with its bylaws, Article 8, Section 8.2. The reports are enclosed, under separate cover, for your review. A financial audit of the Regional Finance Authority is not required at this time.

**Fiscal Impact:**

None

**Board Policy Committee Action:**

None. The reports became available on November 5th for staff review, allowing their inclusion in the BAWSCA board meeting agenda.

**Recommendation:**

**That the Board receive and file the independent auditor's report for BAWSCA and the compilation report for BAWUA for the year ending June 30, 2020.**

**Discussion:**

BAWSCA's and BAWUA's financial statements have been audited and compiled by the independent auditing firm of Chavan & Associates, LLP. The goal of an independent audit is to provide reasonable assurance that the financial statements are free from material misstatement.

Based on their review of the financial statements, the auditors have concluded that the financial statements are in conformance with generally accepted accounting principles, and fairly present, in all material respects, the financial position of both BAWSCA and BAWUA and the changes in financial position and cash flow for FY 2019-20.

As demonstrated by the statements, schedules and notes included in the auditor's reports, BAWSCA and BAWUA are meeting the requirements for sound financial management.

Enclosed under separate cover:

1. BAWSCA FY 2019-20 Audit Report
2. BAWUA FY 2019-20 Compilation Report

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**Bay Area Water Supply & Conservation Agency**

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

**MEMORANDUM**

**TO:** Nicole Sandkulla, CEO/General Manager

**FROM:** Deborah Grimes, Office Manager

**DATE:** October 29, 2020

**SUBJECT:** Directors' Reimbursement Quarterly Report for the Period Ending  
September 30, 2020

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In March 2006, the board adopted a directors' expense reimbursement policy consistent with the Government Code that requires a quarterly report on the Agency's reimbursement of directors' expenses. This report shall show the amount of expenses reimbursed to each director during the preceding three months.

There were no director expenses reimbursed for the quarter ending September 30, 2020.

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**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: Nicole Sandkulla, CEO/General Manager**

**FROM: Christina Tang, Finance Manager**

**DATE: October 30, 2020**

**SUBJECT: Bond Surcharge Collection, Account Balance and Payment Report  
 as of September 30, 2020**

BAWSCA's Revenue Bond Series 2013A and Series 2013B (Taxable) were issued to prepay the remaining capital cost recovery payments that the BAWSCA agencies owed San Francisco as of June 30, 2013, when the payments were paid off. The bond transaction and the prepayment program were anticipated to generate approximately \$62.3 million in net present value savings over the term of the bonds, or about 17% of the \$356.1 million in principal prepaid from bond proceeds to San Francisco at the end of February 2013.

**Bond Surcharge Collections**

BAWSCA collects the bond surcharge from member agencies through the SFPUC as a separate item on SFPUC's monthly water bills to agencies. The bond surcharge payments are used to make debt service payments on BAWSCA's revenue bonds.

The surcharges billed for the months of July and August in 2020 have all been collected and most of the funds have been remitted to BAWSCA's trustee account. Payments of surcharges billed for September 2020 are still being received. Table 1 below presents a summary of financial transactions related to BAWSCA's Bond Series 2013A and 2013B for the three months.

Table 1: Summary of Surcharges Remitted to Trustee for Quarter Ending 9/30/2020

<u>Month</u>	<u>Amount Billed</u>	<u>Amount Remitted to Trustee</u>	<u>Difference</u>
July 2020	\$2,057,093	\$2,057,093	\$0
August 2020	\$2,057,093	\$1,802,686	\$254,407
September 2020	\$2,057,093	\$939,479	\$1,117,614
<b>Total</b>	<b>\$6,171,279</b>	<b>\$4,799,258</b>	<b>\$1,372,021</b>

**Bond Surcharge Account Balances**

All surcharge payments are deposited with the Bank of New York, the Trustee, which manages BAWSCA's accounts and administers debt service payments. BAWSCA's account balances at the Trustee and the account activities in the past quarter are shown in Table 2 below.

Table 2: Bank of New York Bond Trustee Account Activity for Fiscal Year Ending 9/30/2020

	<b>30,258,664</b>	<b><i>Account Market Value as of 6/30/2020</i></b>
<i>plus:</i>	6,166,567	<i>Surcharge Collected in July 2020 through September 2020</i>
<i>plus:</i>	113,271	<i>Security Coupons/Accrued Interest Received</i>
<i>plus:</i>	2,156	<i>Money Market Fund Interest Received</i>
<i>minus:</i>	1,775,257	<i>Market Value of Matured Bonds</i>
<i>plus:</i>	1,770,000	<i>Par Amount of Matured Bonds</i>
<i>plus:</i>	(34,544)	<i>Change in Market Value of Held Treasury Bonds</i>
<i>plus:</i>	<u>(24,122)</u>	<u><i>Reimbursement to BAWSCA for bond administration expenses</i></u>
	<b>36,476,735</b>	<b><i>Account Market Value as of 9/30/2020</i></b>

There are two ways interest is earned by BAWSCA on the collected surcharge payments and balances held in the stabilization funds. First, interest is automatically earned on the account balance in the Bank of New York Bond Trustee money market account. Second, BAWSCA has the ability to invest the collected surcharge payments by purchasing U.S. Treasury securities, possibly earning a higher rate of return than the money market account.

Based upon an evaluation of the available yields, it was determined that BAWSCA would realize a moderate earnings benefit by purchasing U.S. Treasury securities instead of staying invested in the money market account. Following further evaluation, BAWSCA determined that a strategy that involved both a rolling and a ladder security structure provided the Agency with the most appropriate balance of safety, liquidity, and yield. Consequently, this investment strategy was implemented in October 2015. With the Investment Advisor's assistance, BAWSCA re-evaluated the investment strategy in April 2018 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 2018 debt service payment, BAWSCA began the transition to a 0-5 year ladder portfolio strategy and expects the process to be completed by May 2021. Recently BAWSCA reviewed the strategy again, in light of recent market developments and changes to interest rate policy made by the Federal Reserve. BAWSCA and its investment advisor believe that the current 0-5 year ladder 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.

Just prior to security maturities on September 30, 2020, the book yield and market yield on BAWSCA's revised portfolio strategy was 1.85% and 0.31% respectively, as compared to the yield of 0.01% for the money market fund. On October 2, 2020, BAWSCA continued implementation of the 0-5 year ladder portfolio strategy and purchased 5-year Treasury securities at a yield of 0.29% in addition to 1.5-year Treasury securities at a yield of 0.14%.

All investment interest earnings are deposited directly in the Trustee account, and will be used to pay for future expenses and debt service of the bonds. Ultimately, all interest earnings are returned to the member agencies through annual savings and through distribution of the Stabilization Fund, including interest, once the bonds are fully paid.

**Revenue Bond Series 2013A and Series 2013B Debt Service Payment Status**

The recent debt service payment of \$18,811,887 was made on October 1, 2020. It was paid using the bond surcharges collected from the agencies, consistent with the bond indenture. The next debt service payment of \$5,637,028 will be made on April 1, 2021. There are sufficient funds in the Trustee account to make the payment. Debt service payments are made on April 1st and October 1st of each year until 2034.

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**Bay Area Water Supply & Conservation Agency**

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

**MEMORANDUM**

**TO:** Nicole Sandkulla, CEO/General Manager

**FROM:** Deborah Grimes, Office Manager

**DATE:** October 29, 2020

**SUBJECT:** Investment Report – As of September 30, 2020

---

In February 2004, the Board originally adopted an investment policy consistent with the Government Code that requires a report on the Agency's investments be provided to the Board. This report presents fund management in compliance with the current investment policy. The Board most recently reviewed and re-affirmed the investment policy at the January 16, 2020 board meeting. No changes were recommended or adopted as part of that review.

Funds in excess of \$250,000 are deposited in the BAWSCA Local Agency Investment Fund (LAIF) account throughout the year to ensure compliance with BAWSCA's investment policy.

BAWSCA's prior and current period LAIF account balances are shown below:

<u>06/30/20</u>	<u>09/30/20</u>
\$2,517,393	\$2,527,441

Of the total in the BAWSCA LAIF account as of September 30, 2020, \$1,037,877 represents BAWSCA's General Reserve Fund, equivalent to approximately 26 percent of FY 2020-21 Operating Budget. The remaining amount consists of Subscription Conservation Program funds and unrestricted funds.

Recent historical quarterly interest rates for LAIF deposits are shown below:

<u>06/30/20</u>	<u>09/30/20</u>
1.47%	.84%

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

**Agenda Title:**           **Adoption of Resolution 2020-03 Approving Tier 2 Drought Allocation Plan Extension**

**Summary:**

The Tier 2 Drought Implementation Plan ('Tier 2 Plan' or 'Plan') allocates the collective Wholesale Customer share of the water made available by the San Francisco Public Utilities Commission (SFPUC) during shortages caused by drought among individual Wholesale Customers.

The Tier 2 Plan was first adopted by each Wholesale Customer in the winter/spring of 2011 pursuant to Section 3.11.C of the July 2009 Water Supply Agreement between the City and County of San Francisco and the Wholesale Customers (WSA). That Tier 2 Plan, which initially expired on December 31, 2018, was extended through December 31, 2019 by the Board's adoption of Resolution 2018-01 and was further extended through December 31, 2020 by the Board's adoption of Resolution 2019-02.

In light of continued uncertainties surrounding new statewide water use efficiency requirements, it is recommended that the Board extend the present Tier 2 Plan for one more calendar year to December 31, 2021.

**Board Policy Committee Action:**

The Committee voted 8:1 by roll call vote to recommend approval of the proposed Board action.

**Recommendation:**

That the Board adopt Resolution 2020-03 which keeps the present Tier 2 Plan drought allocation methodology in place for the upcoming year from January 1, 2021 through December 31, 2021.

**Discussion:**

The Tier 2 Plan describes the method for allocating the water made available by the SFPUC among the Wholesale Customers during shortages caused by drought.

The Tier 2 Plan was adopted by each Wholesale Customer pursuant to Section 3.11.C of the WSA in the winter/spring of 2011. The Tier 2 Plan, which initially expired on December 31, 2018, was extended through December 31, 2019 through action by the BAWSCA Board in 2018 and was further extended through December 31, 2020 by the BAWSCA Board in 2019.

In 2018, legislation was passed to implement the new statewide water use efficiency requirements, which may substantially impact the normal year and drought year water use within the BAWSCA Member Agencies' service areas. The State, through the Department of Water Resources (DWR), has indicated that it will release draft water use efficiency requirements in October of 2021 and receive comments thru the spring of 2022, such that final requirements would be released in June of 2022. Until the impacts of implementation of these requirements in each Member Agency's service area is clear, it is not recommended that BAWSCA or the Member Agencies develop a new Tier 2 methodology.

The WSA provides that the SFPUC will honor allocations of water among the Wholesale Customers provided by BAWSCA, or unanimously agreed to by all Wholesale Customers. Legal Counsel has determined that the Board may rely on the water allocations included in the present Tier 2 Plan and provide those to the SFPUC in accordance with Section 3.11.C.3 of the WSA.

**Tier 2 Plan Policy Principles**

During the original development of the Tier 2 Plan, BAWSCA member agencies agreed upon the following six policy principles. Specifically, the Tier 2 Plan shall:

1. Provide certainty of drought allocations with consistent and predetermined rules for calculation;
2. Provide sufficient amounts of water for basic needs of customers;
3. Create an incentive for water conservation at all times and the development and management of alternative water supplies;
4. Avoid preventable, adverse economic impacts;
5. Avoid reallocation of water supply assets and investments among agencies without mutual consent and compensation; and
6. Recognize inherent differences in land use and climate.

**Proposal to Extend the Present Tier 2 Plan for One Year**

Given that the WSA has a provision that gives the BAWSCA Board the authority to set an allocation method, BAWSCA staff proposes that the Board authorize the SFPUC to follow the present Tier 2 Plan method for an additional year, thereby effectively extending the term of the Tier 2 Plan such that it expires on December 31, 2021.

This extension provides BAWSCA and the Wholesale Customers with the opportunity to review new state requirements when the draft is released in the fall of 2021, as additional information becomes available, and to interpret how best to apply those new requirements into an updated Tier 2 Plan.

**Feedback from Water Management Representatives**

Beginning in July 2019, BAWSCA's CEO held three workshops with Water Management Representatives (WMR) a group comprised of representatives appointed by their respective BAWSCA member agencies, to discuss the potential development of an updated Tier 2 Plan. The workshops covered the following topics:

1. Review of the present Tier 2 Plan, including plan history and policy principles.
2. Analysis of projected allocations to each BAWSCA Member Agency for a variety of past and future drought scenarios using the present Plan.
3. Analysis of potential modifications to the present Plan and associated potential allocations to each BAWSCA Member Agency.

The WMR provided the following feedback to the CEO:

1. Overall, the present Tier 2 Plan continues to meet the policy principles upon which the Plan is based, and these policy principles are still appropriate.
2. Future changes to the Tier 2 Plan may be appropriate, in particular as additional information becomes available on the long-term water use efficiency targets.

3. An annual review of the Tier 2 Plan to evaluate its continued effectiveness would be beneficial.
4. Additional information on the process for water transfers between BAWSCA Member Agencies would be helpful in preparing for potential Tier 2 Plan implementation.

In accordance with WMR feedback provided in 2019, BAWSCA provided an annual review of the Tier 2 Plan at the October 1, 2020 WMR meeting. The WMR did not object to keeping the existing Tier 2 Plan in place until the State issues final water use efficiency requirements, anticipated in June of 2022. As a meeting follow-up, the WMR requested additional information regarding the analysis that was performed and presented at the meeting. BAWSCA has since provided that information.

Given that the final water use efficiency targets will not be released until June 2022, BAWSCA intends to provide an update to the WMR by Fall 2021, similar to the one given in October 2020, and will include a review the existing Tier 2 Plan and, if made available from DWR, draft water use efficiency requirements. Feedback provided to the CEO would then be shared with the BAWSCA Board prior to consideration of any future extensions to the Tier 2 Plan.

**Background:**

The WSA with San Francisco includes a Tier 1 Plan, which divides the available water supply between San Francisco retail customers and the collective Wholesale Customers during a drought. The WSA also provides that the SFPUC will honor allocation of water among the Wholesale Customers provided by BAWSCA, or unanimously agreed to by the Wholesale Customers. In 2011, the Wholesale Customers adopted the original Tier 2 Plan, which takes that collective Wholesale Customer allocation and further divides it among each Wholesale Customer. The Tier 2 Plan details the methodology used to divide the available supply during a drought. That methodology used in the original Tier 2 Plan has not been modified to date.

The Tier 2 Plan applies when the SFPUC determines that a system-wide water shortage of 20 percent or less exists, as set forth in a declaration of water shortage emergency adopted by the SFPUC pursuant to California Water Code Sections 350 *et seq.* The Tier 2 Plan applies only to water acquired and distributed by the SFPUC to the Wholesale Customers and has no effect on water obtained by a Wholesale Customer from any source other than the SFPUC.

The Tier 2 Plan initially established December 31, 2018 as the Plan's expiration date to allow for the consideration of matters such as the inclusion of the cities of San Jose and Santa Clara as permanent customers, and to allow for the development of a new Tier 2 Plan. In May 2019, the Tier 2 Plan was extended by the Board's adoption of Resolution 2018-01 to provide formal drought allocations to the SFPUC through December 31, 2019. In November 2019, the Tier 2 Plan was extended by the Board's adoption of Resolution 2019-02 to continue to provide formal drought allocations to the SFPUC through December 31, 2020.

During the most recent drought, the SFPUC did not declare a water shortage emergency and the Tier 1 and Tier 2 Plans were not implemented. Rather, the State Water Resources Control Board (SWRCB) imposed water use reductions based on separate criteria unrelated to the drought allocation plans for the Regional Water System.

**Existing Tier 2 Plan Methodology**

The Tier 2 Plan's methodology consists of a stepwise process that is followed to determine each Wholesale Customer's allocation. More specifically, a seven-step allocation process is followed

which takes into account factors such as: volume of water purchased by each agency in most recent non-drought year(s); seasonal demand fluctuations; Individual Supply Guarantee (ISG) allocations; minimum and maximum cutback levels; and the public health and safety needs of East Palo Alto.

The estimation process is iterative, in that if after one “round” of calculations, one or more agencies has a proposed cutback of less than 10% of their normal supply or if a proposed cutback for a particular agency is quite severe, adjustments are made to the calculation procedure and a revised estimate is developed.

The above discussion is brief in that it does not go into the complexity and nuances of the estimation process. The estimate takes time to perform and a firm understanding of Member Agency water use specifics.

#### **BAWSCA’s Role in the Tier 2 Plan**

The Tier 1 Plan identifies BAWSCA as the party to perform the Tier 2 Plan calculations. The Tier 1 Plan requires SFPUC to allocate water to each Wholesale Customer in accordance with BAWSCA’s calculations. By adopting the WSA and the Tier 2 Plan, each Wholesale Customer thereby authorized BAWSCA to perform the allocation calculations. BAWSCA interacts with both the SFPUC and the Wholesale Customers to obtain needed input data.

BAWSCA’s role in developing the existing Tier 2 Plan was as follows:

- Assist agencies in agreeing on a formula that could be accepted unanimously;
- Providing the structure for the discussion and analyses to support decision making;
- Encouraging decisions regarding the adoption of a proposed method based on fact, analyses, and practicality; and
- Supporting agencies in the adoption process.

When a new Tier 2 Plan is proposed, if the allocation method incorporated into the Plan is not unanimously adopted by the BAWSCA Member Agencies, the WSA provides that the BAWSCA Board has the authority to set an allocation method. If the BAWSCA Board does not set an allocation method, the SFPUC retains final authority to allocate water to its wholesale customers during a drought.

#### **Complicating Factors**

In 2016, Governor Brown issued Executive Order B-37-16 which included several directives related to “Making Water Conservation a California Way of Life”. These directives included the implementation of new, long-term water use efficiency targets for urban water suppliers in California. This requirement, when implemented, could have long-term impacts on the BAWSCA Member Agencies’ water use patterns and ability to further reduce water use during times of shortage. Legislation to adopt these new requirements is in development by DWR and is scheduled to be finalized in 2022. Given the potential impacts of these requirements, BAWSCA staff is recommending the revisions to the Tier 2 Plan be postponed until the requirements have been finalized so their impacts on water use can be fully understood.

#### **Attachments:**

1. Draft Resolution 2020-03 Approving the Extension of the Tier 2 Drought Implementation Plan

**RESOLUTION NO. 2020 – 03  
BY THE BOARD OF DIRECTORS OF THE  
BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**APPROVING THE EXTENSION OF  
THE TIER 2 DROUGHT IMPLEMENTATION PLAN**

**WHEREAS**, the Bay Area Water Supply and Conservation Agency ("BAWSCA") is organized and established pursuant to the Bay Area Water Supply and Conservation Agency Act, Water Code section 81300, et seq. (the "Act"); and

**WHEREAS**, the July 2009 Water Supply Agreement between the City and County of San Francisco and the Wholesale Customers in Alameda County, San Mateo County and Santa Clara County (WSA) sets forth the terms for ensuring the Wholesale Customers receive a reliable supply of high quality water at a fair price; and

**WHEREAS**, section 3.11(C)(1) of the WSA established the Water Shortage Allocation Plan (Tier 1 Shortage Plan) to allocate water from the Regional Water System between Retail and Wholesale Customers during system-wide shortages of 20% or less; and

**WHEREAS**, pursuant to section 3.11(C)(2) of the WSA and section 5.5 of the Tier 1 Shortage Plan, the Tier 1 Shortage Plan will remain in effect for the term of the WSA; and

**WHEREAS**, subsequent to the Tier 1 Shortage Plan, the Wholesale Customers adopted the Tier 2 Drought Implementation Plan (Tier 2 Plan), to document the method of allocating, among the Wholesale Customers, the collective Wholesale Customer share of the water made available by the San Francisco Public Utilities Commission (SFPUC); and

**WHEREAS**, the Tier 2 Plan was adopted in the Winter and Spring of 2011 by the governing bodies of each Wholesale Customer; and

**WHEREAS**, the current Tier 2 Plan established December 31, 2018 as an interim expiration deadline in order to allow for the consideration of matters such as the inclusion of the cities of San Jose and Santa Clara as permanent customers and to allow for the development of a new Tier 2 Plan; and

**WHEREAS**, in 2015, the State Water Resources Control Board implemented water conservation targets for each BAWSCA member agency that effectively negated the implementation of the Tier 2 Plan during the most recent drought; and

**WHEREAS**, in May 2018, the BAWSCA Board of Directors adopted Resolution 2018-01 extending the Tier 2 Plan for one year until December 31, 2019; and

**WHEREAS**, in 2018, the California Legislature adopted Senate Bill 606 and Assembly Bill 1668 which established a process for developing and implementing long-term water use efficiency targets for urban water suppliers; and

**WHEREAS**, in November 2019, the BAWSCA Board of Directors adopted Resolution 2019-02 extending the Tier 2 Plan for one year until December 31, 2020; and

**WHEREAS**, the BAWSCA member agencies have determined that an extension of the allocation method in the current Tier 2 Plan is appropriate at this time so that BAWSCA and the Wholesale Customers have adequate time to consider the new state water use efficiency requirements in developing a new Tier 2 Plan and to complete consideration of the inclusion of additional permanent customers; and

**WHEREAS**, section 3.11(C)(3) of the WSA provides that the SFPUC will honor allocations of water among the Wholesale Customers provided by BAWSCA or if unanimously agreed to by all Wholesale Customers; and

**WHEREAS**, pursuant to section 3.11(C)(3) of the WSA, BAWSCA is authorized to provide the SFPUC with the allocations set forth in the Tier 2 Plan; and

**WHEREAS**, the BAWSCA Board of Directors desires to continue to rely on the allocation methodology set forth in the Tier 2 Plan for one year, thereby effectively extending the Tier 2 Plan for one year until December 31, 2021.

**BE IT RESOLVED**, that the Board of Directors of the Bay Area Water Supply and Conservation Agency will rely on the methodology provided in the Tier 2 Drought Implementation Plan for one additional year, through December 31, 2021, and requests the CEO/General Manager to transmit the methodology to the San Francisco Public Utilities Commission for drought planning purposes.

**PASSED AND ADOPTED** this \_\_\_\_ day of \_\_\_\_\_, 2020, by the following vote:

AYES:

NOES:

ABSENT:

\_\_\_\_\_  
Chair, Board of Directors

ATTEST:

\_\_\_\_\_  
Secretary



**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

**Agenda Title:**        **Annual Review of BAWSCA's Statement of Investment Policy and Consideration of Proposed Modification to Add New Permitted Investment Vehicles**

**Summary:**

The Board's Investment Policy states that 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 16, 2020 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 September 17, 2020.

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 primary investment objectives and all investment instruments permitted by the Bond Indenture, BAWSCA recommends modifying the policy to include U.S. Agency Securities as permitted investments for the bond funds with a sector allocation limit not to exceed 40% of total stabilization fund market value at the time of purchase, in addition to the three specific investment vehicles currently allowed by the Investment Policy.

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 Investment Policy reflects language consistent with current State law. Except for the recommended inclusion of U.S. Agency Securities as permitted investments for the bond proceeds, no other changes to the Policy are recommended at this time.

**Fiscal Impact:**

No impact on BAWSCA's annual operating budget.

**Board Policy Committee Action:**

**The Committee voted unanimously to recommend approval of the proposed Board action.**

**Recommendation:**

**That the Board approve the proposed modification to the current Statement of Investment Policy by including U.S. Agency Securities as permitted investments for the bond proceeds with a sector allocation limit not to exceed 40% of total stabilization fund market value at the time of purchase.**

**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 and is more restrictive than permitted by law.

**Investment of Agency Funds**

The current Investment Policy requires the agency funds that are not invested in the Local Agency Investment Fund (LAIF) to 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. The current policy also limits the maturity of any Certificate of Deposit to 12 months or less.

Legal counsel has pointed out that the current California Debt and Investment Advisory Commission (CDIAC) investment guidelines allow for community bank participation in holding local agency funds and for Certificates of Deposits with a maturity of up to 5 years. Since the agency's long-term banking relationship with Boston Private national bank is working well, the agency currently has no plans to change its bank in the next 12 months. Due to the Agency's high liquidity needs and based on the ongoing review of cash flow forecasts, it is determined that a change to allow longer maturity of Certificate of Deposits is not needed at this time. BAWSCA will continue investigating these additional investment options as the Investment Policy may be amended from time to time.

**Recommended Change to Permitted Investment Vehicles for Bond Proceeds**

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. Like the current Investment Policy says, "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."

BAWSCA recently re-evaluated the credit quality, market price risk, and liquidity characteristics of all investment instruments permitted by the Bond Indenture. As a result of this review, BAWSCA determined that in addition to the three specific investment vehicles currently allowed by the Investment Policy, three other investment vehicles - LAIF, Commercial Paper (CP), and senior U.S. Government sponsored enterprise obligations, commonly referred to as "U.S. Agency Securities" - are consistent with the primary objectives of BAWSCA's investment policy and the agency's risk tolerances and therefore can be considered as additional investment options for BAWSCA.

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 U.S. 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 findings described above, only the U.S. Agency Securities would be appropriate for consideration to increase the portfolio's potential yield consistent with the prioritized objectives of safety and liquidity. Compared to the U.S. Treasury Securities that are fully and unconditionally guaranteed by the U.S. Federal Government and considered free of default risk, the U.S. Agency Securities are issued or guaranteed by non-full faith and credit federal agencies (e.g., Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank) with fairly low credit risk. Under the current market conditions, U.S. Agency Securities provide yield premiums of between 5 and 15 basis points (0.05% - 0.15%) versus comparable U.S. Treasury Securities while maintaining credit ratings of AA+ by Standard and Poor's and Aaa by Moody's. Accordingly, BAWSCA and its investment advisor recommend the inclusion of U.S. Agency Securities as permitted investments in the investment policy.

#### **Background Information Related to the Credit Security of U.S. Agency Securities**

At the recent Board Policy Committee meeting, several Board members shared their concerns on investing in the housing market due to the prior economic recession in 2008-2010 and the impact on the financial health of Fannie Mae and Freddie Mac. As a result, the BPC recommended staff include a cap, less than 50% on the total market value, for the U.S. Agency Securities as part of BAWSCA's portfolio. This additional section with background information of U.S Agency Securities is included to address the concerns raised.

From a credit quality perspective, Fannie Mae (FNMA) , Freddie Mac (FHLMC) and the Federal Home Loan Banks (FHLB) (collectively, the "Agencies") carry the same credit ratings of AA+ and Aaa from S&P and Moody's, respectively, as the United States government. These ratings reflect the integral link between the Agencies and federal government and the critical role that the Agencies play in the implementation and execution of U.S. government housing policy. FNMA (1938), FHLMC (1970), and FHLB (1932) were chartered by Congress to help ensure a reliable and affordable supply of mortgage funds throughout the country and support mortgage lending and related community investment activity.

The director of the Federal Housing Finance Agency (FHFA) placed FNMA and FHLMC into conservatorship in September 2008 in response to the significant turmoil in the housing market that left the FNMA and FHLMC unable to fulfill their public policy roles without federal government support. The regulatory intervention was accompanied by a Senior Preferred Stock Purchase Agreement (SPSPA) each of the firms entered into, through the FHFA, in its capacity as conservator, with the U.S. Treasury. The SPSPAs provided the FNMA and FHLMC with the financial support they required to continue providing liquidity and stability to the housing market. As conservator, the FHFA immediately assumed authority over the management and boards of directors of both FNMA and FHLMC, though both firms continue to operate as distinct legal entities. Since entering conservatorship, FNMA and FHLMC have drawn a combined \$191 billion from the U.S. Treasury and paid \$301 billion in cumulative dividend payments. Because of its structure and strong asset quality, the FHLB did not require conservatorship during the financial crisis but rather served an important stabilizing role by providing collateralized lending to banks, thrifts, credit unions, and other organizations.

In light of this important and ongoing linkage between the Agencies and the federal government, the current strong credit ratings and stable rating outlooks from S&P and Moody's reflect base-case expectations that additional government support, should it become necessary, would be a near certainty to enable the Agencies to continue to fulfill their congressionally mandated public policy objective of supporting the U.S. housing sector. The absence of the Agencies would likely create major reverberations for the U.S. housing market. In addition, the SPSPA's that FNMA and FHLMC entered into with the Treasury in 2008 further underscore and illustrate their importance to the government in its conduct of U.S. housing policy.

For these reasons, BAWSCA and its investment advisor continue to recommend the inclusion of U.S. Agency Securities as permitted investments in the investment policy with a sector limit not to exceed 40% of total stabilization fund market value at the time of purchase. However, please note that Section 53601(f) of the California Government Code allows for the investment of California public funds into Government Sponsored Enterprises (GSE's), which includes FNMA and FHLMC, and does not impose or otherwise establish minimum credit quality requirements or portfolio allocation limits for this asset class. This statutory treatment is mirrored by many local agencies throughout the state that similarly allow for the investment in U.S. Agency Securities with no additional sector allocation limits.

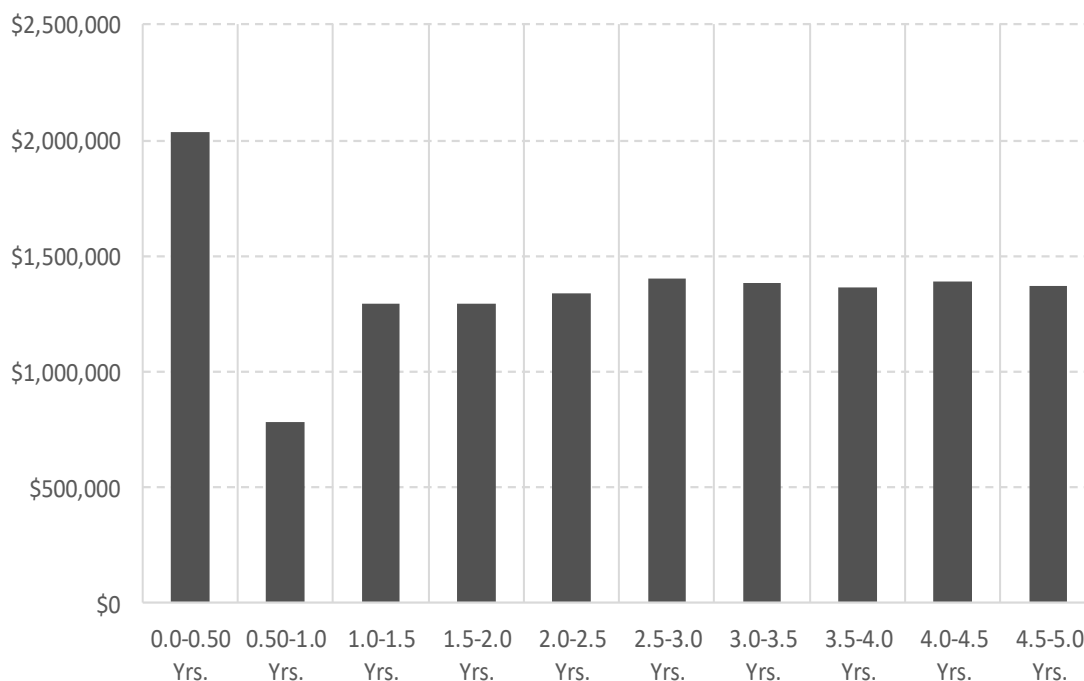
#### **Stabilization Fund Investment Strategy**

In addition, BAWSCA performed a review of the investment strategy for the stabilization fund, in consultation with the investment advisor, in light of recent market developments and changes to interest rate policy made by the Federal Reserve. In an effort to mitigate the economic damage caused by the COVID-19 pandemic, the Federal Reserve reduced the Fed Funds rate by 150 basis points (1.50%) at its two emergency meetings in March 2020 to a current range of between 0% and 0.25%. In response, interest rates across the yield curve declined dramatically reflecting both the Federal Reserve's actions as well as expectations for slowing global growth and recession.

Against this backdrop, BAWSCA's longer-term 0-5 year ladder investment strategy performed well as previously purchased securities now provide fixed yields that are well above currently available interest rates. Moreover, the current 0-5 year ladder investment strategy continues to provide important yield curve diversification and generate attractive returns throughout market cycles. For this reason, BAWSCA and its investment advisor believe that the current 0-5 year ladder portfolio strategy remains appropriate as such longer-maturity strategies have historically provided greater investment returns and income over time.

As of October 30, 2020, the total balance held by the bond trustee, Bank of New York, was \$19,239,250, which includes: (1) the bond surcharges of \$5,605,098 collected from the member agencies to pay the next semi-annual debt service payment, and (2) the stabilization fund of \$13,634,152 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. A summary of the current investment portfolio maturity distribution for BAWSCA's stabilization fund is shown in Figure 1. 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 10/30/2020

**Background:****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 2019, BAWSCA reviewed the investment strategy in light of recent market developments and changes to interest rate policy made by the Federal Reserve. In 2019, the Federal Reserve reduced the Fed Funds rate three times by 25 basis points at each of its July, September, and October FOMC meetings. 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 believed that the 0-5 year laddered portfolio strategy remained appropriate.

Attachments:

1. Recommended Statement of Investment Policy, showing revisions in redlined format
2. Recommended Statement of Investment Policy, incorporating revisions

**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-; and

(iv) “U.S. Agency Securities” meaning bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies: (1) senior debt obligations of the Federal Home Loan Bank System; (2) senior debt obligations of the Federal Home Loan Mortgage Corporation (FHLMC); (3) senior debt obligations of the Federal National Mortgage Association (FNMA); and (4) consolidated systemwide bonds and notes of the Farm Credit System. The investment in U.S. Agency Securities has a sector allocation limit not to exceed 40% of total stabilization fund market value at the time of purchase.

## **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.

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**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;

(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; and

(iv) “U.S. Agency Securities” meaning bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies: (1) senior debt obligations of the Federal Home Loan Bank System; (2) senior debt obligations of the Federal Home Loan Mortgage Corporation (FHLMC); (3) senior debt obligations of the Federal National Mortgage Association (FNMA); and (4) consolidated systemwide bonds and notes of the Farm Credit System. The investment in U.S. Agency Securities has a sector allocation limit not to exceed 40% of total stabilization fund market value at the time of purchase.

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

**Agenda Title:**            **BAWSCA's CalPERS Pension Plan Fund Status Update**

**Summary:**

BAWSCA offers its employees and retirees a defined pension benefit plan that is managed and administered by California Public Employees' Retirement System (CalPERS), a State of California Pension Trust Program. In response to a Board Member request, this memo presents a status of BAWSCA's CalPERS pension plan fund, including current funding level, and provides a comparison of BAWSCA's liability funded ratio to that of the member agencies. As of June 30, 2019, BAWSCA's Funded Ratio of its CalPERS pension plan is 80.8% and the total Unfunded Accrued Liability (UAL) is \$740,356, which is scheduled to be paid off by 6/30/2038 based on the current amortization schedule.

**Fiscal Impact:**

BAWSCA's FY 2020-21 Operating Budget includes the CalPERS required employer contributions of \$215,697, which represents 5.4% of the annual budget of \$4,020,679.

**Recommendation:**

This item is for informational purposes only. No Board action is requested at this time.

**Discussion:**

CalPERS retirement benefits are based on a formula, rather than contributions and earnings to a savings plan. Retirement formulas vary based on classifications of the employees (e.g., miscellaneous, safety, or industrial). BAWSCA only participates in the pension plan for miscellaneous employees. Every year, CalPERS provides BAWSCA an actuarial valuation report that includes the latest pension trust plan funded status and the minimum required employer contributions for the next fiscal year. The minimum required employer contributions represent the sum of the Normal Cost (expressed as a percentage of total active payroll) plus the amortization of the Unfunded Accrued Liability. The information from the actuarial valuation report as of June 30, 2019 will be used in FY 2021-22 operating budget preparation process.

**BAWSCA's CalPERS Pension Plan Funded Status**

The measure of funded status is an assessment of the sufficiency of plan assets to cover future employer contributions. The Present Value of Projected Benefits (PVB) represents the total value of all future pension liabilities for current and former employees. The Entry Age Normal Accrued Liability (AL) is the future pension liabilities for service that has already been earned. The Unfunded Accrued Liability (UAL) represents the liabilities for service that has been earned but not funded. BAWSCA's latest pension plan funded status is summarized below in Table 1.

Table 1. Summary of BAWSCA's Pension Plan Funded Status as of 6/30/2019

Actuarial Calculation	CalPERS "Misc." Plan Value
a. Present Value of Projected Benefits (PVB)	\$5,504,674
b. Entry Age Normal Accrued Liability (AL)	\$3,854,370
c. Market Value of Assets (MVA)	\$3,114,014
d. Unfunded Accrued Liability (UAL) =b-c	\$ 740,356
e. Funded Ratio =c/b	80.8%

BAWSCA also compared its pension liability funded ratio with the member agencies' CalPERS pension miscellaneous plans. The results are shown in Table 2.

Table 2: Member Agencies CalPERS Pension Liability Funded Ratio for Miscellaneous Plans (including PEPRA Misc. but not Safety Employees) as of 6/30/2019

Purissima Hills WD	82.1%	City of Brisbane	72.1%
BAWSCA	80.8%	City of Burlingame	72.1%
Westborough WD	80.3%	Coastside County WD	70.9%
Mid-Peninsula WD	78.4%	City of Sunnyvale	69.6%
City of East Palo Alto	78.2%	City of Foster City	68.6%
City of Daly City	77.3%	City of Millbrae	68.5%
City of San Jose	74.3%	City of Milpitas	68.5%
City of Menlo Park	74.0%	City of Redwood City	67.9%
Town of Hillsborough	73.4%	City of San Bruno	67.0%
ACWD	73.2%	City of Palo Alto	66.1%
City of Mountain View	72.8%	City of Hayward	64.8%
North Coast County WD	72.2%	City of Santa Clara	60.9%

Data source: CalPERS Actuarial Valuation Reports for Miscellaneous Plans as of June 30, 2019

### Voluntary Additional Pension Funding Options

In light of the rise and volatility of CalPERS pension costs, many public agencies have voluntarily chosen to set aside or contribute additional pension funding to address their long-term pension liabilities. At this time, BAWSCA is aware of three options currently available.

#### Option 1: Additional Discretionary Payments of UAL to CalPERS

CalPERS allows employers to make additional discretionary payments (ADPs) at any time and in any amount. These optional payments serve to reduce the Unfunded Accrued Liability (UAL) and future required contributions and can result in significant long-term savings. Employers can also use ADPs to stabilize annual contributions as a fixed dollar amount, percent of payroll or percent of revenue. Making such an ADP during a fiscal year does not require an ADP be made in any future year, nor does it change the remaining amortization period of any portion of unfunded liability. Per CalPERS actuarial valuation report as of June 30, 2019, BAWSCA's minimum required employer contribution towards the UAL for FY 2021-22 is \$60,614, and the UAL is expected to be paid off in 18 years.

#### Option 2: Re-amortized Annual UAL Contributions to CalPERS

CalPERS also allows employers to pay off the UAL more quickly than required based on alternative "fresh start" amortization schedules. The latest actuarial valuation report includes two sample schedules. If BAWSCA would like the total UAL to be paid off in 15 years, its minimum required employer contribution towards paying down the UAL would be increased to a fixed amount of \$73,594 each year, or 21.4% more than the current year's amortization payment of \$60,614. If BAWSCA would like the UAL to be paid off in 10 years, its annual UAL contribution would be \$95,433, or 57.4% more than the current amortization payment.

#### Option 3: Contributions to Pension Prefunding Trust for Offsetting Future Pension Liability

There are various third-party pension prefunding trust programs available to allow employers setting aside funds that can be used to offset the future growing pension liability. The purpose of the employer's participation in a pension prefunding trust is to enable the employer to set aside and invest additional funds that accumulate interest earnings, that would then be available



in the future to offset growing pension liability. In October 2020, BAWSCA conducted a survey of all member agencies who maintain pension benefit plans under CalPERS. Based on the survey results, nine city governments and one water district have established an IRS Section 115 trust to voluntarily prefund for future required employer pension contributions.

**Next Steps**

BAWSCA will receive feedback and input from the Board on this information. Based on this, possible next steps may be discussed during the preparation of FY 2021-22 Operating Budget.

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

**Agenda Title:**            **BAWSCA's California Employers' Retiree Benefit Trust  
Fund Status Update**

**Summary:**

BAWSCA participates in the California Employers' Retiree Benefit Trust (CERBT) program, administered by CalPERS, to prefund the agency's Other Post-Employment Benefits (OPEB) obligations. Since entering the CERBT program from April 26, 2014 through June 30, 2020, BAWSCA has had total contributions of \$652,731 and investment earnings of \$162,403. The actual average annualized net rate of return in FY 2019-20 was 5.45%, while the actual cumulative rate of return over the past 6.5 years from inception was 6.60% or 85 basis points higher than the 5.75% discount rate used in BAWSCA's recent OPEB actuarial valuation as of June 30, 2019. Since FY 2013-14, BAWSCA has been fully funding the annual OPEB expense, as determined by the annual actuarial valuation, to prefund its OPEB obligations in each year. BAWSCA's unfunded OPEB liability is scheduled to be paid off by 6/30/2042, as originally planned.

**Fiscal Impact:**

BAWSCA's FY 2020-21 Operating Budget includes a CERBT contribution of \$78,000 to fully fund the annual OPEB expense for FY 2020-21. This amount was deposited into BAWSCA's CERBT account in July 2020.

**Recommendation:**

This item is for informational purposes only. No Board action is requested at this time.

**Discussion:**

Like other public agencies, BAWSCA prefunds its OPEB obligations in order to generate investment income from employer-controlled contributions to pay for future retiree benefits, reduce future employer cash flow requirements, and reduce OPEB liabilities reported on the agency's annual financial statements. To achieve these goals, BAWSCA established a CalPERS CERBT program to prefund OPEB obligations in April 2014.

BAWSCA's actual investment performance in the CERBT account is considered during the annual OPEB actuarial valuation. BAWSCA participates in CERBT's Strategy 2 asset allocation program. At this time, CERBT continues to expect the long-term rate of return for this program to stay at 7.01%. In FY 2019-20, BAWSCA's actual average annualized internal rate of return (IRR) was 5.45%, which is 173 basis points less than the IRR of 7.18% in FY 2018-19. Per the CERBT, their program experienced significant investment volatility in the Spring of 2020 partially attributed to the onset of COVID-19. For FY 2020-21, the year-to-date IRR was 17.99% as of 10/19/2020.

Cumulatively, BAWSCA's CERBT fund has earned investment interests at 6.60% in the past 6.5 years since inception. From a short-term perspective, it is typical to see rate volatility from year to year. Overtime, the CERBT expects its investment returns start to normalize and get closer to the expected long-term rate of return. For these reasons, BAWSCA and its actuary

determined the expected long-term rate of return assumption, also as known as discount rate, of 5.75% remains reasonable for the next valuation as of June 30, 2020. In general, a lower discount rate results in a higher annual OPEB expense but will effectively minimize the agency's unfunded liability risk from overly optimistic interest rate assumptions in the future.

Since FY 2013-14, BAWSCA has been fully funding the OPEB expense determined by the annual actuarial valuation as part of its adopted Operating Budget. The table below provides a summary of BAWSCA's CERBT account as of June 30, 2020.

<b>CERBT Account Summary as of June 30, 2020</b>	
Total Contributions (Initial contribution made on 4/26/2014)	\$652,731
Total Disbursements	-
Total CERBT Expenses	(\$2,454)
Total Investment Earnings	\$162,403
Total Assets	\$812,680
Current Asset Allocation Strategy Selection	CERBT Strategy 2
CERBT Long-Term Expected Rate of Return	7.01%
BAWSCA's Discount Rate Used in OPEB Actuarial Valuation as of June 30, 2019	5.75%
BAWSCA Actual Average Annualized Rate of Return* in FY2019-20	5.45%
BAWSCA Actual Cumulative Annualized Rate of Return* from Inception (4/26/2014) through 10/19/2020	6.60%
BAWSCA Net OPEB Liability as of 6/30/2020 (Scheduled to Be Paid Off by 6/30/2042)	\$817,230

*\*Net of fees*

# **BAWSCA**

**Bay Area Water Supply & Conservation Agency**

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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:** November 13, 2020  
**SUBJECT:** Chief Executive Officer/General Manager's Letter

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### **Potable Reuse Exploratory Plan (PREP) Phase 3:**

BAWSCA has been investigating potable reuse opportunities in the service area in keeping with future water supply planning recommendations made as part of the Long-Term Reliable Water Supply Strategy finalized in 2015. Beginning in 2016, BAWSCA along with local partners initiated studies to explore potable reuse opportunities in San Mateo County. Specifically, that year BAWSCA along with Silicon Valley Clean Water (SVCW), Redwood City, Cal Water and the SFPUC conducted Phase 1 of the Potable Reuse Exploratory Plan (PREP) to confirm the initial technical feasibility of such a project.

Phase 1 findings were positive, and a Phase 2 study was initiated in 2018 to further investigate potable reuse opportunities. Additional project partners took part in Phase 2, given that there was an interest by the City of San Mateo in combining its effluent to that of SVCW's such that a larger potable reuse project was possible. Foster City, as a partner in the City of San Mateo's wastewater plan, was also included in the efforts. The Phase 2 study was completed in October 2019.

The Phase 2 study's conclusions remained positive, indicating that an Indirect Potable Reuse (IPR) project that directed highly treated reuse water to Crystal Springs Reservoir to augment water supply was technically feasible and could meet State requirements for IPR.

In 2020, the Partners initiated scoping of a Phase 3 Study. Phase 3 will include a raw water augmentation analysis to better evaluate how Crystal Springs Reservoir would be operated to allow for IPR. In addition, a Direct Potable Reuse option, one that allows for direct introduction of highly treated reuse water to the SF RWS, will be analyzed. The goal of Phase 3 work is to produce a shared vision for how the PREP project would function and serve as an additional water supply. In addition, it would set the stage for a possible feasibility study that initiates the environmental evaluation and preliminary design work.

Work on Phase 3 will commence following the execution of an updated Memorandum of Agreement (MOA) among the parties. Execution is expected by the close of 2020.

**Alternative Water Supply Strategy:**

In early 2020, the SFPUC began the implementation of the Alternative Water Supply Strategy (AWSS), a program designed to investigate and plan for new water supplies to address future long-term water supply reliability challenges and vulnerabilities on the San Francisco Regional Water System (SF RWS).

Included in the AWSS is a suite of diverse, non-traditional supplies that, to a great degree, leverage regional partnerships. AWSS projects are designed to meet water supply needs of the SFPUC retail and wholesale customers through 2045. BAWSCA is heavily engaged with the SFPUC on its AWSS efforts.

Presently the SFPUC is actively working on four regional projects as part of its AWSS efforts. Those projects are: the Daly City Recycled Water Expansion; the SFPUC-ACWD-Union Sanitary District (USD) Purified Water Project; the PREP Project; and the Los Vaqueros Expansion (LVE) Project. All include multiple partner agencies.

As part of the Daly City Recycled Water Expansion project, the SFPUC and Daly City are currently preparing an Alternatives Analysis to determine how to best expand Daly City's wastewater treatment plant operations to produce additional recycled water that could be served to existing cemeteries in Colma. Doing so would reduce demand on the underlying groundwater basin, a basin that factors into the SF RWS supply as part of the Regional Groundwater Conjunctive Use Project.

The SFPUC-ACWD-USD Purified Water Project would provide a new purified water supply using USD's treated wastewater, which would be used for aquifer recharge purposes and potential in-lieu exchange with the SFPUC that if implemented, could result in more water being left in the SF RWS to benefit other BAWSCA members and the SFPUC. Feasibility studies are currently underway such that the technical feasibility of the concept could be determined by 2023.

The PREP Project is detailed separately in this CEO letter and hence its' status is not repeated here. The LVE effort has been detailed in previous board discussion. SFPUC continues to participate in LVE as a Local Area Partner (LAP) and BAWSCA is participating in all meetings and negotiations.

The SFPUC will publish the next AWSS quarterly update in early January 2021. That quarterly report will share additional details about the status of the four referenced projects as well as details about other efforts that may move into the study stage.

**Status of Wholesale Revenue Requirement Reviews for FY 2018-19:**

On October 21, 2020, BAWSCA received the compliance auditor's report on the SFPUC's calculation of the annual Wholesale Revenue Requirement (WRR) and changes in the Balancing Account for FY 2018-19. Pursuant to Section 7.06 of the 2009 Water Supply Agreement (WSA), BAWSCA will conduct a WRR review and expects to complete its review by December 20, 2020. The results of that review will be shared with the board as appropriate.

**Update on San Francisco Revenue Bond Oversight Committee's Revenue Bond Audits:**

In November 2002, the San Francisco voters adopted a Charter amendment that established the seven-member Public Utilities Revenue Bond Oversight Committee (RBOC) responsible for

reporting publicly to the Mayor, the San Francisco Public Utilities Commission (SFPUC) and the Board of Supervisors regarding SFPUC's expenditure of revenue bond proceeds. The Charter requires that one member of the RBOC be appointed by the governing body of the Bay Area Water Users Association (BAWUA). Ms. Tang is BAWUA's current appointee to the RBOC.

RBOC has provided valuable oversight of the WSIP and helped to protect the financial interests of all water users in the Bay Area, including the Wholesale Customers that BAWSCA represents. Earlier this year, RBOC hired HKA Global to conduct audits of certain revenue bond issued by the SFPUC with an objective to determine whether these bond funds were spent in accordance with the stated purposes and permissible uses of such bonds and determine whether bond funds were used for impermissible administrative expenses. Based on the results of a risk assessment, the audit team will select six revenue bonds to audit in each year and expects to complete the audits within three years.

**New BAWSCA Lawn Be Gone! Workshop Offering Master Gardeners' Assistance:**

BAWSCA recently hosted a new Lawn Be Gone! Training workshop with the assistance of the Master Gardener's hired for the effort. The workshop was designed to teach homeowners how to participate in each step of BAWSCA's turf replacement program and gave them an option to submit their preliminary project plans to be reviewed by Master Gardeners. In addition, residents were able to ask specific questions about their own landscape, get advice on which plants to incorporate into their design, and learn about several landscaping topics such as sheet mulching, native plant selection, and water-efficient gardening techniques.

Overall, the workshop was successful in providing a comprehensive format where residents could participate with a panel of Master Gardeners and have their specific questions answered by several landscaping experts. Altogether, 44 residents registered for the workshop and 24 attended. The information generated by this workshop will inform BAWSCA's approach to incorporating this concept into the standard suite of residential landscape classes.

**AB1234 – Training:**

BAWSCA has arranged for Hanson Bridgett to provide an AB 1234 training to board members and staff members on December 10th at 10am-12noon via Zoom.

Please contact Lourdes Enriquez at [lenriquez@bawasca.org](mailto:lenriquez@bawasca.org) with any questions about training requirements and expirations.

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# Board of Directors

## Policy Calendar Through May 2021

Meeting Date	Purpose	Issue or Topic
January 2021	D&A D&A D&A R R S	FY 2020-21 Mid-Year Work Plan, Budget, & General Reserve Balance Review Consideration of BAWSCA Bond Surcharges for FY 2020-21 Review of Agency Personnel Handbook Annual Review of WSA Balancing Account Status Review of Water Supply Forecast FY 2021-22 Work Plan and Budget Study Session
March 2021	R&D R	Presentation of Preliminary FY 2021-22 Work Plan and Budget Review of Water Supply Forecast
May 2021	D&A D&A R	Consideration of Proposed FY 2019-20 Work Plan and Budget Consideration of Annual Consultant Contracts Review of Water Supply Forecast

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**Bay Area Water Supply and Conservation Agency  
and Regional Financing Authority**

**Meeting Schedule through July 2021**

DUE TO COVID-19, MEETINGS WILL BE CONDUCTED AS A TELECONFERENCE PURSUANT TO THE PROVISIONS OF THE GOVERNOR'S EXECUTIVE ORDERS N-25-20 AND N-29-20, WHICH SUSPEND CERTAIN REQUIREMENTS OF THE RALPH M. BROWN ACT. MEMBERS OF THE PUBLIC MAY NOT ATTEND THIS MEETING IN PERSON.

<b>Schedule for BAWSCA Board Meetings (Meetings are held from approx. 6:30 – 8:45 p.m.)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Thursday – November 19, 2020	Virtual Meeting, unless noted otherwise.
Thursday – January 21, 2021	Oak Room, San Mateo Main Library
Thursday – March 18, 2021	Oak Room, San Mateo Main Library
Thursday – May 20, 2021	Oak Room, San Mateo Main Library
Thursday – July 15, 2021	Oak Room, San Mateo Main Library

<b>Schedule for RFA Board Meetings (Meeting time will be announced)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Thursday – January 21, 2021	Oak Room, San Mateo Main Library

<b>Schedule for BAWSCA Board Policy Committee Meetings (Meetings held from 1:30-4:00 p.m.)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Wednesday – December 9, 2020	Virtual Meeting, unless noted otherwise.
Wednesday – February 10, 2021	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – April 14, 2021	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – June 9, 2021	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.