



BOARD OF DIRECTORS MEETING

Thursday, March 18, 2021

6:30 P.M.

Correction on list of Board Members permitted to appear telephonically

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 March 18, 2021: Jay Benton, Randy Breault, Tom Chambers, Alison Cormack, Tom Hamilton, Karen Hardy, Sam Hindi, Steve Jordan, Ann Keighran, Rob Kuta, Gustav Larsson, Sam Liccardo, Juslyn Manalo, Lisa Matichak, Al Mendall, Chris Mickelsen, Carmen Montano, Larry Moody, Ray Mueller, 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/84774027157>

- Meeting ID: **847 7402 7157**
- Password: **427351**
- 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 847 7402 7157** and **Password 427351** 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.

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	(Larsson)	
2. Comments by the Chair	(Larsson)	
3. Board Policy Committee Report (Attachment)	(Zigterman)	Pg 5
4. SFPUC Report	(Ritchie/Sandler)	
A. Water Supply Conditions		
B. Financial Report		
5. Public Comments	(Larsson)	
<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>		
6. Consent Calendar (Attachments)	(Larsson)	
A. Approve Minutes of the January 21, 2021 Meeting		Pg 23
B. Receive and File Budget Status Report – As of January 31, 2021		Pg 29
C. Receive and File Bond Surcharge Collection, Account Balance and Payment Report – As of December 31, 2020		Pg 31
D. Proposed Fiscal Year 2021-22 Bond Surcharges		Pg 35
<i>The Board Policy Committee voted unanimously to recommend the proposed Board action.</i>		
E. Amendment to Hanson Bridgett Professional Services Contract		Pg 43
<i>The Board Policy Committee voted unanimously to recommend the proposed Board action.</i>		
7. Report and Discussion		
A. Preliminary Fiscal Year 2021-22 Work Plan, Results to be Achieved and Operating Budget (Attachment)	(Sandkulla)	Pg 47
8. Reports	(Sandkulla)	
A. Annual WSA Balancing Account Update (Attachment)		Pg 79
B. Water Supply and Demand		
C. Bay Delta Plan/FERC		
D. CEO Letter (Attachment)		Pg 85
E. Board of Directors Policy Calendar (Attachment)		Pg 101
F. Correspondence Packet (Under Separate Cover)		

(Schutte)

- ## 10. Report from Closed Session

(Schutte)

(Larsson)

(Larsson) Pg 103

(Larsson)

Upon request, BAWSCA will provide for written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in and provide comments at/related to public meetings. Please submit a request, including your name, phone number and/or email address, and a description of the modification, accommodation, auxiliary aid, service or alternative format requested at least two days before the meeting. Requests should be emailed to bawsca@bawsca.org or submitted by phone at 650-349-3000. Requests will be granted whenever possible and resolved in favor of accessibility.

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: March 12, 2021

SUBJECT: Summary of Board Policy Committee meeting held February 10, 2021

1. **Call to Order:** Committee Chair, Tom Zigterman, called the meeting to order at 1:32 pm. A list of Committee members who were present (10), 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 Zigterman welcomed members of the Committee at its first meeting in 2021. He reviewed the general procedures for conducting the meeting virtually. He noted that all actions by the committee will be done by roll call vote.
3. **Public Comments:** Public comments were provided by Dave Warner, Peter Drekmeier, and John Weed.
4. **Consent Calendar:** Approval of Minutes from the December 9, 2020 meeting. Director Cormack noted a correction on the draft minutes to reflect that she was absent.

Director Manalo made a motion, seconded by Director Pierce, that the minutes of the December 9, 2020 Board Policy Committee meeting be approved with the noted correction.

The motion carried by roll call vote 9:1 abstention.

5. **Action Item #1:**

- A. **Proposed Fiscal Year 2021-22 Bond Surcharges:** Finance Manager, Christina Tang, presented the annual process of approving the bond surcharges associated with BAWSCA's Revenue Bond Series 2013A and Series 2013B(Taxable) issued in 2013. The bond surcharge for each member agency is a fixed amount, calculated by BAWSCA and adopted by the Board each fiscal year to ensure collection of necessary revenue to pay the year's obligated debt service as defined in the indenture. In addition to debt service payments, the surcharges also pay for bond administration expenses, and replenish the stabilization fund as needed.

Per the indenture, the rate stabilization fund at the Trustee has been reviewed and no replenishment amount is determined necessary at this time.

The calculation methodology used for FY2021-22 is the same as last year's. The total proposed FY 2021-22 surcharge is \$24,692,592, which is about \$7K greater than last year's. Assuming that SFPUC's projected wholesale water consumption is 133mgd, the surcharge is equivalent to \$0.38/ccf or \$166/AF.

Ms. Tang presented a table that shows the bond surcharge amount for each agency. She reminded the Committee that the bond issuance and pre-payment program saves the agencies over \$3.5M collectively each year until 2034. She noted that while BAWSCA analyzes the bond refunding possibilities, the goal is to achieve more savings for the member agencies.

Ms. Tang explained that the proposed FY 2021-22 bond surcharges do not reflect application of any excess stabilization fund. The stabilization fund is held at the Trustee, Bank of New York, and functions as a reserve to cover debt service payments in case of shortfalls in the surcharge collection. The current excess stabilization fund balance is approximately \$1.25M. This amount represents the difference between the current market value balance in the stabilization fund and the minimum balance requirement based on the bond indenture.

The excess fund built up due to both the investment earnings and an increase in the market value of the existing investments since they were purchased. The increase in the market value is mainly from the significant drop in interest rates since the beginning of COVID-19.

As interest rates increase, the portfolio market value drops down. Given the investment advisor's expectations of the current market and the investment earnings that the portfolio continues to receive, the excess stabilization fund balance can be estimated to be between \$675K and \$1.3M in the next 6-12 months, with the assumption that interest rates could go up between 25 to 200 basis points.

Recently, BAWSCA evaluated all possible uses for the excess stabilization funds, including an option to withdraw \$800K to \$900K in 2022 to fund part of the debt service payment. This option could reduce each member agency's FY 2021-22 surcharge by about 3.5%. But, the surcharge payment for FY 2022-23 would have to bounce back due to this one-time credit. A summary of this option and two additional alternatives were included as Table 2 in the staff report.

Based on this evaluation, a preliminary recommendation is to maintain the current excess stabilization fund until the 2013A bonds refunding occurs. In that case, the excess funds can be used to pay down the principal amount and possibly, subject to bond counsel's approval, pay for the non-contingent cost of issuance for the refunding that is currently estimated to be approximately \$200K.

The staff recommendation is for the Committee to recommend Board approval of the proposed FY 2021-22 bond surcharges as presented.

Director Larsson expressed his support for staff's preliminary recommendation to maintain the current excess stabilization funds until bond refunding can occur, and for the proposed FY

2021-22 bond surcharges, as presented, be recommended by the Committee for Board approval.

Director Mendall stated that since the stabilization fund balance far exceeds the amount required, he asked if the excess fund can be used to pay down BAWSCA's CalPERS unfunded pension liability; thereby providing the member agencies savings.

Ms. Tang explained that according to staff's interpretation of the bond indenture, excess funds in the stabilization fund can only be used for debt service payments, or for refunding cost purposes.

Legal Counsel, Allison Schutte added that the bond indenture is BAWSCA's contract with the bond holders and has terms that BAWSCA agreed to follow. The funds, including interest earnings, need to remain contained within the related bond. The rules around municipal finance are straightforward. The assessment that was made to the member agencies in the resolution, adopted by each member agency, was clear that the money is to pay off obligations to San Francisco, and the earnings would be carefully managed. If, for example, BAWSCA made millions of dollars in earnings, BAWSCA would have to rebate the earnings back to the federal government. BAWSCA cannot arbitrage on the bond proceeds. Ms. Schutte stated that staff can reach out to bond counsel for further clarification, and in the meantime, the CEO/General Manager can speak to other ideas for achieving certain goals that the Committee and the Board are interested in.

Ms. Sandkulla stated that there are other areas of flexibilities being analyzed by staff and legal counsel to address the Board's interest in paying down BAWSCA's unfunded pension obligations. She will, as a follow up, reach out to bond counsel to get clarity on exactly what the restrictions are for BAWSCA's use of the money in the stabilization fund including the interest earnings made. There may be some distinctive difference between those two that can be clarified by the bond counsel.

Director Mendall views the excess money in the stabilization fund as significant funds BAWSCA is forced to hold with very little interest earnings, while it can alternatively be used towards purposes that reduce payments, thereby providing member agencies savings. He is interested in ways that BAWSCA can draw down the amount of cash accordingly that would be beneficial for the agencies, and looks forward to hearing more about options available.

Ms. Sandkulla understands Director Mendall's concern, and anticipates the bond refunding analysis can help determine whether BAWSCA will have the ability to use the funds to pay for the non-contingent costs and towards reduction of the entire principal, as opposed to just reducing the payment.

Director Wood recognizes the process in which the exact purpose of bond proceeds are determined before the bonds are approved. She agrees with legal counsel and the CEO/General Manager about being careful with how the excess money in the stabilization fund is used, and appreciates further consultation with the bond counsel. She asked about what the member agencies' perspectives are, given the anticipation of financial difficulties as a result of potential decreasing water revenues.

Ms. Sandkulla stated that the bond surcharge has not caused any concern among the agencies, to date. Currently, the agencies have not expressed concerns with increased costs

primarily because the SFPUC has indicated zero increase in water rates, and the assessments for FY 2021-22 has not been discussed since BAWSCA's work plan and operating budget for FY 2021-22 is still being developed. Ms. Sandkulla has reported to the WMRs what the Board wants included in the work plan, and further discussion with the WMR's is anticipated in March.

There being no further comments from Committee members or the public, Chair Zigterman opened the floor for a motion.

Director Pierce made a motion, seconded by Director Wood, that the Committee recommend Board approval of the proposed FY 2021-22 bond surcharges.

The motion passed unanimously by roll call vote.

6. Reports and Discussions:

- A. Preliminary Fiscal Year 2021-22 Work Plan and Results to be Achieved: Ms. Sandkulla reported that the preliminary work plan for FY 2021-22 continues to stay focused on the key things that BAWSCA needs to do to meet its obligation to ensure reliable supply of high quality water at a fair price. Table 1 in the staff memo presents the results to be achieved under each of the major categories. Table 2 lists the activities not included, which has been helpful in both identifying areas of work for the future, as well as work that the Board has had significant conversations about.

The work plan includes the critical issues identified between now and the year 2050. It also includes additional program activities and staff time in the areas critical to BAWSCA's goals and efficient operation.

Four out of five comments received from the Board at the January 21st Budget Planning Session are addressed in the staff memo and reflected in the preliminary work plan. One comment received regarding the consideration of hiring staff versus continuing to use consultants is being further analyzed to determine the benefits and cost effectiveness to BAWSCA. She noted that the use of consultants is an extension to BAWSCA's staff and expertise to complete the critical work.

Ms. Sandkulla presented the major efforts for FY 2021-22 under the three main categories of the work plan: reliable water supply, high quality, and fair price.

A critical component under reliable water supply is BAWSCA's continuing oversight of SFPUC's WSIP, 10-year CIP, and asset management program. This has historically been, and will continue to be, a critical task as BAWSCA actively engages in SFPUC's 10-year CIP process and implementation of its adopted asset management program.

Another component under water reliability is long-term supply solutions which includes ongoing implementation of BAWSCA's Long-Term Reliable Water Supply Strategy (Strategy). This entails participation in the Bay Area Regional Reliability (BARR) to evaluate water marketing strategies and water transfer opportunities with water agencies in the region, completion of the Potable Reuse Exploratory Plan (PREP) Phase 2 feasibility study, and facilitating use of BAWSCA's Regional Reliability Model by member agencies to assist in their own water supply planning and analysis. The model will be an element of a new subscription

program which allows for engagement and consistency among the member agencies and BAWSCA.

A refresh and update of BAWSCA's 2020 regional water demand study is incorporated in the work plan under the Strategy for an estimated cost of \$200K. The demand study was completed in June 2020 and was driven by the need to support the member agencies' Urban Water Management Plan (UWMP) development. Since then, however, several factors have occurred that should be incorporated in the demand study because of the impacts they have on demand projections moving forward, particularly the pandemic and its long term effects, the release of the State's efficiency guidelines in Fall 2021, SFPUC's climate change study results in Spring 2021, and results of the member agencies' 2020 UWMPs, which go through a public process. Incorporating these critical factors into the regional demand projections will provide cohesiveness and a solid regional picture for the BAWSCA service area. Furthermore, the regional demand projections will support the SFPUC's Alternative Water Supply Planning program when they initiate their environmental review.

BAWSCA is also proposing a complete scoping for an update to BAWSCA's Strategy to identify, given all the changes that have occurred, what is needed to ensure that the member agencies have a reliable supply of water when and where it is needed. Triggered by SFPUC's actions in 2007 to limit the available water supplies from the Regional Water System to 265mgd total and 184mgd for the wholesale customers, the Strategy was initiated in 2009 and completed in 2015. It was a long process because it accommodated the various policy changes that required pauses at specific periods. The approach proved effective in developing a comprehensive regional assessment of the member agencies' water supply reliability needs at the time, evaluated potential water management actions that could be done, and most importantly, identified the recommended actions that BAWSCA can take or support to increase regional water supply reliability.

Efforts that have been incorporated in the annual Work Plan, as recommended from the Strategy, include BAWSCA's Pilot Water Transfer, the Los Vaqueros Expansion Project, PREP and BARR, support for member agencies local projects, and increased efforts for water conservation.

The BAWSCA region, SFPUC and the State have new uncertainties along with the changes since the completion of the Strategy in 2015 and it is appropriate for BAWSCA to scope what it would take to update the Strategy, and possibly look to budgeting in the subsequent fiscal year. Ms. Sandkulla stated that the development of the Strategy was divided into phases, which was an effective process since it was an expensive effort totaling to \$1.6 M. It can be a very expensive effort again and she recommends using the same approach. The estimated cost for scoping in FY 2021-22 is \$50K.

Also a critical part of BAWSCA's water reliability efforts is its core and subscription water conservation program implementation to address near-term supply solutions. Core programs are provided to the entire service area, and subscription programs are offered and paid for by member agencies who choose to participate. New programs include an Irrigation Hardware Rebate, a Residential Self-Audit tool, and development of a leak repair and training certification program for implementation in 2022-23. Efforts in FY2021-22 for developing the certification program includes researching training methods and procedures to employ, developing program promotion plan, as well as methods for testing and certification. Member

agencies have indicated a strong support for this program as it targets an important water use sector with potential for water savings. The estimated cost is \$34K.

Due to current hydrologic conditions for water year 2020-21 that indicate the potential for drought, the preliminary work plan includes efforts to provide drought support to member agencies and their customers. The SFPUC has contractual obligation to regularly update the wholesale customers about the Regional Water System's water supply availability conditions, which they will continue to do and provide a final estimate by April 15th.

Ms. Sandkulla noted that it would be very unusual for the SFPUC to move from no rationing to mandatory rationing in one year. Generally, there would be a call for wise water use or a 10% voluntary rationing as indication of where conditions may go. BAWSCA provided assistance to member agencies during the most recent drought in 2014-2017. A complete drought report was written after the drought to document what BAWSCA, the member agencies, and the SFPUC did to address the drought and comply with the state requirements. It was written to serve as a reference for future planning, and has served that purpose for identifying what actions can be done in preparation for next year. Possible actions include increased conservation programs, public outreach, working with SFPUC in looking at, if needed, new supplies, and regulatory and policy support. An estimated cost of \$26K will be included in the budget for developing outreach efforts in coordination with the SFPUC.

As a reminder to the Committee, BAWSCA currently has twelve (12) core conservation programs including the two new ones scheduled to begin next year. The core programs are offered throughout the service area and are paid for out of BAWSCA's operating budget.

Subscription conservation programs include fourteen (14) programs including the two new ones set to begin next year. Subscription programs are offered and paid for by BAWSCA member agencies who choose to participate in the program. The subscription program model helps avoid duplication of efforts with member agencies who administer their own programs, but fill in the gaps among the member agencies to ensure there is a robust conservation program for water customers in the BAWSCA service area.

Ensuring reliable water supply includes BAWSCA's work in protecting the water customers' interests by closely monitoring and actively engaging in the State Water Resource Control Board's Bay Delta Water Quality Control Plan and the FERC relicensing process.

Administration of the 2009 Water Supply Agreement (WSA) to protect the member agencies' water supply interests includes monitoring of the SFPUC's development of new supplies through its Alternative Water Supply Planning Program, and initiating development of the Tier 2 drought allocation plan.

Ms. Sandkulla reminded the Committee that included in the WSA are drought allocation plans that distribute water supplies in the region. Tier 1 is the drought allocation of water between the collective wholesale customers and the San Francisco retail customers. Tier 2 is the drought allocation plan that divides the water supply among the BAWSCA member agencies. The Tier 2 plan was adopted in 2011 with an expiration date of December 31, 2018. Since then, the Board has approved an extension of the plan on a yearly basis. BAWSCA has been anticipating the renegotiation of the plan but has been held by the pending Water Efficiency Guidelines being developed by the State given the guidelines' criticality in the negotiation. With the guidelines' expected release in Fall 2021, BAWSCA is planning to move forward with

efforts in renegotiating the Tier 2 plan with the member agencies. The effort will take more than one year because of the significant level of involvement required of the member agencies through its appointed Water Management Representatives. Ms. Sandkulla noted that re-negotiation of Tier 2 has a high bar for completion because once negotiated, the new Tier 2 plan must be adopted by the governing body of each member agency. The negotiation will take time, and will require both technical and legal support because it will become an amendment to the WSA. The estimated cost for this effort is \$75K.

Pursuit of grant funds with regional partners to support water management and conservation efforts, as well as reporting and tracking water supply conservation activities through completion of various reports such as the Annual Survey and Annual Water Conservation Report are activities that support water supply reliability. Ms. Sandkulla noted that BAWSCA has a Water Conservation Database system in which data on water usage, customer information and conservation are collected. The system is aging, and Ms. Sandkulla anticipates an allocation for scoping what it would take to update the system.

A second category in the work plan is water quality. Under the WSA, BAWSCA and the SFPUC has a Joint Water Quality Committee which is chaired alternatively by SFPUC and BAWSCA. BAWSCA has a facilitating role in finding a Chair from the member agencies to represent BAWSCA, as well as in working with the member agencies in addressing various critical water quality issues. A recent water quality issue that the Committee is currently discussing is microplastics.

The third category is fair price, in which BAWSCA performs work delegated to BAWSCA in accordance with the 2009 WSA. This includes administration of the WSA to protect the financial interest of the member agencies, BAWSCA's bonds issued to retire capital debt owed, and working on the authorization and execution of refunding a portion of the bonds, should the Board decide to move forward with that effort.

Ms. Sandkulla reported that the SFPUC's conversion to a new financial system a couple of years ago slowed down their process to complete the required steps to close their books. She noted that the delay will present twice the amount of wholesale revenue requirement (WRR) review that Christina Tang will have to do next fiscal year. Ms. Sandkulla reminded the Committee that review of the WRR is an important work that BAWSCA does on behalf of the agencies, and it is critical to get that work completed.

As previously discussed, BAWSCA will be moving forward with an analysis of refunding the bonds in FY 2021-22 with the primary goal of saving water customers money. A separate report will be provided by Christina Tang.

In addition to the three main categories, there is critical work involved in maintaining the agency's effectiveness. This includes continuing work with community allies and contacts with environmental interests, as well as managing the agency's efficiency. The proposed work plan includes the Board's directives for managing BAWSCA's unfunded pension liability obligations, and implementation of a student internship program.

Ms. Sandkulla reminded the Committee that the internship program was held back from the FY 2020-21 work plan due to COVID-19. BAWSCA is now in the process of developing a Request for Qualifications (RFQ) that seeks a partner to provide BAWSCA support and other assistance with the program implementation. Additionally, the partnership will allow for a

broader reach of qualified candidates efficiently. With the Board's continuing interest in the program, the RFQ will be released in the Spring to select a partner organization to begin work on July 1st. It is unclear if an intern can be hired by Fall or Winter 2021, but the work completed with the partner organization will support an intern for the subsequent fiscal year. An estimated cost of a for this effort is \$44K.

In response to the Board's interest in evaluating alternatives to manage BAWSCA's unfunded pension liability, the preliminary work plan includes staff time to support this effort. Ms. Tang will be providing a report on her analysis separately. The cost for this effort in the FY 2021-22 budget will depend on the feedback received from the Committee.

While there is no preliminary operating budget being presented, Ms. Sandkulla noted the critical elements for next year's budget considerations. The operating budget will reflect oversight of the Regional Water System and ensuring San Francisco meets its legal and contractual water supply obligations; sustained level of effort for the Bay Delta Plan and FERC process; increased focus on BAWSCA's internal financial matters associated with pension obligations and bond refunding; and implementation of the Strategy with the Demand Study refresh, scoping for updates to the Strategy, and implementation of new conservation measures.

The year-end spending will be evaluated to determine the impacts to the year-end General Reserve balance and whether it can be considered to fund the operating budget.

Ms. Sandkulla reminded the Committee that the FY 2020-21 budget required no assessment increase but a transfer from the General Reserve of \$334K. It can be anticipated that an assessment increase will be required to fund the FY 2021-22 budget and that the Board's decision on the bond refunding and addressing the pension liability will have a significant impact to the overall budget.

The Committee's feedback and comments will be incorporated into the preliminary work plan and operating budget that will be presented to the Board in March. A proposed work plan and budget will be presented to the Committee at its meeting in April for discussion before it is presented to the Board in May for adoption.

Director Pierce asked what improvements can be expected from the SFPUC in terms of their financial processes that significantly impact Christina's work on the WRR, and whether negotiations for the Tier 2 plan can be expected in FY 2022-23.

Ms. Sandkulla explained that the WRR is essentially BAWSCA's audit of the SF RWS charges which involve a formal process of BAWSCA submitting questions for the SFPUC's response. This process seems to create logjams with the SFPUC, but without it, things may fall through the cracks. Ms. Sandkulla reported that she recently met with the CFO and agreed to initiate an informal consultation that can help move things along, but maintain the formal processes required for a thorough audit. She noted that Eric Sandler, SFPUC's CFO, recognized that the delays need to be addressed.

In terms of the Tier 2 negotiations, Ms. Sandkulla stated the if the State releases the water efficiency guidelines in Fall 2021, she expects negotiations among the agencies will take approximately 1 year, and another 6 months for the plan to be adopted by each member agency.

Director Mendall asked if the refresh of the demand study can be delayed to FY 2022-23 since much more information regarding demand will be available following the agencies' UWMP's in June 2021, and the release of the State Water Efficiency Guidelines in Fall 2021. Furthermore, it would be valuable to see what rebound shows up after the pandemic. He sees these factors essential for calculating a new set of demand projections.

Ms. Sandkulla agreed that those factors are practical reasons to delay the effort, but stated that the agencies' demand projections are also necessary to support the EIR for the SFPUC' Alternative Water Supply Planning program. She will engage in a conversation with the SFPUC to better understand the timeline.

Director Cormack was pleased to see the strategic efforts for water supply reliability included in the work plan, particularly the renegotiation of the Tier 2 plan. She asked if the SFPUC's Climate Change Study will include information on both the Sierras and local area, and what reassurance can the CEO/General Manager provide for not including Water Quality technical studies and regulation issues in the work plan.

Ms. Sandkulla stated that BAWSCA's demand study included a Climate Change component that dealt with the impact of climate change scenario on the local area water demand.

Mr. Francis added that based on information that has been provided by the SFPUC, he expects the study will include information on the impacts of climate change on both the upcountry Tuolumne area and the BAWSCA Service area, as well as the impacts on demand. He anticipates a comprehensive report that will be useful in understanding various issues such as drought sequence.

Ms. Sandkulla explained that the water quality items that appear in Table 2 are related to the SFPUC's responsibility to provide water supply that meets water quality standards and to plan for meeting that obligation. BAWSCA addresses water quality issues through its engagement in the Joint Water Quality Committee in which technical issues are discussed and addressed. Additionally, BAWSCA's engagement in the 10-year CIP provides BAWSCA with the ability to engage in water quality conversations critical to the Regional Water System. Activities of this nature are how BAWSCA addresses water quality issues as opposed to hiring a technical expert to address these issues.

Director Larsson asked if the \$200K estimated cost for the refresh of the demand study covers the entire refresh, or would there be additional costs expected in a future fiscal year.

Ms. Sandkulla stated that it is a ballpark estimate for the effort, without an RFP and based on previous experience. She stated that while this effort is to update a relatively recent study, some complexities can be expected due to the level of data involved, but hopes they are at a minimum.

Director Kuta asked Ms. Sandkulla to comment on whether the pieces of information needed to renegotiate Tier 2 will be available, how aggressive will BAWSCA be in the workplan to secure enough engagement with the SFPUC to ensure that they are meeting dry year expectations, and should there be consideration for a staffing plan to address the increased workload for Christina Tang?

Ms. Sandkulla reported that the member agencies' updated water demands will be available upon completion of their UWMPs in June 2021, and the Water Use Efficiency Guidelines from the state, which is critical in evaluating the need for higher levels of rationing, are expected in Fall of 2021. These are the two pieces of information needed to renegotiate the Tier 2 plan, and her outlook on the information becoming available is positive.

One of the things BAWSCA is doing to maintain engagement with the SFPUC on its dry-year supply planning has been to push San Francisco on its Alternative Water Supply Program, its funding and executive staffing. BAWSCA's effort on this will be the same level as the WSIP. Tom Francis is meeting with SFPUC regularly on a monthly basis, as well as with the Cities of San Jose and Santa Clara to best understand the SFPUC's planning development in terms of dry-year supplies.

Ms. Sandkulla appreciates the concern with staff workload. Christina Tang will be giving the committee a report on her recent bond refunding analysis and evaluation of BAWSCA's alternatives to funding its unfunded pension obligation. Based on the Committee's feedback, she and Christina will continue to assess how to best address the tasks to achieve savings for the member agencies. With the exception of the WRR, which has a very strict timeframe, the bond refunding and pension analysis are not regular yearly pieces in the work plan, and looking at hiring additional staff may be premature. She hopes to have a more definitive answer for the Board at its March meeting.

Public comments were received from Carol Steinfeld, San Mateo resident and Sierra Club water committee member.

- B. Findings of Financial Impact Analysis on BAWSCA's Unfunded Pension Liability Funding Alternatives: As a reminder, Ms. Tang reported that staff presented options for contributing additional funding to pay for BAWSCA's long term pension liability at the December BPC meeting. The goal was to evaluate ways to pay off BAWSCA's unfunded pension liability sooner than what CalPERS' minimum amortization policy requires.

Unfunded Accrued Liability (UAL) represents liabilities for services that have been earned, but not funded. According to the latest CalPERS actuarial evaluation, BAWSCA's projected pension UAL as of June 30, 2022 is estimated to be \$707,333, and is scheduled to be paid off by 2038. CalPERS' required minimum contribution for FY 2021-22 is \$68,648.

In December, the Committee expressed its preference on the option to make Additional Discretionary Payments (ADP). ADPs can be made at any time and in any amount. The payments can reduce the UAL and result in significant long-term savings. In response to the committee's feedback, a financial impact analysis was performed for various ADP levels and alternative funding approaches.

Ms. Tang presented a table that compared the annual payments and present value savings between the current funding schedule and four (4) alternatives that includes a 1-year, 2-year, 3-year, and 5-year schedule.

Feedback from the committee on the alternatives presented is requested so that BAWSCA can investigate the potential funding sources for any additional UAL payments preferred, as well make the appropriate considerations for developing the operating budget for FY 2021-22.

Director Mendall suggested considering an additional option that allocates unspent funds at the end of each budget year to pay for the UAL over the course of the next several years until the amount reaches zero. This can avoid having to increase assessments, and provides a budgetary certainty for the unspent funds at the end of the year. He is interested in Ms. Sandkulla's and Ms. Tang's feedback.

Ms. Sandkulla and Ms. Tang were open to the suggestion. Ms. Sandkulla will look into the impacts of that option on the General Reserve policy. She reminded the Committee that there is a General Reserve Policy that provides a guideline for maintaining a balance that is 20%-35% of the current operating budget.

Director Cormack stated that the City of Palo Alto has a similar concept, that Director Mendall is suggesting, for its infrastructure fund and prepaying pension obligations. The difference is that Palo Alto's revenues are more variable. In BAWSCA's case, she expects to look at the reappropriation of any expense savings. Fundamentally, the Board's focus should be whether to accelerate the 17-year payoff, and what proportion is most appropriate.

Director Cormack advocated for BAWSCA's employees and their future benefits. Alternatives 2 and 3 pay off the obligation between 1 to 2 years, but the costs are high. Alternative #4 represents approximately 4% of BAWSCA's operating budget. Would the Board be willing to collectively spend 4% of the budget to save \$190K over this time period? Director Cormack believes it is worth the board's consideration of an alternative that is consistent and that enables BAWSCA to draw down the balance. She noted that the payments will likely change at some point, depending on CalPERS' UAL calculations, but BAWSCA can budget for the payments of a 5-year term, or cut the current 17-year schedule by half. She expressed her concurrence with the Committee's preference to making ADP's versus setting up a trust fund. She believes it is appropriate for the Board to consider some form of mechanism. She appreciates the time staff has invested in the analysis.

Ms. Schutte reminded the Committee that there is also the Long-Term Planning Fund under the General Reserve Policy, that allows for the use of funds in excess of the policy's 35% guideline. While it is currently at zero, Ms. Schutte noted that the Board would want to balance what the Board had in mind for the development of the Long-Term Planning fund, versus what Director Mendall is suggesting and Director Cormack's discussion points.

Director Larsson noted that in the analysis presented, it assumed an annual investment return of 7%, according to CalPERS' quote, which he believes can be unpredictable. Based on his own observations, he sees that even over long-periods of time, there can be significant variability in CalPERS' return. Because there seems to be a range of possible returns instead of just one value, he was interested in a sensitivity analysis on the rate of return. He noted that the range of savings could vary depending on CalPERS' performance over the next five years, and it could be far away from a 7% return.

Ms. Tang stated that a sensitivity analysis can be done.

Additionally, Director Larsson noted that it takes approximately 10-years to realize some savings for the upfront payment. He stated that if the goal is to accelerate the payments, he would look at what funding sources will be used and what other work plan opportunities will be set aside to have the funds for payments. He cautioned against taking actions that

restricts BAWSCA from fulfilling its primary mission of representing the water interests of the member agencies, as opposed to making investment returns.

Director Chambers supported Director Mendall's suggestion, but with the maintenance of a General Reserve balance in accordance with the General Reserve Policy. Funds in excess of the policies' 20%-35% guidelines could be allocated to an ADP instead of putting it on the Long-Term Fund established a couple of years ago. He would also support the use of the Balancing Account to make available funds needed to make an ADP.

Director Wood concurs with the maintenance of the General Reserve at a level according to the policy given the economic uncertainties that cities and districts could face in the near future. She supports payment of the UAL sooner than later, and appreciates staff's further analysis that provides BAWSCA some flexibilities in the ways to achieve this goal.

There were no further comments from Committee members or members of the public.

- C. Potential Refunding of BAWSCA's Revenue Bond Series 2013A: Ms. Tang stated that the analysis on the potential refunding of the bonds is to generate debt service savings and eventually save water customers money.

When BAWSCA issued the bonds in 2013, the agency structured the 2013B taxable bonds as effectively non-callable in order to achieve lower interest rates and ultimately greater savings to the agencies. The potential for refunding only applies to the callable portion, 2013A tax exempt bonds. The call amount is \$163.8M that can be redeemed starting April 1, 2023. It has an average weighted interest rate of approximately 4.75%. The preliminary estimate of the net present value savings from the refunding is over \$23M assuming the current market conditions.

In January, BAWSCA updated a refunding analysis and evaluated 3 refunding scenarios:

1. taxable advance refunding in mid-2021;
2. tax-exempt forward delivery, priced in January 2022 and delivered in January 2023;
3. tax-exempt regular delivery, priced near and delivered in January 2023.

Based on the findings of the recent evaluation, while there are potential savings from a taxable advance refunding this year, BAWSCA believes that there is potential for greater savings from a tax-exempt refunding.

The main difference between a tax-exempt forward delivery and tax-exempt regular delivery is the timing of pricing. The issuance date can be the same, for example, January 2023. The purpose of pricing the bond is to lock in the interest rate and other borrowing costs. A Tax-exempt forward delivery allows BAWSCA to price the bond up to a year prior to the delivery. In a tax-exempt regular delivery, bonds are typically priced 2-4 weeks prior to the delivery.

While a tax-exempt forward delivery refunding takes advantage of the interest rates at the time of pricing, it costs BAWSCA a pricing premium over what a regular delivery pricing would be at that time. In short, tax-exempt forward delivery bonds have higher costs compared to tax-exempt regular delivery bonds with the primary trade-offs of the ability to lock in rates and savings earlier.

Ms. Tang presented a table included in the staff report that summarizes the analysis of the three refunding scenarios assuming current market conditions.

A taxable advance refunding in mid-2021 presents an estimated net value savings of about \$23M or 14.2% of the refunded bonds.

A Tax-exempt forward delivery refunding priced in early 2022 and delivered in early 2023 presents an estimated net value savings of about \$29M or \$6M higher than the estimated present value savings based on taxable advance refunding.

A Tax-exempt regular delivery refunding priced near and delivered in early 2023 presents an estimated net value savings of about \$35M or \$12M higher than the estimated present value savings based on a taxable refunding.

The estimated savings under the current market condition do not account for the potential for adverse market changes prior to the time of pricing. Ms. Tang presented a summary based on current market conditions plus 50 basis points. An estimated net value savings for taxable refunding is reduced to \$17M; \$23.8M for a tax-exempt forward delivery refunding, and \$30M for a tax-exempt regular delivery refunding.

Based on the findings, a tax-exempt refunding is preliminarily determined to be more appropriate than taxable advance refunding. Ms. Tang presented four primary reasons behind the recommendation.

In general, tax-exempt bonds have a much lower interest rate than taxable bonds based on the same market conditions. Second, the advance refunding delivered before 2023 would result in greater negative arbitrage when investment earnings on the bond proceeds are lower than the borrowing costs, therefore reducing the savings. Third, short-term bonds result in slightly lower interest rates and ultimately provide greater savings to the member agencies. Fourth, compared to taxable advance refunding, the interest rates would have to rise roughly 65-75 basis points from the time of the taxable refunding before BAWSCA would be worse off by waiting to do a tax-exempt forward delivery refunding in Jan. 2022. For a tax-exempt regular delivery, interest rates would have to rise more than 135-140 bases points from the time of the taxable refunding before BAWSCA would be worse off by waiting until January 2023.

Ms. Tang noted a possible federal legislation change in the near future which may restore the authorization to issue tax-exempt advance refunding bonds. Staff will monitor its progress.

A preliminary cost estimate for bond refunding is between \$1M - \$1.2M, including both contingent and non-contingent costs. The contingent cost estimate is \$800K - \$1M which covers bond counsel fees, financial advisor fees, and underwriters' compensation. It can be paid directly from the refunding bond proceeds contingent upon successful delivery. The non-contingent cost estimate of \$200K is associated with rating agency fees and trustee fees.

For a taxable advance refunding, most of the non-contingent cost will be paid near the bond issuance, which is mid-2021, directly from the refunding bond proceeds. Tax-exempt forward delivery refunding will be paid near pricing, which would be late 2021-early 2022, out of pocket. Tax-exempt regular delivery refunding will have no cost until the issuance in early 2023 and will likely be paid from the bond proceeds.

Out of pocket costs for tax-exempt forward delivery that are paid for by BAWSCA funds can be reimbursed by the bond proceeds contingent upon successful delivery. And this can be funded by a portion of the excess funds in the stabilization fund, subject to bond counsel's approval.

This item is for the Committee's informational purposes to provide staff feedback. Ms. Tang noted that because each member agency must approve the bond issuance, BAWSCA's bond authorization process is longer than most other public agencies. Staff anticipates the need to hire a bond counsel regardless of what method the board chooses.

For clarification regarding the break-even point, Director Jordan asked if interest rates go up by more than 65 basis points, then is the tax-exempt forward delivery method preferable? It seems to depend on when and by how much will the rates go up. Would the bond counsel have a sense of when in 2021 will we have a trajectory of the rates?

Dan Cox, BAWSCA's Financial Advisor from KNN, stated that it is about 50 basis points or a .5% change in municipal rates between now and the end of 2021. Rates at the end of the year would still be less than the break-even point for a forward pricing in early 2022. This is based on projections by investment banking firms that project treasury rates at the end of 2021, and municipal rates to treasuries.

Director Mendall stated his interest to move forward given the estimated cost of \$1M for a potential estimated savings of \$35M. He would support the hiring of bond counsel to begin the efforts and achieve the goal of saving. Trying to predict rate changes can be very risky. He believes rates will go up given the current level of interest rates being close to zero, but beyond that, is impossible to predict. At some point, BAWSCA will need to make a decision based on the best information available. He would be interested to know from bond counsel, whether there could be potential savings in changing the terms (duration) of the bond. Given the current low interest rates, the payments can be the same but with a shorter term.

Director Cormack asked whether the assets had a lifetime of 50 years, 100 years, or blended, to better understand how long BAWSCA will pay against how long the assets are used. She asked what the chances are that the estimates are wrong and what risks are there if BAWSCA does not take action.

Ms. Sandkulla explained that the bonds were used to pay off the member agencies' debt-service to the SFPUC for assets built before the adoption of the 2009 Water Supply Agreement. The SFPUC's projects under this debt-service are long-lived and at that time included treatment plant and pipeline upgrades.

Dan Cox explained that the risk to BAWSCA is not so much that the estimates are wrong, but more that the market changes. Projections based on current market conditions cannot assume that they will remain in place for a known time period. The market will move up and down. There is a risk that by waiting, it is possible that in retrospect, doing the taxable is better off. Part of the rationale is that by the time the taxable refunding gets done, BAWSCA is not that far away from being able to do a tax exempt forward so that the timeframe is limited for the market to change. And hopefully in the process of moving forward and getting a transaction put together, there is legislation in congress that allows tax-exempt advance refunding again, and if so, there would be no need to wait.

Mr. Cox stated that it is hard to put a probability on the chances that it may not be the right decision to wait for tax-exempt. Based on his opinion, it's more than a 50/50 chance that BAWSCA would do better with a tax-exempt refunding. The main point is not waiting for the market to be at a certain level because the prime driver is the savings by virtue of being able to issue a tax-exempt versus a taxable and into a lesser extent the reduction of a negative

Director Cormack appreciated the information, she supports staff recommendation and is confident that staff will monitor developments closely and keep the board informed on all developments.

Ms. Schutte noted that under the old contract with San Francisco, the SFPUC operated like a private utility with a rate base on all their assets, in which the wholesale rate charges were based upon. BAWSCA has transitioned away from that utility method for its financial arrangements with SFPUC. But when that transition occurred, there was \$366M worth of assets, as Ms. Sandkulla described, that wholesale customers had not fully contributed to. The 2009 WSA negotiated and agreed on a final cost and a 25-year term at 5.13%. In 2013, BAWSCA issued bonds to pay off this debt with SFPUC, which is 2013A and 2013B. But this started at 25 years at 5.13%.

Director Wood supports staff recommendation and encouraged the board's consideration of the \$35M in savings.

There were no further comments from committee members or members of the public.

7. Reports:

- A. Water Supply Conditions: Ms. Sandkulla reported that total Tuolumne storage is at 78% of maximum storage. It is a good outlook considering the dry conditions so far. Total system storage is at 78.2% where normally at this time of the year, it should be at 80%.

Until the recent series of storms, precipitation at Hetch Hetchy was at the same level as the driest year on record which was 1977. Upcountry snowpack is now above last year's level, which was a significant improvement from being at the same level as the lowest year in record until the recent storm system.

Water available on the Tuolumne river is defined by the relative water rights between the irrigation districts and San Francisco. Water that is above the allocated supply for the districts is credited towards San Francisco, and with the recent storm system, that amount is now just under 2K acre feet.

- B. Bay-Delta Plan/FERC Update: Ms. Sandkulla reminded the Committee that in July 2020, FERC released its Final Environmental Impact Statement. BAWSCA was engaged in the process and continues to stay engaged with the critical procedural steps, including the water quality certification of that FERC action in which the State Water Resources Control Board has a role in. The State Board issued a Clean Water Act 401 Certification on January 15, 2021 that includes the Bay Delta Plan 40% unimpaired flow requirement. On January 19, 2021, FERC denied the Districts' request to declare that the State Board waived its 401 Certification authority. BAWSCA is closely monitoring developments on this issue.

The SFPUC held its Bay Delta Plan Workshop #2 on February 5th in which they presented the details and scientific underpinnings of the Tuolumne River Voluntary Agreement (TRVA), which is the voluntary agreement that San Francisco has worked with the irrigation districts on primarily through the FERC process and subsequently the State Board process as an alternative to the Bay Delta Plan.

This was the second workshop that the SFPUC has hosted in a series of water related planning issues. There is a plan for a 3rd workshop focusing on water demand issues, which BAWSCA may be invited to present its water demand projections.

The second workshop provided a presentation from the SFPUC staff and technical experts on the regulatory context for in-stream flows and habitat restoration on lower Tuolumne River, the river's environmental setting and hydrology, and the scientific basis for the TRVA. A panel of the scientific experts who had been hired by the districts to develop the plan were available to answer questions. There was also an opportunity for non-governmental organizations to provide a response.

Ms. Sandkulla noted that on her January 26th statement to the Commission, she emphasized that the February 5th Workshop was the venue for the SFPUC to present necessary scientific data to support and defend the TRVA and SFPUC's position. They did a good job doing so.

Based on the NGO's responses, however, there clearly remains disagreements on some of the science that the TRVA relies upon and does not rely upon.

BAWSCA and its member agencies remain committed to support the Bay-Delta Plan objectives, to working with other stakeholders to protect water quality in the Bay-Delta for humans, fish and other wildlife, and to support voluntary agreements to resolve this critical issue given the severity of impacts that the Bay Delta Plan has on the water supply that the region relies on.

The TRVA is the only voluntary agreement ready to be analyzed as an alternative to the Bay-Delta Plan. It was identified as the preferred alternative in the recent analysis by FERC for the relicensing of New Don Pedro Reservoir. BAWSCA is advocating for the State Board to perform a technical and environmental evaluation of the TRVA as an alternative to the Bay Delta Plan as a way to identify how to move forward in a log-jammed situation.

There were no questions or comments from committee members, or comments from the public.

8. Closed Session: The Committee adjourned to Closed Session at 3:27pm.

9. Reconvene to Open Session: The Committee reconvened from Closed Session at 4:13 pm. Ms. Schutte reported that no action was taken during Closed Session.

10. Action Item #2:

- A. Amendment to Hanson Bridgett Contract Professional Services Contract: Ms. Sandkulla presented a request to amend the Hanson Bridgett contract to provide the resources needed to complete the work plan items associated with the Bay Delta Plan, FERC, and Minimum Purchase Transfer WSA amendment. In preparing the FY 2020-21 budget for legal counsel, Ms. Sandkulla planned for a high level of activity in 2 out of the 3 areas, but the level of

activity on all 3 areas has increased significantly and legal expenses for these items went beyond what was expected this fiscal year.

Work on all three areas remain critical to protect the interest of the member agencies and their water users.

Director Wood noted a typo on the agenda which states the figure of \$157,500 instead of \$57,500.

Ms. Sandkulla clarified that the correct amount is \$57,500.

There being no further questions or comments from committee members, or comments from members of the public, Chair Zigterman opened the floor for a motion.

Director Wood made a motion, seconded by Director Jordan, that the Committee recommend the Board to authorize the CEO/General Manager to:

- 1. Amend the professional services contract with Hanson Bridgett by \$200,000 for a total not to exceed amount of \$806,500;**
- 2. To transfer \$142,500 from the General Reserve to the Operating Budget to fund a portion of this contract increase; and**
- 3. to use \$57,500 from the budgeted contingency to fund a portion of this contract increase.**

The motion passed unanimously by roll call vote.

11. Comments by Committee Members: There were no further comments from Committee members.

12. Adjournment: The meeting was adjourned at 4:20 pm. The next meeting is April 14, 2021.

Bay Area Water Supply and Conservation Agency

Board Policy Committee Meeting Attendance Roster

Agency	Director	Feb. 10 2021	Dec. 9 2020	Oct. 14, 2020	Aug. 12, 2020	Jun. 10, 2020	Apr. 8, 2020	Feb. 12, 2020
Stanford	Zigterman, Tom	✓	✓	✓	✓	✓	✓	✓
Daly City	Manalo, Juslyn	✓	n/a	n/a	n/a	n/a	n/a	n/a
Westborough	Chambers, Tom	✓	✓	✓	✓	✓	✓	✓
Palo Alto	Cormack, Alison	✓		✓	✓	✓	✓	✓
Purissima	Jordan, Steve	✓	✓	✓	✓	✓	✓	✓
Cal Water	Kuta, Rob	✓	✓	✓	✓	✓	✓	✓
Sunnyvale	Larsson, Gustav	✓	✓	✓	✓	✓	✓	✓
Hayward	Mendall, Al	✓	✓	✓	✓	✓	✓	✓
Redwood City	Pierce, Barbara	✓	✓	✓	✓	✓	✓	✓
Brisbane	Wood, Sepi	✓	✓	✓	✓	✓	✓	✓

✓: present

☎ : Teleconference

Feb. 10th, 2021 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
Kyle Ramey	Water Resources Specialist
Christina Tang	Finance Manager
Lourdes Enriquez	Assistant to the CEO/General Manager
Deborah Grimes	Office Manager
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
Nathan Metcalf	Legal Counsel, Hanson Bridgett, LLP
Bud Wendell	Strategic Communications
Dan Cox	KNN

Public Attendees:

Leonard Ash	ACWD
Paul Sethy	ACWD
John Weed	ACWD
Michael Bolzowski	Cal Water
Karla Daily	Palo Alto
Alison Kastama	SFPUC
Dave Warner	Self
Carol Steinfeld	Self
Cristophe Labelle	Self
Peter Drekmeier	Tuolumne River Trust

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING****January 21, 2021 – 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.

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 6:33 pm following introductory instructions for conducting the meeting virtually through Zoom.

BAWSCA Chair, Barbara Pierce, called the meeting to order and led the salute to the flag. Nicole Sandkulla called the roll. Twenty (20) members of the Board were present at roll call. One (1) Director arrived after roll call. A list of Directors present (21), absent (4), and seats vacant (2) is attached.

2. Special Order of Business: Election of Officers for Calendar Year 2021.

Chair Pierce called for nominations for the position of Chair of the BAWSCA Board. Director Wood nominated Gustav Larsson for Chair. Director Quigg seconded the nomination.

There being no other nominations, the nominations were closed by acclamation.

The Board unanimously voted by roll call to elect Gustav Larsson as Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2021, to commence at the adjournment of the meeting at which he was elected.

Chair Pierce called for nominations for the position of Vice-Chair. Director Zigterman nominated Tom Chambers as Vice-Chair of the Board. Director O'Mahony seconded the nomination.

There being no other nominations, the nominations were closed by acclamation.

The Board unanimously voted by roll call to elect Tom Chambers as Vice-Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2021 to commence at the adjournment of the meeting at which he was elected.

3. The meeting adjourned at 6:43 pm to convene the San Francisco Bay Area Regional Water System Financing Authority Board of Directors meeting.**4. The meeting reconvened at 6:56 pm**

For the record, Director Quigg noted a correction on the meeting date printed on the agenda. The date should be January 21, 2021.

5. Comments by the Chair:

Chair Pierce emphasized the Board's continuing efforts to protect the health, safety and economic well-being of 1.8 million residents, over 40,000 businesses and community organizations in Alameda, San Mateo and Santa Clara counties who depend on the San Francisco Regional Water System. For almost twenty years, BAWSCA's goal has been to ensure a reliable supply of high-quality water at a fair price.

Under AB2058, BAWSCA has an obligation to protect the water-supply needs of its constituents. The State Board's Bay Delta Plan remains a challenging issue for BAWSCA and its Board of Directors as it represents a serious threat to the water users of the region.

Fortunately, the State Board invited BAWSCA and other water agencies to submit alternatives to its Plan. BAWSCA is urging the State Board to perform the required analysis of the science-based Tuolumne River Voluntary Agreement (TRVA) developed by the Modesto Irrigation District (MID), Turlock Irrigation District (TID), and the San Francisco Public Utilities Commission (SFPUC).

In the coming months, the Board will evaluate policies and approve a work plan and budget to execute BAWSCA's mission and achieve its goal.

She thanked the Board and staff for their flexibility and efforts that enables the agency to continue serving its constituents through the serious and limiting impacts of COVID-19. She commended the SFPUC for its diligence and perseverance in continuing operational excellence.

6. Board Policy Committee Report:

Committee Chair Chambers reported the Committee's discussions and action to recommend the Board's approval on the proposed amendment to the professional services agreement with Woodard & Curran, and changes to the FY 2020-21 Work Plan as a result of the Mid-Year Work Plan and Budget review. The Board Policy Summary Report included in the agenda packet reflects the Committee's discussions.

7. Public Comments: There were no comments from the public.**8. SFPUC Report:**

SFPUC Assistant General Manager Steve Ritchie reported on water supply conditions and storage levels to date.

9. Consent Calendar:

Director Mendall made a motion, seconded by Director Wood, to approve the Minutes of the November 19, 2020 meeting; receive and file the Budget Status Report as of November 30, 2020, the Investment Report and the Directors' Reimbursement Report as of December 31, 2020, and authorize the CEO/General Manager to negotiate and execute a contract amendment with Woodard & Curran that would increase the total not-to exceed amount

of \$50,000 for as-needed specialized water resources services for FY 2020-21.

The motion carried unanimously by roll call vote.

10. Action Calendar:

A. Mid-Year 2020-21 Work Plan and Budget Review.

Director comments and questions ensued the CEO/General Manager's presentation.

Public comments were made by Peter Drekmeier and Carol Steinfeld.

Director Montano made a motion, seconded by Director Mendall, that the Board approve the modification of Work Plan Item 2a "PREP Phase 3" and Item 3c "Implement New Subscription Programs" in the FY 2020-21 Work Plan.

The motion carried unanimously by roll call vote.

11. Reports:

- A. Water Supply and Demand: The CEO/General Manager reported that the total potable water use in the service area, as of October 2020, remains 9% less than the pre-drought period of October 2013. Water use appears to be lining up with that of 2019. Non-residential water demand is driving reductions in water use, while residential use remains the same, if not slightly higher due to the shelter in place orders.

Ms. Sandkulla presented the results of BAWSCA's Regional Demand and Conservation Projections study completed in June 2020. The results are based on a comprehensive analysis of each individual member agency's local policies, adopted land use, and other factors that impact water use. Population projections are based on ABAG and adopted land use plans. The study provides projected demand through 2045 at the agency and regional level, which is critical information for the development of agencies' Urban Water Management Plans, support for SFPUC's Alternative Water Supply Planning efforts, as well as BAWSCA's work on regional water planning.

Public Comments were made by John Rosapepe, Dave Warner, Susan Stansbury, Karen Harwell, and Carol Steinberg.

Chair Pierce called for a motion to extend the meeting passed 8:45pm.

Director Mendall made a motion, seconded by Director Cormack, to extend the meeting. The motion passed by acclamation.

- B. FERC/Bay Delta Plan: An update on the FERC relicensing process and Bay Delta Plan developments was provided. BAWSCA and its member agencies continue to support the Bay-Delta Plan objectives and are committed to working with other stakeholders to protect water quality in the Bay-Delta for humans, fish and other wildlife. BAWSCA supports the voluntary agreements and believes

that Governor Newsom's leadership is critical to the resolution of the critical Bay-Delta issues.

Public Comments were made by Martin Gothberg, Dave Warner, Cedric Petit Dela Beaujardiere, Peter Drekmeier, John Rosapepe, Keith Bennett, and Norma Jean Wallace.

12. Closed Session: The meeting adjourned to Closed Session at 9:12pm

13. Report After Closed Session: Closed Session ended at 10:19pm. Legal Counsel, Allison Schutte, convened Open Session at 10:20pm and reported that no action was taken during Closed Session.

The Chair, with no objections from the Board, extended the meeting by 30 minutes.

14. Fiscal Year 2020-21 Work Plan and Budget Planning Session: Board members provided their input to the CEO/General Manager for the development of FY 2021-22 work plan and budget.

15. Directors' Discussion: Comments, Questions and Agenda Requests: Director Wood expressed her appreciation for Director Pierce's service as Chair of the BAWSCA Board.

In response to Director Montano, Ms. Sandkulla confirmed that conservation efforts will be included in the work plan to address the potential for drought.

Chair Pierce thanked members of the Board, the CEO/General Manager for her strategic and operational leadership, and the talented BAWSCA staff for the results the agency achieved. It has been a great pleasure to serve as Chair of the Board. She looks forward to Directors Larsson and Chamber's strong leadership.

16. Date, Time and Location of Next Meeting: The next meeting is scheduled on March 18, 2021 at 6:30pm. The meeting format will be announced in accordance with State and local health guidelines.

17. Adjournment: The meeting adjourned at 10:39pm.

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	Jan. 21, 2021	Nov. 19, 2020	Sept. 17, 2020	July 16, 2020	May 21, 2020	Mar. 19, 2020
Benton, Jay	Hillsborough	✓	✓	✓	✓	✓	Meeting Cancelled due to COVID-19 Shelter-in-Place Order
Breault, Randy	Guadalupe		✓	✓	✓	✓	
Chambers, Tom	Westborough	✓	✓	✓	✓	✓	
Cormack, Alison	Palo Alto	✓	✓	✓	✓	✓	
Vacant	Santa Clara	vacant	✓*	✓*	✓*	✓*	
Vacant	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

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TO: Nicole Sandkulla, CEO/General Manager

FROM: Deborah Grimes, Office Manager

DATE: March 3, 2021

SUBJECT: Budget Status Report as of January 31, 2021

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 seven-month period ending January 31, 2021, 58 percent into the fiscal year, total expenditures were \$2,282,805 or 57 percent of the total budget of \$4,020,679.

Table 1. Operating Budget Summary as of January 31, 2021

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	1,114,850	555,345	50%
Fair Pricing	239,500	229,694	96%
Administration	100,000	121,404	121%
Subtotal	1,454,350	906,443	62%
Administration and General			
Salary & Benefits	2,075,354	1,155,776	56%
Other Expenses			
BAWSCA	427,400	220,028	51%
BAWUA	1,050	0	0%
Subtotal	3,958,154	2,282,247	58%
Capital Expenses	3,000	0	0%
Budgeted Contingency	57,500	0	0%
Regional Financing Authority	2,025	558	28%
Grand Total	4,020,679	2,282,805	57%

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 42 percent expended. The Operating Budget allocation of \$150,000 for strategic counsel was 66 percent expended. The Operating Budget allocation of \$606,500 budget for legal counsel was 100 percent expended. The \$232,100 budget for water management and conservation-related activities was 22 percent expended. The CEO will continue to closely review consultant expenses, including legal counsel and others, and provide an update to the BPC at its meeting in April.

Administration and Other Expenses

Budgets for salaries and other expenses were 56 and 51 percent expended respectively.

Use of CEO's Discretionary Spending Authority:

In February, the CEO entered into the following agreement under her discretionary spending authority:

- A contract amendment in the amount of \$10,000 for KNN Public Finance Inc., for services related to the Water Supply Agreement.

Expenses related to this action will be reflected in the budget status report for the period ending March 31, 2021. The total Operating Budget for FY 2020-21 remains the same.

Use of Reserve and Reserve Fund Balance:

Unspent funds at the end of FY 2019-20 were \$435,266. 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. Both transfers were executed in November. The BAWSCA General Reserve balance as of January 31, 2021, shown below, reflects the transfers.

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 11/30/20)	Account Balance (As of 01/31/21)
General Reserve	\$1,139,243	\$1,139,243



Bay Area Water Supply & Conservation Agency

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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: March 8, 2021

**SUBJECT: Bond Surcharge Collection, Account Balance and Payment Report
as of December 31, 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.

All monthly surcharges billed for October through December 2020 have been collected in BAWSCA's trustee account, except one agency's December payment made late in February due to its internal payment processing issue. The late payment of \$21,675 will be included in the SFPUC's remittance to BAWSCA's trustee account in March 2021. 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 12/31/2020

<u>Month</u>	<u>Amount Billed</u>	<u>Amount Remitted to Trustee</u>	<u>Difference</u>
October 2020	\$2,057,093	\$2,057,093	\$0
November 2020	\$2,057,093	\$2,057,093	\$0
December 2020	\$2,057,093	\$2,035,418	\$21,675
Total	\$6,171,279	\$6,149,604	\$21,675

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 12/31/2020

	\$36,476,735	Account Market Value as of 9/30/2020
<i>plus:</i>	6,307,662	<i>Surcharge Collected in October 2020 through December 2020</i>
<i>plus:</i>	280	<i>Money Market Fund Interest, Security Coupons/Accrued Interest Received</i>
<i>plus:</i>	1,824,827	<i>Change in Market Value of Held Treasury Bonds</i>
<i>minus:</i>	18,811,886	<i>Debt service payment to bondholders</i>
<i>minus:</i>	1,880,257	<i>Principal for Treasury bonds purchased</i>
<i>minus:</i>	175	<i>Accrued interest for Treasury bonds purchased</i>
	\$23,917,186	Account Market Value as of 12/31/2020

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. In October 2020, 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.

On December 31, 2020, the book yield and market yield on BAWSCA's revised portfolio strategy was 1.66% and 0.19% respectively, as compared to the yield of 0.01% for the money market fund.

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 AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Proposed Fiscal Year 2021-22 Bond Surcharges**

Summary:

This memorandum presents the proposed bond surcharge for each BAWSCA agency for FY 2021-22. The surcharge would take effect on July 1, 2021. This surcharge setting conforms to BAWSCA's Revenue Bond Indenture (Indenture) for the Series 2013A and 2013B revenue bonds.

Board Policy Committee Action:

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

Recommendation:

That the Board approve the proposed FY 2021-22 bond surcharges as presented in this memorandum.

Discussion:

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

The annual surcharges for FY 2021-22 are calculated by multiplying the obligated debt service in 2022 by each agency's percentage of total wholesale customer purchases in FY 2019-20 and adding a "true up" adjustment for the FY 2019-20 surcharges. The reason FY 2019-20's purchases are used for the FY 2021-22 surcharge calculations is because they represent the latest annual purchases data available as of today. For the same reason, the FY 2019-20 surcharges were calculated based on the latest annual purchases data available at that time, not FY 2019-20's, and "true up" adjustment is used to reflect each agency's actual percentage of water purchases in FY 2019-20 and to reimburse BAWSCA for some expenses incurred in FY 2019-20 in connection with the bond administration that were paid through BAWSCA's FY 2019-20 Operating Budget.

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

The proposed FY 2021-22 bond surcharge for each BAWSCA agency is shown in Table 1. Table 2 shows how the "true up" adjustment for each BAWSCA agency is determined and included in the proposed FY 2021-22 surcharge amount. Table 3 indicates how much the capital recovery payment cost would be in FY 2019-20 (column A) if BAWSCA didn't issue the bonds to prepay the capital debt that the agencies owed to San Francisco. The actual savings to each agency in FY 2019-20 (column E) are calculated accordingly.

Table 1. Proposed BAWSCA FY2021-22 Bond Surcharges

Agency	Annual Bond Surcharge	Monthly Bond Surcharge	Agency	Annual Bond Surcharge	Monthly Bond Surcharge
Alameda County WD	\$1,381,116	\$115,093	Mid Pen WD	\$513,000	\$42,750
Brisbane Water	\$55,380	\$4,615	Millbrae	\$321,240	\$26,770
Burlingame	\$645,276	\$53,773	Milpitas	\$1,265,664	\$105,472
Coastside County WD	\$145,620	\$12,135	Mountain View	\$1,395,312	\$116,276
CWS - Bear Gulch	\$2,299,284	\$191,607	North Coast WD	\$388,512	\$32,376
CWS - Mid Peninsula	\$2,442,804	\$203,567	Palo Alto	\$1,737,240	\$144,770
CWS - South SF	\$830,532	\$69,211	Purissima Hills WD	\$321,720	\$26,810
Daly City	\$765,468	\$63,789	Redwood City	\$1,657,920	\$138,160
East Palo Alto WD	\$282,132	\$23,511	San Bruno	\$185,640	\$15,470
Estero Municipal ID	\$810,408	\$67,534	San Jose (North)	\$719,796	\$59,983
Guadalupe Valley	\$48,504	\$4,042	Santa Clara	\$836,796	\$69,733
Hayward	\$2,521,752	\$210,146	Stanford University	\$251,124	\$20,927
Hillsborough	\$468,768	\$39,064	Sunnyvale	\$1,714,320	\$142,860
Menlo Park	\$509,076	\$42,423	Westborough WD	\$178,188	\$14,849
Total				\$24,692,592	\$2,057,716

**Table 2. Impact of FY 2019-20 True-up Adjustment on
FY 2021-22 Proposed Surcharges**

Agency	FY 2019-20			FY 2021-22	
	Surcharge Collected (Based on FY 2017-18 Purchase)	Surcharge Obligation (Based on FY 2019-20 Purchase)	Difference: True-up Amount	Surcharge To Be Collected (Based on FY 2019-20 Purchase)	Proposed Surcharge Incl. True-up Amount for FY 2019-20
Alameda County WD	\$1,519,629	\$1,450,928	(\$68,701)	\$1,449,815	\$1,381,116
Brisbane Water	\$84,274	\$69,853	(\$14,420)	\$69,800	\$55,380
Burlingame	\$656,602	\$651,187	(\$5,415)	\$650,688	\$645,276
Coastside County WD	\$183,586	\$164,664	(\$18,922)	\$164,538	\$145,620
CWS - Bear Gulch	\$1,971,874	\$2,136,397	\$164,523	\$2,134,759	\$2,299,284
CWS - Mid Peninsula	\$2,359,359	\$2,402,000	\$42,641	\$2,400,158	\$2,442,804
CWS - South SF	\$937,681	\$884,448	(\$53,233)	\$883,770	\$830,532
Daly City	\$698,641	\$732,334	\$33,693	\$731,773	\$765,468
East Palo Alto WD	\$302,904	\$292,630	(\$10,275)	\$292,405	\$282,132
Estero Municipal ID	\$809,544	\$810,285	\$741	\$809,664	\$810,408
Guadalupe Valley	\$48,961	\$48,752	(\$209)	\$48,715	\$48,504
Hayward	\$2,784,636	\$2,654,211	(\$130,425)	\$2,652,176	\$2,521,752
Hillsborough	\$489,854	\$479,492	(\$10,362)	\$479,125	\$468,768
Menlo Park	\$546,354	\$527,920	(\$18,434)	\$527,515	\$509,076
Mid Pen WD	\$479,331	\$496,355	\$17,024	\$495,974	\$513,000
Millbrae	\$389,292	\$355,403	(\$33,889)	\$355,131	\$321,240
Milpitas	\$997,863	\$1,132,198	\$134,335	\$1,131,330	\$1,265,664
Mountain View	\$1,442,874	\$1,419,639	(\$23,234)	\$1,418,551	\$1,395,312
North Coast WD	\$465,098	\$426,971	(\$38,127)	\$426,644	\$388,512
Palo Alto	\$1,905,412	\$1,822,025	(\$83,388)	\$1,820,627	\$1,737,240
Purissima Hills WD	\$316,599	\$319,281	\$2,682	\$319,036	\$321,720
Redwood City	\$1,611,506	\$1,635,337	\$23,831	\$1,634,083	\$1,657,920
San Bruno	\$174,885	\$180,329	\$5,444	\$180,191	\$185,640
San Jose (North)	\$861,881	\$791,145	(\$70,736)	\$790,538	\$719,796
Santa Clara	\$392,773	\$615,023	\$222,250	\$614,551	\$836,796
Stanford University	\$284,377	\$267,854	(\$16,522)	\$267,649	\$251,124
Sunnyvale	\$1,809,706	\$1,762,690	(\$47,016)	\$1,761,338	\$1,714,320
Westborough WD	\$148,278	\$163,296	\$15,017	\$163,170	\$178,188
Totals	\$24,673,774	\$24,692,647	\$18,873	\$24,673,712	\$24,692,592

**Table 3. Actual Savings to Each Agency for FY 2019-20 Resulting from
BAWSCA 2013A and 2013B Bond Issuance**

	FY 2019-20				
Agency	SFPUC Capital Recovery Payment	Annual Surcharge Collected in FY 2019-20	True-ups To Be Collected or Refunded in FY 21-22	BAWSCA Annual Surcharge Plus True-ups	Actual Savings
	A	B	C	D = B + C	E = A - D
Alameda County WD	\$1,657,018	\$1,519,629	(\$68,701)	\$1,450,928	\$206,090
Brisbane Water	\$79,775	\$84,274	(\$14,420)	\$69,853	\$9,922
Burlingame	\$743,682	\$656,602	(\$5,415)	\$651,187	\$92,495
Coastside County WD	\$188,053	\$183,586	(\$18,922)	\$164,664	\$23,389
CWS - Bear Gulch	\$2,439,852	\$1,971,874	\$164,523	\$2,136,397	\$303,455
CWS - Mid Peninsula	\$2,743,181	\$2,359,359	\$42,641	\$2,402,000	\$341,181
CWS - South SF	\$1,010,075	\$937,681	(\$53,233)	\$884,448	\$125,627
Daly City	\$836,355	\$698,641	\$33,693	\$732,334	\$104,021
East Palo Alto WD	\$334,195	\$302,904	(\$10,275)	\$292,630	\$41,565
Estero Municipal ID	\$925,378	\$809,544	\$741	\$810,285	\$115,093
Guadalupe Valley	\$55,677	\$48,961	(\$209)	\$48,752	\$6,925
Hayward	\$3,031,216	\$2,784,636	(\$130,425)	\$2,654,211	\$377,005
Hillsborough	\$547,600	\$489,854	(\$10,362)	\$479,492	\$68,107
Menlo Park	\$602,905	\$546,354	(\$18,434)	\$527,920	\$74,986
Mid Pen WD	\$566,857	\$479,331	\$17,024	\$496,355	\$70,502
Millbrae	\$405,885	\$389,292	(\$33,889)	\$355,403	\$50,482
Milpitas	\$1,293,016	\$997,863	\$134,335	\$1,132,198	\$160,818
Mountain View	\$1,621,286	\$1,442,874	(\$23,234)	\$1,419,639	\$201,646
North Coast WD	\$487,618	\$465,098	(\$38,127)	\$426,971	\$60,647
Palo Alto	\$2,080,826	\$1,905,412	(\$83,388)	\$1,822,025	\$258,801
Purissima Hills WD	\$364,632	\$316,599	\$2,682	\$319,281	\$45,351
Redwood City	\$1,867,621	\$1,611,506	\$23,831	\$1,635,337	\$232,284
San Bruno	\$205,944	\$174,885	\$5,444	\$180,329	\$25,614
San Jose (North)	\$903,519	\$861,881	(\$70,736)	\$791,145	\$112,374
Santa Clara	\$702,381	\$392,773	\$222,250	\$615,023	\$87,358
Stanford University	\$305,901	\$284,377	(\$16,522)	\$267,854	\$38,046
Sunnyvale	\$2,013,063	\$1,809,706	(\$47,016)	\$1,762,690	\$250,373
Westborough WD	<u>\$186,490</u>	<u>\$148,278</u>	<u>\$15,017</u>	<u>\$163,296</u>	<u>\$23,195</u>
Totals	\$28,200,000	\$24,673,774	\$18,873	\$24,692,647	\$3,507,353

Alternative uses of excess fund balance in the Stabilization Fund

BAWSCA's bonds Stabilization Fund held at the Trustee, Bank of New York, serves as a reserve to cover the debt service payments in case of shortfalls in the surcharge collection. As of 12/31/2020, the market value balance in the Stabilization Fund, was \$13,593,945. Per the Bond Indenture, the Stabilization Requirement or minimum balance of the Stabilization Fund is 50% of the maximum annual debt service, in an amount of \$12,337,535. The difference between the two amounts, known as "excess stabilization fund balance", is approximately \$1.25 million at this time. Note, this difference amount has been built up due to both the investment earnings and an increase in the market value of the existing investments since the time they were purchased. The increase in market value is, in part, due to the fact that interest rates have dropped significantly since the start of COVID-19.

As the interest rates rise, the portfolio market value would drop down. Given the current market and BAWSCA's 0-5 year ladder investment strategy, BAWSCA's investment advisor expects the portfolio market value in the stabilization fund to drop by a range of \$85,000 to \$660,000 in the next 6-12 months, assuming the interest rate goes up by a range of 0.25%-2%. Considering that the portfolio is expected to continue to receive interest earnings at about 1.3%, the current excess stabilization fund balance of \$1.25 million could end up at some amount between \$1.35 million and \$675,000 in the next 6-12 months.

Based on a recent evaluation of all possible uses of the current excess stabilization funds, BAWSCA's preliminary recommendation is to use the excess funds to pay for the non-contingent cost of issuance for the potential bond refunding, which is currently estimated to be approximately \$200,000, subject to Bond Counsel's approval. The remainder of the excess stabilization fund can be used to pay down the principal amount when BAWSCA refunds the Series 2013A bonds. The most appropriate level of withdrawal amount from the stabilization fund will be analyzed again and determined closer to the bond pricing date.

BAWSCA has evaluated three alternative uses for the current excess stabilization fund. The findings are summarized below.

- Option 1: To withdraw \$800,000-\$900,000 on 2/28/2022; use that amount to pay for part of the \$5,349,356 debt service payment due on 4/1/2022; and reduced the total FY 2021-22 bond surcharges to be collected from the member agencies by \$800,000-\$900,000. This reduction in surcharge payment represents approximately a 3.5% savings to each member agency compared to the annual surcharge it would otherwise be obligated to pay without a withdrawal/credit from the stabilization fund. While there would be a reduction of 3.5% in the member agencies surcharge payments for FY 2021-22 due to this one-time only credit, the surcharge payments for FY 2022-23 would bounce back and look like a 3.5% increase from the prior year's bond surcharge payments, but only assuming that the refunding doesn't occur.
- Option 2: To eventually withdraw the remaining excess attributable to Series 2013A and use that amount to pay down the principal amount while BAWSCA refunds the Series 2013A bonds by the end of January 2023, thereby slightly reducing the amount of refunding bonds to be sold. The timing of the withdrawal from stabilization fund depends on when BAWSCA would refund the bonds. Due to the refunding based on lower interest rates, the bonds Stabilization Requirement will be less than the current requirement. Therefore, part of the current stabilization fund balance, in addition to the excess fund, would be used to pay down the principal balance. This would spread out the benefit of the current excess over the remaining life of the bonds.
- Option 3: To remain in the stabilization fund until 10/1/2034 when the last debt service payment for Series 2013B is due. The entirety of the excess fund will be used to fund part of the debt service payment that is usually 100% funded by the member agencies

bond surcharges. While the excess stabilization fund that remains in the Trustee account continue earning investment earnings at approximately 1.5% based on the current investments, once each investment matures, reinvestment will likely be at lower yields for the foreseeable future. As a result, the investment earnings are expected to be significantly lower than the borrowing cost, as the agency is paying for the debt service payment at a blended interest rate of 3.14%.

Based on the findings summarized above, Option 2 of maintaining the current excess funds in the stabilization fund until BAWSCA is ready to refund the Series 2013A bonds is determined most appropriate at this time. The proposed FY 2021-22 bond surcharges do not reflect the application of the excess stabilization fund.

Background:

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

BAWSCA has been collecting the bond surcharge from member agencies since July 2013 through the SFPUC as a separate item on SFPUC's monthly water bills to member agencies. FY 2021-22 will be the ninth year for BAWSCA to collect the bond surcharge payments that are used to make debt service payments on BAWSCA's revenue bonds.

Calculating the "True Up" Adjustment

Consistent with the Indenture, the FY 2021-22 bond surcharge setting includes a "true up" adjustment included in the calculation. This "true up" adjustment is used to reflect each agency's actual percentage of water purchases in FY 2019-20 and to reimburse BAWSCA for some expenses incurred in FY 2019-20 in connection with the bond administration that were paid through BAWSCA's FY 2019-20 Operating Budget. Those expenses include the fees to Bank of New York for its Trustee services and the costs of legal, financial advisor, investment advisor, and arbitrage rebate consultant. A "true up" adjustment is anticipated every year as part of the calculation of the Annual Bond Surcharge.

The annual surcharges collected from the BAWSCA agencies in FY 2019-20 were calculated by multiplying the obligated debt service in 2020 by each agency's percentage of total wholesale customer purchases in FY 2017-18. FY 2017-18 purchases were used as a surrogate for FY 2019-20 purchases, which were not known when the FY 2019-20 bond surcharges were adopted.

Now that the actual wholesale customer purchases for FY 2019-20 and the actual expenses incurred in FY 2019-20 in connection with the bond administration are available, the actual surcharges for FY 2019-20 are calculated again by multiplying a sum of the obligated debt service in 2020 and the actual expenses incurred in FY 2019-20 by each agency's percentage of total wholesale customer purchases in FY 2019-20. The difference between the surcharges that were actually collected in FY 2019-20, which were based on the surrogate purchase values, and the actual surcharges for FY 2019-20, which are based on actual FY 2018-19 purchases, are one component of the "true up" adjustments to be included in the annual surcharge setting for FY 2021-22.

The second component of the "true up" adjustment is inclusion of \$18,873 of actual expenses incurred by BAWSCA in FY 2019-20 in connection with the bond administration, which represents 0.08% of the annual debt service of the bonds in 2022. In addition, pursuant to the

March 18, 2021 – Agenda Item #6D

Prepayment and Collection Agreement between BAWSCA and San Francisco, BAWSCA shall reimburse San Francisco for specific expenses incurred for compliance with tax-exempt regulations. BAWSCA didn't receive any relevant bill from San Francisco in FY 2019-20. A "true up" adjustment for FY 2021-22 will be included in the surcharge setting for FY 2023-24.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Amendment to Hanson Bridgett Professional Services Contract**

Summary:

Activities associated with completing Water Supply Agreement (WSA) amendment allowing for the transfer of minimum purchase obligations between member agencies, and addressing the State Water Resources Control Board Bay Delta Plan Update and the Federal Energy Regulatory Commission (FERC) relicensing of New Don Pedro has required more legal resources to date than originally budgeted and requires additional use of legal counsel services for the remainder of FY 2021-22. As a result, the contract with Hanson Bridgett must be amended to avoid disruption of necessary work to achieve critical results for FY 2021-22. A budget amendment for an additional \$200,000 is recommended to fund necessary work through June 2021 for a revised not to exceed total budget of \$806,500.

Fiscal Impact

This recommended budget increase would be funded using two sources; a \$142,000 transfer from the General Reserve, and budgeted contingency of \$57,500 from the FY 2020-21 Operating Budget, of which none has been expended to date. The current General Reserve balance is \$1,139,243. A transfer of \$142,500 from the General Reserve would leave a balance of \$996,743, or 25% of the current FY 2020-21 Operating Budget of \$4,020,679. This transfer would also increase the FY 2020-21 Operating Budget to \$4,163,179.

Board Policy Committee Action:

The Board Policy Committee voted unanimously to recommend the proposed board action.

Recommendation:

That the Board authorize the CEO/General Manager to:

- 1. amend the professional services contract with Hanson Bridgett by \$200,000 for a total not to exceed amount of \$806,500;**
- 2. to transfer \$142,500 from the General Reserve to the Operating Budget to fund a portion of this contract increase; and**
- 3. to use \$57,500 from budgeted contingency to fund a portion of this contract increase.**

Discussion:

Expenses associated with completing the WSA amendments are significantly more than budgeted due to the unanticipated legal questions and concerns that arose over the last six months requiring additional negotiations among the member agencies and with SFPUC. The effort associated with the Bay Delta Plan and FERC have similarly continued to increase in complexity, requiring additional legal resources. In all these cases, the level of effort was higher than the budgeted activity level and additional funds are necessary at this time to protect the interests of the member agencies and their water customers. Table 1 presents the historical budget information for BAWSCA legal counsel with notations included to identify the reasons for significant budget increases and decreases.

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Table 1. Historical Budget Information for BAWSCA Legal Counsel (Hanson Bridgett)

Hanson Bridgett	Original Contract	Year End Contract	Actual Year End Expense	Budget vs. Expenses	Notes
FY 05-06	\$335,000	\$395,000	\$297,848	75%	Jan. 2006-additional \$60k from contingency; no change to op. budget
FY 06-07	\$469,000	\$469,000	\$365,062	78%	
FY 07-08	\$665,000	\$665,000	\$583,120	88%	
FY 08-09	\$644,500	\$817,000	\$817,776	100%	May 2009-additional \$172.5k reallocated from other expense categories; no change to op. budget (Finalize WSA negotiation)
FY 09-10	\$311,000	\$419,000	\$333,169	80%	Jan. 2010-additional \$108k reallocated from other expense categories; no change to op. budget (Strategy contract)
FY 10-11	\$366,000	\$366,000	\$318,667	87%	
FY 11-12	\$390,000	\$415,000	\$414,430	100%	May 2012-additional \$25k reallocated from contingency; no change to op. budget
FY 12-13	\$451,000	\$569,000	\$558,120	98%	Sept. 2012-additional \$58k reallocated from General Reserve; increase op. budget (Pilot water transfer)
					May 2013-additional \$60k reallocated from other expense categories, including contingency; no change to op. budget
FY 13-14	\$496,000	\$601,000	\$600,983	100%	April/May 2014-additional \$105k reallocated from other expense categories, including contingency; no change to op. budget (CEO and staff transition)
FY 14-15	\$524,000	\$624,000	\$588,715	94%	May 2015-additional \$100k from other expense categories, including contingency; no change to op. budget (WSA administration)
FY 15-16	\$586,500	\$586,500	\$556,148	95%	
FY 16-17	\$651,000	\$726,000	\$627,874	86%	May 2017-additional \$75k - \$57k from contingency & \$17.5k from Terry Roberts; no change to op. budget (WSA administration, HH litigation)
FY 17-18	\$669,000	\$669,000	\$605,442	90%	
FY 18-19	\$669,000	\$919,000	\$919,000	100%	March 2019-additional \$150k; \$57.5k from contingency, \$50.k from General Reserve, \$42.5k from other unspent funds; \$50k added to operating budget. May 2019 - additional \$100k reallocated from other expense categories; no change to operating budget (WSA 2018 amendments, Bay Delta/FERC)
FY 19-20	\$799,500	\$819,000	\$818,000	100%	June 2020 - \$19.5 reallocated from other expense categories; no change to operating budget (Bay Delta/FERC)
FY 20-21	\$606,500				

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Preliminary Fiscal Year 2021-22 Work Plan, Results to be Achieved, and Operating Budget**

Summary:

This memorandum presents the preliminary Fiscal Year (FY) 2021-22 Work Plan, Results to be Achieved, and Operating Budget. Comments received from the Board at the January 21, 2021 Work Plan and Budget Preparation Planning Session have been reviewed and addressed. The preliminary Work Plan includes the CEO's recommendations for addressing comments received during the Budget Planning Session and input received from the Board Policy Committee in February.

The preliminary Work Plan remains aligned with BAWSCA's legislated authority and its three goals: a reliable supply of high-quality water at a fair price. Major work areas include increasing level of review of SFPUC's 10-year Capital Improvement Program and Asset Management Program; refresh and update of BAWSCA's Regional Water Demand and Conservation Projections Study (Demand Study); scoping for an update to BAWSCA's 2009 Long Term Reliable Water Supply Strategy (Strategy); provide drought support to member agencies and their customers; implement BAWSCA's core and subscription conservation programs including two new programs; participation in the State Water Resources Control Board (SWRCB) Bay Delta Water Quality Control Plan Update to ensure member agency interests are represented; participation as an intervenor on Federal Energy Regulatory Commission (FERC) proceedings associated with the licensing of New Don Pedro Reservoir; taking action necessary to ensure that the SFPUC meets its legal and contractual water supply reliability obligations to its Wholesale Customers; monitor SFPUC's development of new water supplies through its Alternative Water Supply Planning Program; initiate development of a new Tier 2 drought implementation plan; administer BAWSCA's bonds including potential refunding; administer the Water Supply Agreement (WSA) with San Francisco to protect financial interests of the member agencies; implement Board policy directives for management of BAWSCA's unfunded pension liability obligations; and initiate a new BAWSCA diversity internship program.

The preliminary Operating Budget is \$4,864,794, which is 21% above the approved FY 2020-21 Operating Budget. The preliminary Operating Budget represents approximately a 43-cent increase in annual cost per person in the service area for an estimated cost to the water customer of \$2.63 per person per year. Considerations for funding the preliminary Operating Budget are presented below for further discussion.

Board Policy Committee Action:

The preliminary work plan was presented to the Committee for discussion. The Committee provided feedback on individual preliminary work plan items and results. No action by the Committee was taken.

Recommendation:

That the Board provide comments and suggestions concerning the:

- 1. Preliminary FY 2021-22 Work Plan and Results to be Achieved;**
- 2. Preliminary Operating Budget of \$4,864,794 and,**
- 3. Preliminary considerations and alternatives for funding the Operating Budget.**

Discussion:

The discussion below presents a preliminary Work Plan and Operating Budget for FY 2021-22 as well as a discussion of alternatives for funding the preliminary Work Plan.

PRELIMINARY FY 2021-22 WORK PLAN AND RESULTS TO BE ACHIEVED:

Next year's Work Plan addresses all of the anticipated issues and results to be achieved discussed with the Board Policy Committee in December and with the Board in January.

The preliminary FY 2021-22 Work Plan includes the following major efforts:

- Oversight of the SFPUC's WSIP, 10-Year Capital Improvement Program (CIP), and Regional Water System (RWS) Asset Management Program.
- Implement BAWSCA's 2009 Strategy, including the following actions:
 - Complete Phase 3 pre-feasibility studies for the Potable Reuse Exploratory Plan (PREP), a potential purified water project in partnership with SFPUC, Silicon Valley Clean Water and others. Engage with advocacy groups (e.g., WaterReuse) to access and exchange critical technical, legislative, and legal information to support these studies;
 - Participate in the development of the Bay Area Regional Reliability Partnership (BARR) Bay Area Regional Water Market (Exchange/Transfer) Program, with inclusion of a pilot water transfer that includes ACWD, BAWSCA and SFPUC;
 - Promote the continued sustainable use of San Mateo Plain Groundwater Basin (Basin) for long-term water supply reliability through the Groundwater Reliability Partnership and other multi-party efforts;
 - Refresh and update BAWSCA's Demand Study; and
 - Complete scoping activity for an update to BAWSCA's 2009 Strategy.
- Provide drought support to member agencies and their customers, assuming dry conditions in FY 2021-22.
- Represent member agency interests in regional and statewide discussions related to the new State of California "Making Water Conservation a Way of Life" long-term conservation requirements.
- Implement 2 new subscription conservation programs developed in FY 2020-21.
- Implement regional core and subscription conservation programs to support member agencies and their customers.
- Take actions to protect member agencies' water supply interests in administration of the 2009 WSA including the following:
 - Monitor SFPUC's development of new supplies through its Alternative Water Supply Planning Program and participate as appropriate to ensure that the SFPUC can meet its water supply reliability obligations to its Wholesale Customers; and
 - Initiate development of an updated Tier 2 drought allocation plan.
- Participate in the SWRCB's Bay Delta Water Quality Control Plan Update to ensure member agency interests are represented.
- Participate in the New Don Pedro and La Grange FERC proceedings to protect regional water supplies.

- Administer the 2009 WSA.
- Administer BAWSCA's bonds, including possible refunding.
- Initiate a new 3 to 6-month diversity internship program.
- Implement Board policy directives for management of BAWSCA's unfunded pension liability obligations.

Table 1 presents the preliminary FY 2021-22 Work Plan and major results to be achieved. The activities are grouped according to the agency goals they support.

Table 2 lists the items that are not included in the preliminary Work Plan. Any of these items could be added at a later date, if needed, following further discussion with the Board concerning available resources and priorities.

New or Significantly Re-scoped Activities for FY 2021-22:

There are eight new, significantly rescoped, or expanded activities included in the preliminary FY 2021-22 Work Plan. In each case, these activities relate directly to ensuring water supply reliability for the customers served by the BAWSCA member agencies.

1. Refresh and Update BAWSCA 2020 Demand Study
Estimated FY 2021-22 Cost: \$277K

At the close of FY 2019-20, BAWSCA completed the 2020 Demand Study. Currently, there are several efforts underway both at the State level and by BAWSCA Member agencies that are likely to impact the projections prepared in that 2020 study. For example, member agencies are developing their 2020 UWMPs within which updated water demands, population projections, and conservation efforts will be detailed. Similarly, the State of California will be proposing new water efficiency targets that are likely to impact member agencies' conservation strategies. Those targets are due to be released in draft form in the fall of 2021. Matters outside member agency control, such as the long-term impacts of COVID-19 related changes on water use, are worthy of consideration in demand estimates. It is believed that those impacts can be analyzed once the COVID-19 crisis has passed. Finally, the SFPUC is due to release its climate change study results in the spring of 2021.

Given the above-detailed impacts on demand, it is recommended that a refresh and update of the 2020 Demand Study be initiated in FY 2021-22. The recommended update will be extensive, as estimating what the impacts are to each member agency will take significant study and require agency-specific feedback and involvement, including an update of all 28 water demand models. BAWSCA would secure consultant support for this effort with the overall update starting in FY 2021-22. The draft preliminary budget includes an estimated \$277,000 for consultant support including a small budget for legal counsel.

2. Complete Scoping for an Update of BAWSCA's 2009 Strategy
Estimated FY 2021-22 Cost: \$54K

In 2009, BAWSCA initiated the development of its Strategy to provide a comprehensive, regional assessment of the BAWSCA member agencies' water supply reliability needs, complete an evaluation of potential water management actions that could be implemented to meet these needs, and identify potential actions for consideration by the Board to achieve an increased level of regional reliability. The 2009 Strategy effort

spanned several fiscal years and was completed in 2015. The total technical cost for the 2009 Strategy was \$1.9M, including \$117K for scoping.

Implementation of the 2009 Strategy recommendations has been incorporated into the adopted work plan annually since FY 2015-16. BAWSCA efforts to develop new sources of water supply, as well as BAWSCA's efforts to engage and promote the development of new alternative water supplies by the SFPUC were performed in accordance with the Strategy. For example, BAWSCA's participation in the Los Vaqueros Reservoir Expansion Project, the Pilot Water Transfer, and the current participation in the PREP Project, all resulted from the direction given in the 2009 Strategy.

Since the completion of the 2009 Strategy in 2015, there have been significant changes that impact the region's long-term water supply planning efforts. For example, the region has weathered the 2014-17 drought, new Urban Water Management Plans (UWMP) have been prepared, COVID-19 has impacted the region, customer behavior has changed as a result of conservation measures being adapted and embraced, SFPUC has made progress toward completing the WSIP, BAWSCA completed its 2020 Demand Study, and there have been profound regulatory actions at the State and Federal level that have an impact on water supply reliability.

Given all that has transpired since the completion of the 2009 Strategy, it is appropriate to consider preparing an update. For FY 2021-22, the preliminary Work Plan proposes completion of a scoping effort to identify what the scope, schedule and budget should be for an update to the 2009 Strategy. The scoping effort will be led by staff and require consultant support and engagement with the Board and member agencies through the Water Management Representatives. The draft preliminary budget includes an estimated \$50,000 for consultant and legal support.

3. Drought Support (if needed) for Member Agencies
Estimated FY 2021-22 Cost: \$24K

As of the end of January, hydrologic conditions for water year 2020-21 indicate a strong potential for drought conditions. In accordance with the Water Supply Agreement, SFPUC will continue to assess the water supply availability for the Regional Water System and provide regular updates to the member agencies including a final estimate of available water supply and need for water use reductions by April 15th. In the event that drought conditions are present throughout California, there is the possibility that State involvement will occur.

As necessary, BAWSCA and its member agencies will adjust respective work assignments in response to droughts. For example, during the recent 2014-2017 drought, BAWSCA modified its Work Plan to provide increased assistance to member agencies and water customers on drought related matters. Possible actions fall into three categories: 1) demand management actions to reduce water use, including providing enhanced public outreach and expansion of existing water conservation programs; 2) working with the SFPUC and others as needed to speed the implementation of new water supplies, including temporary supplies during droughts; and 3) regulatory and policy support. BAWSCA's Drought Report, prepared in 2017 and posted on the BAWSCA website, provides a thorough overview of the timeline and efforts undertaken during the 2014-2017 drought. Similar efforts would be recommended for a drought that can potentially occur this year.

At this time, the draft preliminary budget includes an estimated \$26,000 budget allocation for miscellaneous services to provide support, however this task is tentative with a final determination prior to final budget adoption by the Board in May 2021.

4. Develop Leak Repair and Training Certification Program for Implementation in FY 2022-23

Estimated FY 2021-22 Cost: \$34K

BAWSCA's development of a leak repair and training certification program began in FY 2020-21. This is a new program and there are no similar programs in place at other water agencies to replicate or expand from. The merits of training and certification are significant however, and the development of such a program, is of great interest to member agencies.

Program development, as assisted by an as-yet-to-be selected consultant, will continue in FY 2021-22 such that the program itself can be implemented in FY 2022-23. Program development efforts will research the training methods and procedures that would be employed, the outreach and agency involvement needed to promote the training, and the methods used to test and certify those that complete the program. The draft preliminary budget includes an estimated \$34,000 for consultant support and a modest budget for legal counsel support.

5. Initiate Development of an Updated Tier 2 Drought Implementation Plan

Estimated FY 2021-22 Cost: \$75K

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 existing Tier 2 Plan was first adopted by each Wholesale Customer in the winter/spring of 2011 pursuant to Section 3.11.C of the WSA. That Tier 2 Plan, which initially expired on December 31, 2018, has been extended each year with the current Tier 2 Plan expiring on December 31, 2021.

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 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 through the spring of 2022, with final requirements released in June of 2022.

Development of an updated Tier 2 Plan can be initiated in FY 2021-22 with the release of the draft water use efficiency requirements by DWR in Fall 2021. Development and negotiations are expected to take more than one year with significant involvement and input from member agencies through the Water Management Representatives. The agreed upon Tier 2 Plan must then be adopted by the governing body of each member agency. The draft preliminary budget includes \$75,000 for technical consultant and legal counsel support.

6. Refunding of BAWSCA's Revenue Bond Series 2013A
Estimated FY 2021-22 Cost: 300K

The objective of a potential bond refunding of BAWSCA's Revenue Bond Series 2013A tax-exempt bonds is to generate debt service savings and eventually save the water customers money. Based on the findings of the recent refunding analysis in January 2021, while the agency estimates a solid amount of potential savings (assuming current market conditions) of pricing and issuing taxable advance refunding bonds in mid-2021, BAWSCA continues to believe that there remains potential for greater savings from a tax-exempt refunding delivered in January 2023. The par amount of the callable portion of Series 2013A bonds is \$163.8 million. The estimated net present value savings are over \$23 million or 14% of the refunded bonds, assuming current interest rates.

A preliminary estimate of the total cost to refund BAWSCA's series 2013A bonds is approximately \$1-\$1.2 million, including both contingent and non-contingent costs. The non-contingent portion of the cost of issuance is estimated to be about \$300,000 and are mostly associated with the refunding planning costs, rating agency fees, trustee and escrow agent and verification agent. Monies for financial consultant support is also included in the preliminary FY 2021-22 operating budget. For a tax-exempt forward delivery, most of the non-contingent costs would have to be paid near the time of pricing in early 2022. The rest of the costs would be paid from the refunding bond proceeds, contingent upon the successful sale and delivery of bonds.

7. Develop and Implement Underserved Student Internship Program
Estimated FY 2021-22 Cost: \$44K

The implementation of an Underserved Student Internship Program was originally planned to begin in FY 2020-21 but was delayed during the budget development process due to the anticipated impacts of the COVID-19 pandemic.

This Spring, at the request of the Board, BAWSCA will release a Request for Qualifications (RFQ) that will be sent out to organizations, including schools, in the Bay Area, to identify the best entity to provide support and other assistance to BAWSCA in its future implementation of this internship program.

Collaborating with an organizational partner is seen as a way of reaching qualified candidates and also reducing BAWSCA's overall administrative burden for this program. Based on the response from the RFQ, BAWSCA anticipates selection of the organizational partner prior to the start of FY 2021-22, enabling BAWSCA to begin work on this program starting July 1, 2021.

Once the organizational partner is selected, BAWSCA will work with them to develop a plan for a 3 to 6-month internship program that would provide an opportunity for minority/disadvantaged college students pursuing a technical or business degree to gain valuable experience working to support BAWSCA's water resources or finance departments. An intern can be accommodated within the existing BAWSCA office layout and without significant office-set up costs. Depending upon the organizational partner that BAWSCA selects, the timeline may not be feasible to secure intern services in FY 2021-22, however, the draft preliminary budget includes a \$44,000 budget allocation with the goal of having an intern in FY 2021-22.

8. BAWSCA's Unfunded Pension Liability Funding Program
Estimated FY 2021-22 Cost: \$0K

Per the latest CalPERS actuarial valuation as of June 30, 2019, BAWSCA's projected unfunded pension liability as of June 30, 2022 is estimated to be \$707,333, which is scheduled to be paid off by June 30, 2038. Based on the current amortization schedule, BAWSCA's minimum required employer contribution towards the UAL for FY 2021-22 is \$68,648.

BAWSCA's estimated funding need is in a range of \$166K to \$730K, assuming the unfunded pension liability would be rescheduled to be paid off in 5 years to 1 year respectively. The sooner the UAL is paid off, the higher the total estimated present value savings. If the unfunded pension liability is paid off in FY 2021-22, the estimated funding needs are approximately \$730K, resulting in an estimated present value savings of about \$252K to BAWSCA.

The costs associated with paying off the UAL have not been included in the preliminary budget for FY 2021-22. At its February meeting, the BPC discussed several options for paying off BAWSCA's UAL and how to manage that process without overly inflating BAWSCA's assessments unnecessarily. One option that was suggested was the potential for transferring surplus funds that may be available at the close of a particular fiscal year toward paying off the UAL. Additional discussion will take place with the BPC, followed by discussions with the full Board, to determine whether that approach or an alternative funding approach is preferred.

Results of January 21, 2021 Work Plan and Budget Preparation Planning Session:

During BAWSCA's January 21, 2021 meeting, the Work Plan and Budget Preparation Planning Session was held with the Board as part of its regular meeting agenda. The focus of the planning session was to receive input from Board members on possible work plan items for the coming fiscal year. Table 3 presents the detailed comments provided by Board members during the planning session and the staff response that was subsequently prepared. These comments and responses are reflected in the preliminary FY 2021-22 Work Plan and Results to be Achieved.

One comment received during the Planning Session was a request to review the option to hire staff vs. continuing to utilize consultants to perform critical BAWSCA work. An review of the staff work load associated with the FY 2021-22 preliminary Work Plan and the anticipated challenges to be addressed by BAWSCA in the next few years for BAWSCA results in the following observations:

- For BAWSCA's work on "Reliable Water Supply" work plan areas, the fluctuations in work plan and work load continue to fluctuate dramatically year by year in the level of effort and necessary expertise, such that it is difficult to clearly identify a steady increase in a certain area of work or expertise that would justify the addition of a new staff member to offset consultant knowledge and proficiencies .

For BAWSCA's work on "Fair Price" work plan areas, analysis of the current and anticipated work load indicate little potential need for additional staff resources and insufficient benefit that can be had by offsetting the current use of outside consultant resources given their limited scope and specialized services.

As such, no changes to the staffing plan or planned use of consultants is recommended at this time as a result of this review.

Anticipated Future Work Plan Efforts and Potential Future Large Cost Project Expenditures:

Looking forward over the next 10 years, major areas of increased focus for BAWSCA will be:

- Developing an updated Long-Term Water Supply Strategy, and thereafter implementing the Strategy recommendations to assure a reliable, high quality water supply at a fair price;
- Expanding efforts to monitor SFPUC's development of its Alternative Water Supply Program that will result in the implementation of water supply projects to meet its level of service requirements, including the multiple projects necessary to address Bay Delta Plan impacts;
- Overseeing SFPUC's increasing 10-Year CIP, consistent with recently adopted WSA amendments and BAWSCA's expanded oversight role; and
- Ongoing assessment of SFPUC's asset management program, to ensure that SFPUC continues to maintain the assets it is responsible for to ensure reliable water supply.

Table 4 presents a rough estimate for the outside consultant or other expenses associated with future large cost project expenditures or budget items. Increased staff or legal counsel time is not reflected in Table 4 at this time.

This information is provided to assist the Board in its deliberation of both the current funding plan for FY 2021-22 and beyond.

Alternatives to the Preliminary Work Plan and Results to be Achieved:

An alternative to the preliminary Work Plan is to delay the update to BAWSCA's 2020 Demand Study until FY 2022-23.

The update to BAWSCA's 2020 Demand Study is necessary because, as detailed previously in this document, there are several efforts underway at the State level and by BAWSCA member agencies that are likely to impact the projections prepared in BAWSCA's 2020 Demand Study. For some of those efforts, information will not be available at the start of the work on the update. However, it is possible to begin the work in the first quarter of FY 2021-22 and incorporate information into the study as it becomes available. Some work may be required on the update in FY 2022-23 to incorporate any outstanding information.

This alternative is not recommended because the SFPUC will need to rely on BAWSCA's update to the 2020 Demand Study as they move forward into their environmental analysis associated with their Alternative Water Supply Plan. Delays in the update to BAWSCA's 2020 Demand Study could in turn have an impact on SFPUC's approach to that vitally important environmental analysis.

PRELIMINARY FY 2021-22 OPERATING BUDGET:

The preliminary Operating Budget of \$4,864,794 presented in Table 5 reflects the funding necessary to achieve the full Work Plan and includes an estimated pre-funding contribution for Other Post-Employment Benefits (OPEB). This is included as a separate line item to highlight its inclusion in this eighth year of funding.

Explanation and Alternatives for Salaries and Benefits:

The increase for salaries and benefits of \$45,235 shown in the preliminary Operating Budget is a result of a variety of changes. The preliminary Operating Budget also includes the following for all employees except the CEO:

- \$22,412 for a COLA adjustment to existing FY 2020-21 salary
- \$22,823 merit allowance separate from COLA adjustment

A Cost of Living Allowance (COLA) adjustment of 2.15% to the top step of salaries is consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose area. COLA increases for employees are not automatic, but can be granted by the CEO on the basis of merit. The history of salary and benefit adjustments for BAWSCA is presented in Appendix B to this memo.

The size of the merit allowance would permit potential salary increases of up to 5%, or to top step for the position, whichever is less.

Consistent with practice over the past two years, a budget allowance of \$23,500 for a potential merit increase for the CEO has been included in the preliminary Operating Budget. For budgeting purposes, this amount is consistent with the merit increase budgeted for the CEO since FY 2017-18.

Funding Considerations for the Preliminary Operating Budget:

Four principles have historically been used by BAWSCA when considering how to fund the preliminary Operating Budget:

1. Budget sufficient resources to achieve the desired Work Plan results.
2. Spend only what is needed to achieve the results.
3. Apply incremental and prudent increases in assessments as necessary.
4. Maintain a prudent General Reserve balance within Board guidelines.

The adopted FY 2020-21 funding plan included a 0% increase in assessments and a \$333,900 transfer from the General Reserve. The General Reserve has a current balance of \$1,139,243. That balance includes the \$333,900 transfer out of the General Reserve noted above along with a subsequent transfer of \$435,266 in November 2020 from unspent FY 2019-20 funds. The resulting General Reserve is therefore 28% of the adopted FY 2020-21 budget of \$4,020,679, which is within the BAWSCA budgetary guidelines. Specifically, BAWSCA's General Reserve Policy identifies a range of 20% to 35% of the budget year's operating expense as a budgetary guideline for the General Reserve balance.

Each year, unspent funds (if available) are moved to the General Reserve to fund special needs and future budgets. Appendix J presents historical budget data including use of the General Reserve to fund special studies, fund the Operating Budget, and provide a one-time refund to the member agencies in November 2011.

At this time, it is estimated that the FY 2020-21 Operating Budget will be 95-98% expended at year end. The CEO will continue to closely review the anticipated end of year expenses over the next few months, especially in light of increased expenses for legal counsel and others. Any post-audit excess funds will be transferred to the General Reserve in Fall 2021.

Funding Options and Alternatives:

In developing funding options to address FY 2021-22 budgetary needs, BAWSCA has four distinct funding sources to consider given the preliminary Work Plan items:

1. Member Agency Assessments
2. BAWSCA General Reserve

3. Water Supply Agreement Balancing Account: In accordance with Section 6.05.B.2.a of the WSA and BAWSCA's Balancing Account Policy, Balancing Account funds may be used for certain water resources work including the scoping of the update to BAWSCA's Strategy and the update of BAWSCA's 2020 Demand Study.
4. BAWSCA 2013 Bond Stabilization Fund; In accordance with BAWSCA's 2013 Series A and B bond covenants, certain monies in the Stabilization Fund can be used to cover a portion of the costs associated with bond refinancing.

The alternatives for funding the preliminary Operating Budget presented below consider a combination of two or more of these sources.

Table 6 present a range of funding alternatives, based on either the assumption that the current level of General Reserve (\$1,139,243) governs or that a reduced level of the General Reserve governs (\$996,743), presuming action by the Board authorizing an increase in Legal Counsel's budget and funding as recommended in a separate item on the March 18th agenda.

As shown on Table 6, Alternatives 1A-4A presume no change in the General Reserve to date:

- **Alternative 1A "Low Assessment Increase":** A 5% increase in assessments (\$3,871,118), a transfer of \$362,676 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Bond Stabilization Funds. This alternative results in a General Reserve balance of \$876,567 which is slightly below the target range at 18% of the preliminary Operating Budget.
- **Alternative 2A "Modest Assessment Increase":** An 8% increase in assessments (\$3,981,721), a transfer of \$252,073 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Bond Stabilization Funds. This alternative results in a General Reserve balance of \$987,170 which is at the low end of the target range at 20% of the preliminary Operating Budget.
- **Alternative 3A "Significant Assessment Increase":** A 16% increase in assessments (\$4,276,664), a transfer of \$288,130 from the General Reserve and use of \$300,000 in excess Bond Stabilization Funds. This alternative does not rely on any funding from the Balancing Account and results in a General Reserve balance of \$951,113 which is at the low end of the target range at 20% of the preliminary Operating Budget.
- **Alternative 4A "Outer-Most Assessment Increase":** A 23.8% increase in assessments (\$4,564,794) and use of \$300,000 in excess Bond Stabilization Funds. This alternative does not rely on any funding from the General Reserve or the Balancing Account. This alternative results in a General Reserve balance of \$1,239,243 which is within the target range at 25% of the preliminary Operating Budget.

Also as shown on Table 6, Alternatives 1B-5B presume that the General Reserve has been reduced to reflect action by the Board authorizing the increase in Legal Counsel's budget and funding at the March 18, 2021 Board Meeting. That transfer of \$142,500 from the general reserve is taken into account in Alternatives 1B-5B:

- **Alternative 1B "Low Assessment Increase":** An 5% increase in assessments (\$3,871,118), a transfer of \$362,676 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Bond Stabilization Funds. This alternative results in a General Reserve balance of \$734,067 which is below the target range at 15% of the preliminary Operating Budget.

- **Alternative 2B “Tempered Assessment Increase”:** A 9% increase in assessments (\$4,018,589), a transfer of \$215,205 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Bond Stabilization Funds, This alternative results in a General Reserve balance of \$881,538 which is slightly below the target range at 18% of the preliminary Operating Budget.
- **Alternative 3B “Measured Assessment Increase”:** An 11% increase in assessments (\$4,092,325), a transfer of \$141,469 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Bond Stabilization Funds, This alternative results in a General Reserve balance of \$955,274 which is at the low end of the target range at 20% of the preliminary Operating Budget.
- **Alternative 4B “Significant Assessment Increase”:** A 20% increase in assessments (\$4,424,135), a transfer of \$140,659 from the General Reserve and use of \$300,000 in excess Bond Stabilization Funds, This alternative does not rely on any funding from the Balancing Account and results in a General Reserve balance of \$956,084 which is at the low end of the target range at 20% of the preliminary Operating Budget
- **Alternative 5B “Outer-Most Assessment Increase”:** A 23.8% increase in assessments (\$4,564,794) and use of \$300,000 in excess Bond Stabilization Funds, This alternative does not rely on any funding from the General Reserve or the Balancing Account. This alternative results in a General Reserve balance of \$1,096,743 which is within the target range at 23% of the preliminary Operating Budget.

The alternatives above present a range of funding options, including several that do not achieve the Board’s target range for the General Reserve. They are provided to facilitate discussion by the Board. Given the ongoing legal issues facing BAWSCA, use of the General Reserve to fund a portion of the Operating Budget and the anticipated end of year level of the General Reserve should be considered very carefully. The Board is requested to provide feedback on the funding alternatives presented, including additional alternatives the Board would like to be evaluated.

Table 1. Preliminary FY 2021-22 Work Plan and Results to Be Achieved

(Percent of Preliminary Operating Budget for Each Item Shown in Parenthesis, *New/Expanded items shown in blue italic font*)

RELIABLE WATER SUPPLY

- (5.7%) 1. **Facility Reliability: Monitor the SFPUC's WSIP, 10-Year CIP, Asset Management Program, and Emergency Response**
- a. Monitor WSIP scope, cost, and schedule as San Francisco continues an aggressive construction schedule through to completion. Press the SFPUC and the city's political leadership to meet the adopted schedule, satisfy the requirements of AB 1823, and respond promptly to BAWSCA's reasonable requests. Track WSIP projects designated as critical drought water supply components to verify they have been completed in such a fashion that they can meet their intended Level of Service (LOS) goals.
 - b. Review and monitor SFPUC's Regional 10-Year Capital Improvement Program to ensure that identified projects and programs meet the needs of the BAWSCA member agencies in a cost-effective and appropriate manner.
 - c. Review and monitor SFPUC's Asset Management Program to ensure ongoing maintenance and protection of RWS assets. Monitor SFPUC's Asset Management Program to ensure long-term protection of system assets, including performing tasks or deeper reviews identified in the audit of SFPUC's asset management practices per WSA Section 3.10.c. including participation in SFPUC's roll out of their recently adopted Asset Management Policy
 - d. Provide assistance to member agencies and help facilitate engagement with the SFPUC regarding emergency response matters.
- (16.4%) 2. **Long-Term Supply Solutions: Implement the Long-Term Reliable Water Supply Strategy to Ensure a Reliable, High Quality Supply of Water is Available Where and When Needed**
- a. *Refresh & update BAWSCA's Regional Water Demand and Conservation Projections Study.*
 - b. *Complete scoping activity for an update to BAWSCA's Long-Term Reliable Water Supply Strategy (Strategy).*
 - c. Participate in development of Bay Area Regional Reliability (BARR) Phase 2 (Water Marketing Strategy) in partnership with other Bay Area water agencies.
 - d. Complete Potable Reuse Exploratory Plan (PREP) Phase 3 pre-feasibility study with SFPUC and Silicon Valley Clean Water.
 - e. Promote the continued use of San Mateo Plain Groundwater Basin (Basin) for long-term water supply reliability thru the Basin Partnership, including providing CASGEM support to San Mateo County as necessary
 - f. Facilitate development of other local water supply options including tracking and reporting to BAWSCA Board on member agency efforts, identifying potential grant funding, monitoring of related policy development, etc.
 - g. Utilize the BAWSCA Reliability Model to evaluate climate change impacts on water supply, Bay Delta Plan Voluntary Agreement impacts on reliability, the prospective benefits that new alternative water supplies may provide, and to estimate the corresponding need to ration during droughts. *Facilitate the use of the Reliability Model by BAWSCA Member Agencies via a new Subscription Program.*

- (10.3%) **3. Near-term Supply Solutions: Water Conservation and Drought Response**
- a. Provide drought support to member agencies and their customers (assuming dry conditions in FY 2021-22).*
 - b. Represent member agency interests in regional and statewide discussions on the development of and compliance with California's "Making Water Conservation a Way of Life" requirements, including new Water Efficiency Targets in development by the State.
 - c. Provide regional coordination to support member agency Advanced Metering Infrastructure (AMI) implementation and data mgmt.
 - d. Administer and implement BAWSCA's core water conservation programs.
 - e. Administer BAWSCA's subscription conservation rebate programs that benefit and are paid for by participating member agencies.
 - f. Administer an irrigation hardware rebate program – a new subscription program for FY 2021-22.*
 - g. Administer a residential self-audit tool – a new subscription program for FY 2021-22.*
 - h. Develop a leak repair and training certification program for implementation in FY 2022-23.*
 - i. Represent agencies in regional and State-level discussions relative to water conservation-related regulations, grant funding opportunities, and programs where regional participation is possible.
- (6.1%) **4. Take Actions to Protect Members' Water Supply and Financial Interests in Water Supply Agreement (WSA) Administration**
- a. Monitor SFPUC's development of new supplies through its Alternative Water Supply Planning Program and participate as appropriate to ensure that the SFPUC can meet its water supply reliability obligations to its Wholesale Customers.*
 - b. Protect members' water supply interests to ensure that the SFPUC meets its legal and contractual obligations for water supply from the Regional Water System in light of ongoing risks.
 - c. Adopt a temporary extension of the existing Tier 2 drought allocation plan that expires Dec. 2021.
 - d. Initiate development of an updated Tier 2 drought implementation plan.*
 - e. Protect members' water supply and financial interests in the SFPUC's required 2028 decisions.
- (9.9%) **5. Protect Members' Interests in a Reliable Water Supply**
- a. Participate in SWRCB Bay Delta Plan Update to ensure member agency interests are represented, including ongoing legal intervention.
 - b. Participate in the Don Pedro Project/La Grange Project FERC licensing process to protect customers' long-term interests in Tuolumne River water supplies, including ongoing legal intervention.
- (0.1%) **6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts**
- a. Pursue and use grant funds for water conservation programs and for regional supply projects and programs, including Prop 1 Integrated Regional Water Management conservation grant.
 - b. Pursue, with regional partners, grant funding to support studies that aim to improve regional water supply reliability, such as possible future BARR Phase 3 efforts.
 - c. Investigate potential for grant funds to support the implementation of the LTRWS Strategy.

(0.7%) 7. Reporting and Tracking of Water Supply and Conservation Activities

- a. Complete BAWSCA FY 2020-21 Annual Survey.
- b. Complete BAWSCA FY 2020-21 Annual Water Conservation Report.
- c. In partnership with member agencies, operate and maintain BAWSCA's Water Conservation Database (WCDB). *In FY 2021-22, review the WCDB and scope a possible update to the WCDB.*

HIGH QUALITY WATER

(0.4%) 8. Support Member Agencies in Receiving Reliable Communication of Water Quality Issues

- a. Coordinate member agency participation in Joint Water Quality Committee to ensure it addresses Wholesale Customer needs.
- b. Relay important water quality information (notices as received from SFPUC) to BAWSCA member agencies when made aware of changes that have the potential to impact water quality (e.g., taste, odor, blending, etc.).
- c. Review and act on, if necessary, State legislation affecting water quality regulations.

FAIR PRICE

(17.1%) 9. Perform Matters that Members Agencies Delegated to BAWSCA in the Water Supply Agreement

- a. Administer the Water Supply Agreement with SF to protect the financial interests of member agencies.
- b. Administer bonds issued by BAWSCA to retire capital debt owed to San Francisco.
- c. *Work on the authorization and execution of the refunding of a portion of those bonds to achieve additional interest savings in the future to the member agencies.*

AGENCY EFFECTIVENESS

(6.6%) 10. Maintain Community Allies and Contacts with Environmental Interests

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

(14.9%) 11. Manage the Activities of the Agency Professionally and Efficiently

- a. *Initiate an Underserved Student Internship Program.*
- b. *Implement Board policy directives for management of BAWSCA's unfunded pension liability obligations.*

Table 2: Activities Not Included in Preliminary FY 2021-22 Work Plan and Operating Budget

<p>RELIABLE SUPPLY</p> <ol style="list-style-type: none">1. Engage in extended or complex applications for State or Federal grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council, or other agencies.2. Introduce major new legislation or supporting/opposing legislation initiated by others including legislation related to the Bay-Delta and California Water Fix. If needed, the agency could support major legislative efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval.3. Initiate new unanticipated litigation or support/oppose new unanticipated litigation initiated by others. If needed, the agency could support major litigation efforts by redistributing resources, using the contingency budget, or accessing the general reserve, subject to prior Board approval.
<p>FAIR PRICE</p> <ol style="list-style-type: none">4. Develop alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to facilitating communication with SFPUC, development of goals and objectives relevant to Wholesale Customers, and addressing the potential relationship to alternative retail rate structures member agencies might consider to stabilize water rates and water revenues.5. Arbitrate issues related to the 2009 Water Supply Agreement.
<p>HIGH WATER QUALITY</p> <ol style="list-style-type: none">6. Perform technical studies of water quality or San Francisco's treatment of the water it delivers to the BAWSCA agencies.7. Advocate changes to water quality regulations or the manner in which San Francisco treats water for drinking and other purposes.
<p>AGENCY EFFICIENCY</p> <ol style="list-style-type: none">8. Add resources to support additional Board, Board committee, or technical committee meetings.9. Conduct tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions, other than tours done in coordination with San Francisco.

**Table 3. FY 2021-22 Work Plan and Budget Planning Session – Comments and Suggested Work Plan Items for Further Consideration
(Questions Presented in Alphabetical Order by Board Member)**

#	Board Member	Board Member Comment/Questions	Staff Response
1	Kuta	BAWSCA should look into the implications to the Regional Water System of new, emerging contaminants related to source water quality, include new microplastics regulations.	BAWSCA will raise this question with the SF/Wholesale Customer Water Quality Committee for further discussion and possible recommended action. A status report will be provided to the Board with further information, including SFPUC's response and any potential action. Note that major staff level activity to advocate changes to water quality regulations or the manner in which San Francisco treats water for drinking and other purposes is not included in the work plan at this time (as noted in Table 2).
2	Mendall	Not interested in seeing many new efforts as the current work plan is very full of critical items.	Noted.
3	Montano	Is the SFPUC experiencing any effects of increased homeless encampments on the Regional Water System or the watershed.	BAWSCA is not aware that this is an issue for the Regional Water System or the associated watersheds.
3	Moody	BAWSCA should continue to pursue an internship targeted at underserved communities and consider an education committee to provide input on this area.	A new internship will be included in the proposed work plan and budget; however, a new committee is not recommended given the restrictions on existing staff to support a new board committee. Regular reports will be provided to the Board.
4	Pierce	Please review the option to hire staff vs. continuing to utilize consultants for certain work efforts in the work plan.	This analysis will be performed, and results provided to Board in March.
5	Weed	BAWSCA should look into alternative rate structure that could help address the member agencies' financial challenges caused by the water revenue loss that results from customers water consumption reduction. BAWSCA should consider sharing this type of info with the member agencies	If drought conditions persist, the work plan anticipates BAWSCA hosting a workshop for member agencies that would provide information on a variety of related topics. This topic will be included in the list of potential topics for the final agenda to be developed with input from the Water Management Representatives.

Table 4. Potential Future Large Efforts

Project Name	Cost Updates				Discussion
	FY 2019-20 (Actual)	FY 2020-21 (Budget)	FY 2021-22 (Preliminary Budget)	FY 2022-23 & Beyond	
Develop an updated Long-Term Water Supply Strategy, and thereafter implement Strategy recommendations to assure a reliable, high quality water supply at a fair price;	\$0	\$0	\$54K	\$1.5-\$2.5M; estimated based on \$2.2M cost for initial Strategy development	BAWSCA initiated its first regional long-term planning effort in 2009. It would be appropriate for BAWSCA to update the Strategy in the 2021-2025 time period given updated conditions including demands, supply reliability, regulatory and climate change impacts, etc. In FY 2021-22, work will begin on scoping the update effort. The update itself is proposed to be included in the FY 2022-23 budget. The update may take two to three fiscal years to complete.
Expand efforts to monitor SFPUC's development of its Alternative Water Supply Program that will result in the implementation of water supply projects to meet its level of service requirements, including the multiple projects necessary to address Bay Delta Plan impacts ¹	\$0	\$17.5K	\$123K	\$400K thru 2028 – additional costs associated with specific projects are anticipated after FY 2027-28.	The Alternative Water Supply Plan is intended by the SFPUC to be a decision-support framework document that outlines guiding principles, delivery goals (LOS), priorities, risks and tradeoffs to help the Commissioners determine how projects should continue to progress into the preliminary design and CEQA phase and beyond. By the time that plan is ready in 2023, SFPUC will simultaneously be developing CEQA project descriptions for each project. The SFPUC is targeting each project having CEQA completed in the 2023-2028 timeframe so they are ready for Commission decisions in 2028. Some projects may require less time, and others the full 5 years. BAWSCA will be engaged with the SFPUC in a review and oversight capacity during the Plan development, individual project development, and associated CEQA efforts. From a cost perspective, much of the work will involve BAWSCA staff vs. support from consultants.

					<p>However, some consultant support is envisioned for evaluating the water supply benefits of respective projects.</p> <p>Included in BAWSCA's work effort will be the active engagement and review and comment on Alternative Water Supply Plan Quarterly Reports prepared by the SFPUC.</p>
Overseeing SFPUC's increasing 10-Year CIP, consistent with recently adopted WSA amendments and BAWSCA's expanded oversight role; and ²	\$47K	\$47K	\$27K	\$25-\$50K yearly dependent on a particular FY's anticipated work effort	BAWSCA's role in the review of the SFPUC's Capital Improvement Program (CIP) has expanded with the approval of the 2018 Amended and Restated Water Supply Agreement. BAWSCA has a defined role, through the WSA, to participate in the SFPUC development of their 10-year CIP, as well as review and have input into the CIP implementation, including but not limited to the review of the SFPUC's quarterly reports.
Ongoing assessment of SFPUC's asset management program, to ensure that SFPUC continues to maintain the assets it is responsible for to ensure reliable water supply.	\$65K	\$82K	\$47K	\$50K yearly	BAWSCA conducted an audit of SFPUC's Asset Management Program in FY 2018-19. Additional Asset Management work continues as BAWSCA engages with the SFPUC with its efforts to implement the SFPUC's new Asset Management Policy. BAWSCA anticipates this work continuing, though possibly, at a lower overall level as the SFPUC's Asset Management Program is further implemented.

Footnotes:

1. BAWSCA has been participating as a primary partner in projects such as Los Vaqueros Reservoir Expansion (LVE) and the Potable Reuse Exploratory Plan (PREP). The expenses associated with LVE are not reported in this table, however the costs associated with PREP participation are reported. Note, that if BAWSCA continues to participate in the PREP project, the cost of participation would be significant over time (those have not been estimated). The bulk of consultant costs for FY 2021-22 and beyond are for use of BAWSCA's Regional Reliability Model.
2. BAWSCA costs for WSIP monitoring are not included in the costs reported in Table 4.

Table 5. Preliminary FY 2021-22 Operating Budget by Major Expenditure Category

Cost Category	Approved FY 2020-21 Budget (\$) (as of 12/29/2020)	Preliminary FY 2021-22 Budget (\$)	Change from FY 2020-21 Budget (\$)
Consultants/ Direct Expenditures			
Reliability	1,114,850	1,526,600	411,750
Fair Pricing	239,500	565,700	326,200
Administration	100,000	140,000	40,000
<i>Subtotal Consultants</i>	1,454,350	2,232,300	777,950
Administration			
Employee Salaries & Benefits	1,997,354	2,045,019	47,664
Other Post-Emp. Benefits (net)	78,000	77,000	(1,000)
Operational Expenses	427,400	446,900	19,500
<i>Subtotal Administration</i>	2,502,754	2,568,919	66,164
Total Operating Expenses	3,957,104	4,801,219	844,115
Capital Expenses	3,000	3,000	0
Budgeted Contingency	57,500	57,500	0
Regional Financing Authority	2,025	2,025	0
Bay Area Water Users Assn.	1,050	1,050	0
Grand Total Operating Budget	4,020,679	4,864,794	844,115

Table 6. Analysis of Funding Options

	FY 2020-21	FY 2021-22				FY 2020-21	FY 2021-22				
Fund Source	Adopted Funding Plan	Option 1A Proposed Work Plan & 5% Assessment Increase	Option 2A Proposed Work Plan & 8% Assessment Increase	Option 3A Proposed Work Plan & 16% Assessment Increase	Option 4A Alternative Work Plan & 23.8% Assessment Increase	Revised Funding Plan*	Option 1B Proposed Work Plan & 5% Assessment Increase	Option 2B Proposed Work Plan & 9% Assessment Increase	Option 3B Proposed Work Plan & 11% Assessment Increase	Option 4B Proposed Work Plan & 20% Assessment Increase	Option 5B Alternative Work Plan & 23.8% Assessment Increase
Assessments	\$3,686,779	\$3,871,118	\$3,981,721	\$4,276,664	\$4,564,794	\$3,686,779	\$3,871,118	\$4,018,589	\$4,092,325	\$4,424,135	\$4,564,794
Transfer from General Reserve	\$333,900	\$362,676	\$252,073	\$288,130	\$0	\$476,400	\$362,676	\$215,205	\$141,469	\$140,659	\$0
Transfer from Balancing Account	\$0	\$331,000	\$331,000	\$0	\$0	\$0	\$331,000	\$331,000	\$331,000	\$0	\$0
Use of Excess Bond Stabilization Fund on Cost of Issuance for Bond Refunding	\$0	\$300,000	\$300,000	\$300,000	\$300,000	\$0	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Total Available Operating Funds/Operating Budget	\$4,020,679	\$4,864,794	\$4,864,794	\$4,864,794	\$4,864,794	\$4,163,179	\$4,864,794	\$4,864,794	\$4,864,794	\$4,864,794	\$4,864,794
Potential End of FY20-21 Transfer to General Reserve		\$100,000	\$100,000	\$100,000	\$100,000		\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Estimated Year-End Reserves	\$1,139,243	\$876,567	\$987,170	\$951,113	\$1,239,243	\$996,743	\$734,067	\$881,538	\$955,274	\$956,084	\$1,096,743
% of Budget	28%	18%	20%	20%	25%	24%	15%	18%	20%	20%	23%
Assessment to Budget Ratio	92%	80%	82%	88%	94%	89%	80%	83%	84%	91%	94%

* Reflects a transfer of \$142,500 from the General Reserve to fund a portion of the contract increase associated with the Hanson Bridgett contract amendment, which will be considered by the Board for approval on March 18, 2021.

APPENDICES

Appendices A through J present additional detail about the preliminary FY 2021-22 Work Plan and Operating Budget.

Appendix A: Uses of Professional Services

Outside professional services are used to provide specialized services and augment staff:

1. Professional engineering services for: a) evaluating and monitoring SFPUC's Asset Management Program; b) evaluating and monitoring SFPUC's 10-Year Capital Improvement Program development and implementation; c) evaluating Water System Improvement Program project scopes during design and construction; d) monitoring WSIP project cost estimates, bids and schedules; e) monitoring and assessing San Francisco's performance in implementing the overall WSIP; f) assessing San Francisco's method for cost estimation, application of contingencies and addressing cost inflation during the WSIP; g) providing specific constructive recommendations for keeping the WSIP on or ahead of schedule; h) analyzing hydraulic records used by San Francisco in setting the wholesale water rates; and g) providing as needed groundwater technical assistance.
2. Water resources analysis and planning services to: a) evaluate potential water supply projects using BAWSCA's new regional water supply reliability modeling tool; and b) support BAWSCA member agency efforts to meet the new State of California "Making Water Conservation a Way of Life" requirements.
3. General legal services for BAWSCA and the RFA; specialized legal services to support administration of the Water Supply Agreement; specialized legal services for addressing matters related to water supply reliability including Restore Hetch Hetchy litigation, Bay Delta Plan Update, and FERC intervention.
4. Strategic counsel for identifying and addressing strategic and political issues associated with maintaining the progress of the Water System Improvement Program, assisting the Board and the CEO in developing and implementing an effective policy making process that supports implementation of the Long-Term Reliable Water Supply Strategy, providing legislative and political support, and providing advice to the CEO and the Board on other issues significant to the water customers and the effectiveness of the agency.
5. Financial advisory services to conduct specified capital financing and rate impacts analyses on a task order basis.
6. Accounting/auditing expertise to assist with implementing the Water Supply Agreement, as well as an independent auditor to prepare and review annual financial statements.

Legal, strategic, financial, and engineering consultants provide professional services critical to BAWSCA's work in achieving the agency's goals and achieving critical results. Many of BAWSCA's consultants have been under contract with BAWSCA since its creation, and a few of those consultants have been in place even longer, in that they served as consultants to Bay Area Water Users Association, BAWSCA's predecessor organization.

Each year, the Board acts on each consultant contract following consideration of the annual Work Plan and Operating Budget. Information provided to the Board at that time relates to expertise, current scope of work, budget, and billing rates.

Appendix B: History of Salary and Benefits Adjustments

The information below presents the history of salary and benefits adjustments for BAWSCA staff. Where Cost of Living Adjustments (COLA) to the salary ranges are considered by the Board, BAWSCA relies on the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the SF-Oak-SJ area. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.

- FY 2009-10: There was no COLA adjustment. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2010-11: The Board approved a 3.01 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2011-12: The Operating Budget included no adjustment to the salary for any employee for COLA, merit, or any other reasons.
- FY 2012-13: The Board approved a 3.10 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2013-14: The Board approved a 2.312 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2014-15: The Board approved a 2.60 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2015-16: The Board approved a 2.09 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2016-17: The Board approved a 3.15 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2017-18: The Board approved a 3.025 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2018-19: The Board approved a 3.084 percent COLA increase to the top step of staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2019-20: The Board approved a 4.398 percent COLA increase to the top step for staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.
- FY 2020-21: The Board approved a 3.01 percent COLA increase to the top step for staff salary ranges. An allowance for merit adjustments was budgeted for employees not yet at top step.

Appendix C: Preliminary Budget for the Bay Area Water Users Association (BAWUA)

The preliminary FY 2021-22 budget for BAWUA is \$1,050 and includes legal counsel support and a small operations budget allowance. This budget amount appears as a separate line item in the BAWSCA budget and is included in the BAWSCA preliminary FY 2021-22 Operating Budget.

Appendix D: Preliminary Budget for the Regional Financing Authority (RFA) Budget

The BAWSCA Board of Directors has continued to agree to fund nominal administrative costs for the RFA, at least until it becomes more actively involved and required significant resources. Assuming a continued low level of activity in FY 2021-22, the preliminary RFA budget is \$2,025. This budget amount includes legal counsel support and a small operations budget allowance. This budget amount appears as a separate line item in the BAWSCA budget and is included in the BAWSCA preliminary FY 2021-22 Operating Budget. The RFA will formally consider and adopt this budget in January 2022.

Appendix E: Funding for Subscription Conservation Programs

As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA's subscription water conservation programs. The staff time to be devoted to those programs during FY 2021-22 is estimated to be 1,596 hours. Agencies participating in subscription programs pay for associated consultant support and direct expenses. As in prior years, those consultant costs and direct expenses are not included in the Operating Budget.

Appendix F: Select Financial Details for BAWSCA's Subscription Conservation Program

Table F-1 provides select financial information for BAWSCA's subscription conservation programs for the past five years, including BAWSCA staff costs that are reimbursed by the participating member agencies. Other costs are not included in Table F-1, for example, rebates and other costs paid directly by the participating member agencies and quantification of grant funds used. More complete details on BAWSCA's subscription programs, cost, and level of activity is included in BAWSCA's Annual Water Conservation Report.

**Table F-1: Select Financial Details Related to BAWSCA
Subscription Conservation Programs**

Fiscal Year and Program Name	Direct Program Cost - Reimbursed	BAWSCA Staff Cost - Reimbursed	BAWSCA Admin. Cost - Reimbursed
2015-16			
EarthCapades	\$64,575	\$2,360	
Free Sprinkler Nozzles	\$2,988		
HET		\$9,965	\$300
Large Landscape Audit	\$99,808	\$1,332	
Lawn Be Gone		\$3,380	
Lawn Be Gone Inspections	\$7,704		
Water Wise Ed. Kits	\$101,701	\$2,393	
Washing Machine Rebate	\$157,945	\$ 4,546	\$1,170
Watersense Giveaways	\$10,930		
WaterSmart Reports	\$209,380		
Rain Barrel Rebate	\$11,144		
Total	\$666,175	\$23,976	\$1,470
2016-17			
EarthCapades	\$61,345	\$2,120	
Free Sprinkler Nozzles	\$7,585		
HET		\$6,340	\$300
Large Landscape Audit	\$94,260	\$1,184	
Lawn Be Gone		\$1,860	
Lawn Be Gone Inspections	\$2,858		
Water Wise Ed. Kits	\$104,716	\$1,860	
Washing Machine Rebate	\$114,530	\$1,900	\$1,055
Watersense Giveaways	\$20,886		
WaterSmart Reports	\$313,128		
Rain Barrel Rebate	\$2,300		
Total	\$660,263	\$13,144	\$1,355

Fiscal Year and Program Name	Direct Program Cost - Reimbursed	BAWSCA Staff Cost - Reimbursed	BAWSCA Admin. Cost - Reimbursed
2017-18			
EarthCapades	\$61,435	\$2,260	
Free Sprinkler Nozzles	\$1,577		
HET		\$4,055	\$13
Large Landscape Audit	\$85,793	\$1,184	
Lawn Be Gone		\$1,380	\$14
Lawn Be Gone Inspections	\$2,284		
Water Wise Ed. Kits	\$98,229.89	\$2,295	
Watersense Giveaways	\$10,734		
WaterSmart Reports	\$298,405		
Rain Barrel Rebate	\$3,395		
Total	\$561,853	\$11,174	\$27
FY 2018-19			
EarthCapades	\$66,500	\$2,480	
Free Sprinkler Nozzles	\$364		
HET		\$2,495	
Large Landscape Audit	\$94,900	\$1,184	
Lawn Be Gone		\$1,200	
Lawn Be Gone Inspections	\$2,420		
Water Wise Ed. Kits	\$75,483	\$1,946	
Watersense Giveaways	\$5,672		
WaterSmart Reports	\$288,081		
Rain Barrel Rebate	\$757		
Water Loss Program	\$128,403		
Total	\$662,580	\$9,305	\$0
FY 2019-20			
EarthCapades	\$79,720	\$2,960	
HET		\$1,600	
Large Landscape Audit	\$110,652	\$1,332	
Lawn Be Gone		\$880	
Lawn Be Gone Inspections	\$1,018		
Water Wise Ed. Kits	\$51,397	\$1,370	
Watersense Giveaways	\$4,382		
WaterSmart Reports	\$216,429		
Rain Barrel Rebate	\$900	\$200	
Water Loss Program	\$215,917		
Customer Meter Testing	\$4,570		
Smart Controller Rebate	\$21,020		
Total	\$706,005	\$8,342	\$0

Appendix G: Value for the Cost

The formula for BAWSCA assessments results in equivalent cost per gallon throughout BAWSCA's members. All BAWSCA costs are ultimately passed on to water customers through the water rates of the local city, district, or private utility. Table G-1 below provides the estimate annual cost per person and per household (assuming three persons per household) for BAWSCA's Operating Budget.

**Table G-1. Historical Estimated Annual Cost of BAWSCA
Operating Budget per Service Area Household**

Fiscal Year	Est. Annual Cost Per Person	Est. Annual Cost Per Household
2010-11	\$1.64	\$4.93
2011-12	\$1.53	\$4.60
2012-13	\$1.52	\$4.56
2013-14	\$1.82	\$5.47
2014-15	\$1.70	\$5.11
2015-16	\$1.84	\$5.51
2016-17	\$1.96	\$5.88
2017-18	\$2.08	\$6.24
2018-19	\$2.34	\$7.02
2019-20	\$2.50	\$7.51
2020-21	\$2.20	\$6.59
2021-22	\$2.63	\$7.88

Appendix H: Savings Resulting from BAWSCA's Annual Wholesale Revenue Requirement (WRR) Review

Pursuant to Section 8.04 of the Water Supply Agreement, the Wholesale Customers delegated authority to BAWSCA to conduct the annual review of SFPUC's calculation of the Wholesale Revenue Requirement (WRR) and the Balancing Account. Table H-1 provides the annual financial impact to the Wholesale Customers resulting from BAWSCA's annual comprehensive review. Over the past 17 years, BAWSCA's reviews have resulted in a total of \$44,492,418 million savings to the Wholesale Customers. This total includes the savings resulting from resolution of issues discovered by BAWSCA prior to the WSA 7.06 process and savings from settlements during the formal 7.06 process.

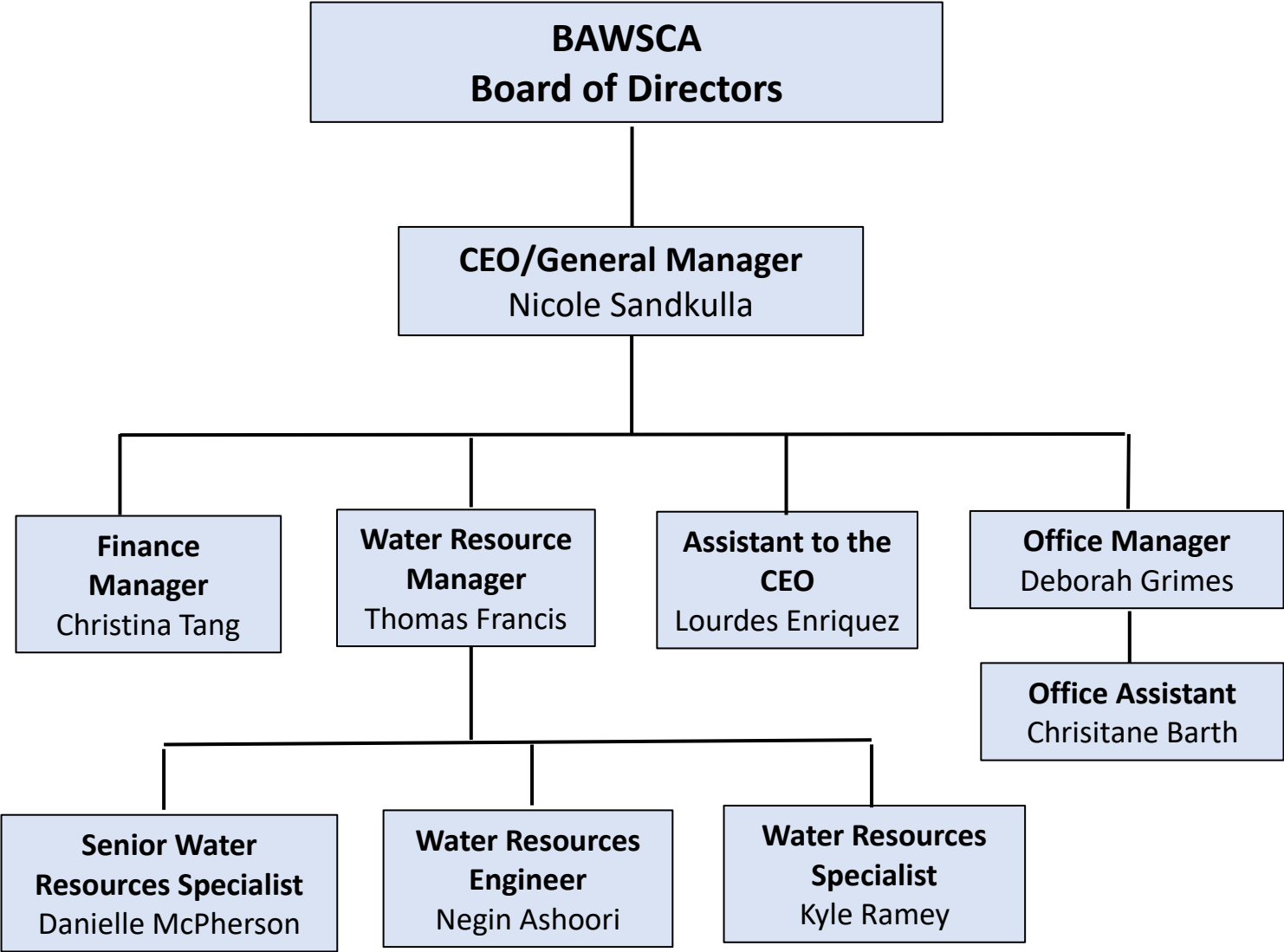
Note that the savings shown in Table H-1 do not include the ongoing savings resulting from any specific year's settlement. For example, the revised 525 Golden Gate operating and capital cost allocation methodology, as a result of the FY11-12 and FY12-13 settlements, generates an ongoing WRR savings to the Wholesale Customers in an approximate amount of \$400,000 each year from FY13-14 until various final debt service payment dates, and the approximate annual savings of \$1.4 million plus interest as part of the debt service allocation through FY39-40 resulting from the FY15-16 settlement,

Table H-1. Savings to Wholesale Customers Resulting from BAWSCA's Annual Wholesale Revenue Requirement Review

Fiscal Year	Savings to Wholesale Customers
2001-02	\$698,095
2002-03	\$1,568,857
2003-04	\$476,825
2004-05	\$5,726,908
2005-06	\$1,229,604
2006-07	\$718,267
2007-08	\$1,917,328
2008-09	\$461,670
2009-10	\$1,635,005
2010-11	\$893,914
2011-12	\$5,352,720
2012-13	\$739,965
2013-14	\$102,952
2014-15	\$11,903,057
2015-16	\$7,079,780
2016-17	\$3,987,471
Total	\$44,492,418

Appendix I: Current Organization and Staffing

The figure below represents the current reporting relationships in the organization.



Appendix J: Future Challenges Facing BAWSCA, Member Agencies, and Their Customers

Each year, BAWSCA's Work Plan development process starts by reviewing and updating the major activities over the next 20 to 30 years. These activities require coordinated action by BAWSCA and its member agencies to ensure a reliable supply of high-quality water at a fair price.

Table J-1 lists these activities as they were updated as part of the FY 2021-22 Work Plan development. In each case, the results identified in Table J-1 will take the form of agreements, legislation, or other legally enforceable work products. Development of these documents will result from skilled negotiations based on rigorous investigations of impacts and alternatives, costs, cost allocation, and other matters.

Table J-1: Future Challenges Facing BAWSCA, Member Agencies, and Their Customers (Preliminary FY 2021-22)
(Proposed Changes Shown in Blue Underlined Italic Font)

BAWSCA Goal and Associated Challenges	FY 2021-22 (Near-Term)	2022-2035 (Mid-Term)	2035-2050 (Long-Term)
Reliable Supply: Ensure Long-Term Water Supply Reliability			
Protection of member agencies' interests in long-term water supply reliability from the SF RWS and 184 MGD Supply Assurance in light of identified potential areas of risk, including climate change and regulatory challenges, <u>and SFPUC's Alternative Water Supply Planning and associated CEQA initiation by June 2023.</u>	X	X	X
Protection of BAWSCA member agencies from normal and dry year supply shortages and resulting excessive economic impacts.	X	X	X
Reflection of member agencies' long-term water supply needs and investments in regional planning efforts.	X	X	X
Support member agencies in their efforts to ensure system reliability during an emergency.	X	X	X
Representation of member agencies in Federal relicensing of New Don Pedro to protect SF RWS water supply reliability.	X	X	
Representation of member agencies in Bay Delta Plan Update to protect RWS water supply reliability.	X	X	
Meeting the new Statewide "Making Water Conservation a California Way of Life" requirements thru 2035, <u>including new Water Efficiency Targets to be finalized by June 2022</u>	X	X	
Protection of member agencies' interests in San Francisco's December 2028 decisions including deciding whether to make San Jose and Santa Clara permanent customers.	X	X	
Development of a new Tier 2 drought allocation plan.	X	X	
Reliable Supply: Ensure SF RWS Facility Reliability			
Protection of water supply and financial interests of water customers in SFPUC's development and implementation of its 10-Year CIP.	X	X	X
Protection of water supply and financial interests of water customers in SFPUC's asset management program to ensure ongoing maintenance and protection of RWS assets.	X	X	X
Promote emergency resiliency of the SF RWS to protect interests of water customers.	X	X	X
Protection of water supply and financial interests of water customers in SFPUC's WSIP implementation.	X	X	
High Quality Supply & Fair Price: Enforce 2009 Water Supply Agreement (WSA)			
Enforcement and amendment as necessary, of the WSA to ensure San Francisco meets its financial, water supply, quality, maintenance and reporting obligations.	X	X	X
Protection of member agencies' water supply reliability interests against threats by outside forces including efforts by others to drain Hetch Hetchy that disregard their interests in reliability, quality and cost.	X	X	X
Protection of water customers interests in ensuring SF maintains its Tuolumne River water rights.	X	X	X
Extension or renegotiation of the WSA before it expires in 2034. The WSA can be extended 2 times, for a period of 5 years each. By December 2031, SFPUC must notify Wholesale Customers of desire to extend contract.		X	X
Management of BAWSCA's revenue bonds, including consideration of refinancing (based on current analysis <u>as of 12/1/2020, this will be no earlier than 2023</u>), in accordance with Bond Indenture and other applicable laws to ensure accountability and ultimately to reduce overall cost to regional water customers (thru 2034).	X	X	
Management of Agency			
<u>BAWSCA CALPERS pension & OPEB liability management</u>			X

Appendix K: Historical BAWSCA Operating Budgets and Assessments

BAWSCA's annual Operating Budget is developed to pay for the cost of the annual work plan, which is reviewed by the Committee and approved by the Board. Each year, the Work Plan is designed to achieve results that support BAWSCA's three goals – a reliable supply of high-quality water at a fair price – and to implement BAWSCA's purpose as stated in AB 2058. As a special district, BAWSCA is not like a city council or other community agency. BAWSCA is an issue-driven organization that responds to the needs of its member agencies and the water users who pay for BAWSCA's work. BAWSCA uses experienced consultants to limit fixed costs.

Three historical examples of significant annual Operating Budget increases to address one-time or unexpected issues that required BAWSCA's actions, in addition to its on-going programs, are:

- In FY 2008-09, the approved budget was 10% higher than the previous year; issues included: increased conservation efforts, new contract with SF, and WSIP oversight.
- In FY 2013-14, the approved budget was 18% higher than the previous year; issues included: long-term water supply reliability, administration of bonds to accelerate paying off capital debt to save significant money for member agencies; administration of the Water Supply Agreement; an unexpected threat from Mountain Tunnel; and monitoring the SFPUC's Capital Improvement Plan and its Asset Management Program.
- FY 2018-19, the approved budget was 14.14% higher than the previous year; issues included: Restore Hetch Hetchy litigation, Bay Delta Plan, FERC, participation in Los Vaqueros Expansion planning studies. and BAWSCA's Demand Study.

Resolution of issues also reduces budgets as shown below in FY 2010-11 (-3%), FY 2011-12 (-2%), and FY 2014-15 (-10%). Table K-1 displays the history of BAWSCA's Operating Budget, assessments, and year-end reserves.

Table K-1. Historical Annual Assessments, Budget, Reserve Balance, and Use of Reserves

Fiscal year	Assessments	% Change	Budget	% Change	% of Budget Spent	Transfers from WSA Balance Account	Transfers from Reserve	Notes on Transfers from Reserve & WSA Balance Account	Unspent Funds Transfer to Reserve	Year-End Reserve Balance	Reserve as a % of Budget	# of Full Time Authorized Staff	Major New/Increased Work Plan Focus
2003-2004	\$1,668,550	22%	\$1,821,350									6	Operated under BAWUA budget
2004-2005	\$1,641,995	-2%	\$1,838,490	0.94%	80.99%				\$240,000			6	1st BAWSCA Budget Est.
2005-2006	\$1,953,998	19%	\$2,099,975	14.22%	79.36%				\$414,000	\$240,000	11%	7	WSIP Oversight, 2009 WSA neg.
2006-2007	\$2,117,904	8%	\$2,291,904	9.14%	81.85%				\$428,474	\$654,000	29%	7	2009 WSA negotiations
2007-2008	\$2,117,904	0%	\$2,508,967	9.47%	89.54%		\$391,000	To fund budget	\$270,000	\$691,474	28%	7	2009 WSA Negotiations, WSIP PEIR
2008-2009	\$2,309,000	9%	\$2,763,196	10.13%	95.31%		\$349,000	To fund budget	\$149,718	\$507,474	18%	7	WSIP PEIR, 2009 WSA, develop WCIP
2009-2010	\$2,517,000	9%	\$2,766,945	0.14%	84.79%		\$250,000	To fund budget	\$409,965	\$407,192	15%	7	WCIP Yr. 1 implementation, 2009 WSA Admin Yr. 1, Transition from old Contract, WSIP legislation
							\$105,000	WCIP					
2010-2011	\$2,517,000	0%	\$2,680,394	-3.13%	83.26%		\$163,394	To fund budget	\$435,324	\$653,763	24%	7	WCIP Yr. 2, 2009 WSA (Strategy funded thru Water Mgmt. Charge)
2011-2012	\$2,517,000	0%	\$2,619,705	-2.26%	87.28%		\$172,190	Assessment refund	\$264,000	\$916,897	35%	7	WCIP Yr 3
2012-2013	\$2,517,000	0%	\$2,780,504	6.14%	93.53%		\$130,000	Pilot Transfer		\$985,897	35%	7	Bond investigation, Demand Projections, Pilot Water Transfer, 2009 WSA
							\$65,000	Demand Study					
2013-2014	\$2,516,812	0%	\$3,280,188	17.97%	93.24%		\$300,000	Demand Study		\$521,897	16%	8	1st year bond administration, funding one-time cost of OPEB, Regional Water Demand Projections, pilot water transfer, WSIP legislation, new water resources staff position authorized
							\$98,000	OPEB FY 13-14					
							\$66,000	Technical support					
2014-2015	\$2,642,653	5%	\$2,939,286	-10.39%	93.42%		\$296,436	To fund budget	\$198,781	\$225,461	8%	8	Net increase for OPEB, 10yr CIP oversight, increase legal support for Strategy, WSIP legislation
2015-2016	\$3,276,889	24%	\$3,201,679	8.93%	88.34%				\$453,246	\$776,620	24%	8	1st year Strategy implementation thru Operating Budget, 2014 Settlement Agmt.
									\$352,378 ⁽¹⁾				
2016-2017	\$3,440,734	5%	\$3,468,008	8.32%	84.60%		\$27,274	To fund budget	\$519,167	\$1,202,592	35%	8	RHH litigation, 2014 Settlement Agmt, 2018 decisions, WaterMAP
2017-2018	\$3,543,957	3%	\$3,704,572	6.82%	89.58%		\$160,615	To fund budget	\$253,892	\$1,561,144	42%	8	RHH litigation, Bay-Delta Plan, FERC
2018-2019	\$3,579,397	1%	\$4,278,585	15.49%	93.40%		\$321,688	To fund budget	\$0	\$1,115,848	26%	8	RHH litigation, Bay-Delta Plan, FERC to participate in LVE Project and to fund Demand Study
							\$177,500	Los Vaqueros					
							\$150,000	Demand Study					
							\$50,000	To fund budget					
2019-2020	\$3,686,779	3%	\$4,569,750	6.81%	90.08%	\$805,000	\$77,971	To fund budget	\$435,266	\$1,037,877	23%	9	HB Amendment - Board approved 3/2019 Fund LVE participation, Demand Study, FERC, Bay Delta
2020-2021	\$3,686,779	0%	\$4,020,679	-12.02%			\$333,900	To fund budget					

Footnotes:

(1) Remaining unspent Strategy development funds transferred to General Reserve in 2015-16

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: Annual Water Supply Agreement Balancing Account Update

Summary:

Pursuant to Section 8.04 of the Water Supply Agreement between the City and County of San Francisco and Wholesale Customers (WSA), the Wholesale Customers delegated authority to BAWSCA to conduct the annual review of SFPUC's calculation of the Wholesale Revenue Requirement (WRR) and the Balancing Account. Over the past 16 years, BAWSCA's annual reviews have resulted in a total savings of \$44.5 million to the Wholesale Customers and their water customers. The final year-end calculation of the Balancing Account is the result of the comprehensive evaluation of the Wholesale Revenue Requirement.

The current level of the Balancing Account is \$60.9 million. The estimated year-end balance as of 6/30/2021 is \$59.8 million, however, the SFPUC plans to use the entirety of this positive balance over the next two years to stabilize rates. The Balancing Account serves a critical rate stabilization role for the wholesale water rate charged by SFPUC to the Wholesale Customers.

Based on the SFPUC's current five-year wholesale rate projections and input from the member agencies through the appointed Water Management Representatives, BAWSCA has expressed support for the SFPUC's proposal to retain the positive balance for use in forestalling future rate increases.

Fiscal Impact:

This item has no impact on BAWSCA's annual operating budget.

Recommendation:

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

Discussion:

At the end of each Fiscal Year, SFPUC computes the actual costs attributable to the Wholesale Customers as the amount of the WRR, based on actual costs to operate the Regional Water System and actual amounts of water used by the Wholesale and Retail Customers. If there is a difference between the WRR and the actual amounts billed to the Wholesale Customers, the difference, positive or negative, is posted to the Balancing Account. The Balancing Account represents excess (or deficient) Wholesale Customer rate revenue received by SFPUC and is not segregated by Wholesale Customer. Although the balancing account is currently positive, it was negative seven out of eleven years from 2002 through 2012.

BAWSCA's Annual Review of Wholesale Revenue Requirement and the Balancing Account

The WSA delegates to BAWSCA the authority to conduct an annual review of SFPUC's calculation of the WRR and the Balancing Account. Table 1 provides the annual financial impact to the Wholesale Customers resulting from BAWSCA's annual comprehensive review.

Use of the Balancing Account for SFPUC Wholesale Water Rate Stabilization

Per the WSA, the SFPUC is required to take into account any positive balance in the Balancing Account in establishing wholesale rates, but the SFPUC need not apply the entire positive balance in the subsequent fiscal year. Instead, the SFPUC may prorate it over three years to avoid undesirable fluctuations (increases and decreases) in the wholesale rates.

Historically, the Balancing Account has been used for rate stabilization. On February 18, 2021, at the SFPUC's Annual Meeting with the Wholesale Customers, the SFPUC Chief Financial Officer presented the projected five-year SFPUC wholesale water rate estimate based on the following transfers from the Balancing Account for the next five years for long-term rate stability purposes:

<u>Fiscal Year</u>	<u>Projected Wholesale Water Rate</u>	<u>Projected Use of Balancing Account</u>
FY 2021-22	\$4.10/Ccf	\$25.1 million
FY 2022-23	\$4.19/Ccf	\$39.4 million
FY 2023-24	\$4.87/Ccf	(\$0.4 million)
FY 2024-25	\$5.03/Ccf	(\$3.7 million)
FY 2025-26	\$5.45/Ccf	(\$0.9 million)

At this time, the SFPUC is projecting to completely draw down the Balancing Account in two years. Table 2 presents the yearly ending balance in the Balancing Account compared to the annual WRR over time.

The analysis of options and recommendation of uses for a long-term positive balance in the Balancing Account is consistent with BAWSCA's role in implementing the WSA and reviewing and evaluating the WRR. WSA Section 8.04.C provides that "unless otherwise explicitly stated, the administrative authority delegated to BAWSCA may be exercised by the General Manager/CEO of BAWSCA, rather than requiring action by the BAWSCA Board of Directors."

Balancing Account Policy Guides Use of Positive Balance for Other Purposes Allowed By WSA

On September 17, 2020, BAWSCA Board adopted Resolution No. 2020-02 establishing a Balancing Account Policy that guides any action by the Board in justifying the allocation of the positive balance in the Balancing Account. Under Section 6.05.B.2.a of the WSA, a positive balance in the Balancing Account, which represents 10% or more of the WRR for the most recent fiscal year and is maintained for three successive years, may be used for the wholesale customer's preferred application of the balance, exercised through BAWSCA, for six purposes: (a) transfer to the Wholesale Revenue Coverage Reserve, (b) amortization of any remaining negative balance from the ending Balancing Account under the 1984 Agreement, (c) prepayment of the existing asset balance under Section 5.03, (d) water conservation or water supply projects administered by or through BAWSCA, (e) immediate reduction of wholesale rates, or (f) continued retention for future rate stabilization purposes. As a note, items (b) and (c) above are no longer applicable since: (b) the 1984 Balancing Account has been zeroed out and (c) the net book value of existing regional assets under the 1984 Agreement was paid off to San Francisco through the 2013 BAWSCA bond issue.

Before the policy was established, BAWSCA requested a transfer of \$805,000 from the Balancing Account to fund the Los Vaqueros Expansion Project Study and the completion of the Regional Water Demand and Conservation Projections Study during FY 2019-20. That action

represented the first time BAWSCA directed the transfer of excess balancing account funds per the WSA.

In September 2020, the Board approved the use of Balancing Account to prepay the remaining unpaid existing asset balance under WSA Section 5.03.C, which was determined in the best interests of the Wholesale Customers and ultimately, the water customers. The prepayment made on September 30, 2020 resulted in a total estimated present value savings of about \$179,000 to the Wholesale Customers.

There are currently discussions ongoing with respect to a proposed use of Balancing Account to fund certain water resource work including the scoping of the update to BAWSCA's Strategy and the update of BAWSCA's 2020 Demand Study during FY 2021-22.

**Table 1. Savings to Wholesale Customers Resulting from
BAWSCA's Annual Wholesale Revenue Requirement Review**

Fiscal Year	Savings to Wholesale Customers
2001-02	\$698,095
2002-03	\$1,568,857
2003-04	\$476,825
2004-05	\$5,726,908
2005-06	\$1,229,604
2006-07	\$718,267
2007-08	\$1,917,328
2008-09	\$461,670
2009-10	\$1,635,005
2010-11	\$893,914
2011-12	\$5,352,720
2012-13	\$739,965
2013-14	\$102,952
2014-15	\$11,903,057
2015-16	\$7,079,780
2016-17	\$3,987,471
Total	\$44,492,418

Table 2. Balancing Account Year End Balance vs. Annual Wholesale Revenue Requirement

Fiscal Year	Ending Balance of Balancing Account (BA)	\$ Change from Prior Year	Annual Wholesale Revenue Requirement (WRR)	\$ Change from Prior Year	BA as % of WRR	Ending Balance of WR Coverage Reserve	\$ Change from Prior Year	Wholesale Water Rate (\$/Ccf)	% Change from Prior Year
2001-02	\$9,354,685		\$75,812,199		12.3%	N/A		\$0.88	
2002-03	\$2,880,837	(\$6,473,848)	\$82,301,597	\$6,489,398	3.5%	N/A	N/A	\$0.88	0.0%
2003-04	\$11,895,158	\$9,014,321	\$92,804,851	\$10,503,254	12.8%	N/A	N/A	\$1.10	25.0%
2004-05	\$7,272,068	(\$4,623,090)	\$99,930,037	\$7,125,186	7.3%	N/A	N/A	\$1.13	2.7%
2005-06	(\$8,964,718)	(\$16,236,786)	\$101,822,169	\$1,892,132	-8.8%	N/A	N/A	\$1.02	-9.7%
2006-07	(\$12,881,853)	(\$3,917,135)	\$110,902,794	\$9,080,625	-11.6%	N/A	N/A	\$1.22	19.6%
2007-08	(\$20,625,889)	(\$7,744,036)	\$118,672,955	\$7,770,161	-17.4%	N/A	N/A	\$1.30	6.6%
2008-09	(\$21,860,867)	(\$1,234,978)	\$123,388,788	\$4,715,833	-17.7%	N/A	N/A	\$1.43	10.0%
2009-10	(\$15,194,740)	\$6,666,127	\$131,367,056	\$7,978,268	-11.6%	\$4,488,233	\$4,488,233	\$1.65	15.4%
2010-11	(\$26,313,110)	(\$11,118,370)	\$137,655,168	\$6,288,112	-19.1%	\$7,916,419	\$3,428,186	\$1.90	15.2%
2011-12	(\$7,823,759)	\$18,489,351	\$160,529,498	\$22,874,330	-4.9%	\$11,339,776	\$3,423,357	\$2.63	38.4%
2012-13	\$27,349,579	\$35,173,338	\$172,405,401	\$11,875,903	15.9%	\$13,763,579	\$2,423,803	\$2.93	11.4%
2013-14	\$27,033,814	(\$315,765)	\$179,693,746	\$7,288,345	15.0%	\$19,083,979	\$5,320,400	\$2.45	-16.4%
2014-15	\$27,253,857	\$220,043	\$195,098,156	\$15,404,410	14.0%	\$27,842,873	\$8,758,894	\$2.93	19.6%
2015-16	\$15,712,070	(\$11,541,787)	\$214,208,639	\$19,110,483	7.3%	\$28,899,345	\$1,056,472	\$3.75	28.0%
2016-17	\$40,417,740	\$24,705,670	\$209,059,370	(\$5,149,269)	19.3%	\$28,974,681	\$75,336	\$4.10	9.3%
2017-18	\$59,781,812	\$19,364,072	\$241,372,995	\$32,313,625	24.8%	\$33,730,188	\$4,755,507	\$4.10	0.0%
2018-19	\$46,925,278	(\$12,856,534)	\$268,224,583	\$26,851,588	17.5%	\$39,490,528	\$5,760,340	\$4.10	0.0%
2019-20*	\$60,900,000	\$13,974,722	\$260,900,000	(\$7,324,583)	23.3%	\$34,290,528	(\$5,200,000)	\$4.10	0.0%
2020-21*	\$59,800,000	(\$1,100,000)	\$273,300,000	\$12,400,000	21.9%	\$36,390,528	\$2,100,000	\$4.10	0.0%
2021-22*	\$39,200,000	(\$20,600,000)	\$289,100,000	\$15,800,000	13.6%	\$38,590,528	\$2,200,000	\$4.10	0.0%
2022-23*	(\$400,000)	(\$39,600,000)	\$309,200,000	\$20,100,000	-0.1%	\$41,390,528	\$2,800,000	\$4.19	2.2%
2023-24*	(\$3,700,000)	(\$3,300,000)	\$312,200,000	\$3,000,000	-1.2%	\$40,990,528	(\$400,000)	\$4.87	16.2%
2024-25*	(\$900,000)	\$2,800,000	\$318,100,000	\$5,900,000	-0.3%	\$40,990,528	\$0	\$5.03	3.3%
2025-26*	(\$1,600,000)	(\$700,000)	\$342,100,000	\$24,000,000	-0.5%	\$45,590,528	\$4,600,000	\$5.45	8.3%

Data Source: Audited Statement of Changes in the Balancing Account for the fiscal years through 2018-19. *Data for the fiscal years 2019-20 through 2025-26 are the SFPUC projections provided at the SFPUC's annual wholesale customers meeting on February 18, 2021.

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BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
FROM: Nicole Sandkulla, CEO/General Manager
DATE: March 12, 2021
SUBJECT: Chief Executive Officer/General Manager's Letter

Urban Water Management Plan - Update

BAWSCA continues its efforts to support member agencies in development of their respective 2020 Urban Water Management Plans (UWMPs). Three UWMP Workshops for member agency representatives and their consultants have been held to date, and a fourth is scheduled in April.

The focus of Workshop 3 was to discuss how UWMPs were being prepared to reflect and incorporate the significant water supply shortfall resulting from the Regional Water System water supply reliability information provided by the SFPUC for UWMP preparation purposes and that reflect assumed implementation of the adopted Bay Delta Plan. Substantial shortfalls are proving to be challenging for agencies as they prepare their UWMPs. Workshop 4 will continue the discussion of how plans should be prepared to address the challenge of significant shortfalls.

In evaluating the reliability of water supply moving forward for UWMP purposes, the SFPUC has relied upon a water system delivery level of 265 mgd, which reflects an allocation of 81 mgd for SF retail customers and the 184 mgd Supply Assurance for the Wholesale Customers. BAWSCA concurs with the logic of using 184 mgd for this SFPUC's analysis. In a March 1, 2021 letter to the Commission, the Tuolumne River Trust (TRT) questioned this analysis. In addition, the TRT also questioned the appropriateness of the severity of SFPUC's design drought, stating that the design drought is overly conservative and should be shorter in duration and/or result in a lesser impact on water availability. In a March 9, 2021 reply letter to the TRT, the SFPUC responded stating its continued intention to use 265 mgd for a water system delivery level in its analysis for UWMP purposes. The SFPUC's letter also responded to TRT's contention that SFPUC's design drought is too severe. Both letters are attached.

SFPUC Alternative Water Supply Quarterly Report

As part of the SFPUC's ongoing efforts toward developing its Alternative Water Supply Program, they produce quarterly reports documenting progress. Collectively, the projects described in the reports represent the SFPUC's early planning to meet future water supply challenges and vulnerabilities such as environmental flow needs and regulatory changes; earthquakes, disasters, and emergencies; changes in demand; and climate change.

The SFPUC's strategy is to leverage regional partnerships and consider a suite of alternative water projects to help meet the SF Retail needs and Wholesale obligations through 2045. The

SFPUC's planning is focused on evaluating project feasibility based on technical, institutional and operational considerations, and thinking about project activities that can be sequenced to remain flexible and responsive as they continue to gain more clarity on planning needs.

The structure of the current quarterly report is similar to their prior (December) Quarterly Report. However, each quarterly report has a section that focuses on a specific aspect of the program titled "Program Highlights". This quarter, the concept of how potential purified water projects could play a role in meeting future water supply needs is highlighted. The quarterly report also discusses the importance that new storage will have in addressing water supply reliability. All quarterly reports also include a program background section, toward the back of the report, that allows each quarterly report to serve as a standalone document.

Prior to presenting these quarterly reports to the SFPUC Commission, SFPUC and BAWSCA staff meet to review the report's contents and answer questions that BAWSCA may have. SFPUC has committed to keeping BAWSCA engaged in their overall Alternative Water Supply Program development as well as on project specific efforts and activities. The quarterly reports are shared by BAWSCA to BAWSCA's Water Management Representatives as a means to keep member agencies informed. The most recent SFPUC Alternative Water Supply Program Quarterly Report can be found here:

<https://sfpuc.sharefile.com/share/view/s2f934d43f62946beba1bcd53f8df7f04>

SFPUC Workshop #3 on TRVA

The SFPUC has been holding workshops since November 2020 with its Commission and interested parties on matters related to the Bay-Delta Plan and more specifically on the Tuolumne River Voluntary Agreement. The first workshop was held on November 30, 2020 and consisted of presentations from the environmental community focusing on the Bay-Delta Plan and the associated science it relies upon. The second workshop was held on February 5, 2021 and consisted of presentations by SFPUC staff that detailed the proposed Tuolumne River Voluntary Agreement. Both workshops included opportunities for public comment. BAWSCA's CEO, select BAWSCA Board Members, as well as representatives from BAWSCA member agencies made comments at the workshops.

SFPUC has scheduled a third workshop for Friday March 26, 2021. BAWSCA is in coordination with the SFPUC staff on the agenda and any potential need for BAWSCA to assist in presentation or as a panel member. Once an agenda has been finalized, BAWSCA will share it with the BAWSCA Board. BAWSCA will encourage member agency representatives to attend the workshop, and also will work with the BAWSCA Board leadership on attendance plans for board representation.

Regional Drought Coordination

The wet weather season for FY 2020-21 is nearing its conclusion. Rainfall to date is well below average. Dry conditions are present statewide. The SFPUC will wait until mid-April to make a determination as to whether to ask for voluntary or mandatory water use reductions by the BAWSCA agencies and its retail customers. That determination will be made based on estimates of storage, likely snowmelt, as well as the expected water demands present during the remainders of calendar year 2021. There is the possibility that a voluntary rationing call could be made by the SFPUC, however conditions may dictate that such as call is not warranted.

As was the case during the prior (2014-2017) drought, BAWSCA participated along with other representatives from water providers in the broader Bay Area on strategy surrounding drought

messaging efforts. That group includes primarily public information officers from agencies such as East Bay Municipal Utility District, SFPUC, Santa Clara Valley Water District, Marin Municipal Water District, Contra Costa Water District, and others. Two BAWSCA member agencies, Alameda County Water District and Cal Water are also directly engaged in this effort. BAWSCA's water resources manager serves as the BAWSCA representative for the group.

A renewed public outreach engagement was proposed due to the present dry conditions. A conference call took place on February 26, 2021. The conversation on the call centered around sharing what is happening at each agency regarding water supply conditions along with a discussion of what, if any, plans for requesting voluntary or mandatory rationing from water customers. The vast majority of participants noted that their agencies had yet to call for rationing, and that any such call would be made later in the Spring of 2021. A follow-up call was proposed for mid to late April at which time there would be more certainty. Based on the situation at that time, possible unified approaches to drought messaging would be contemplated.

BAWSCA intends to continue to participate in this regional group and will keep the Board and Water Management Representatives apprised of any possible regional drought messaging approach.

BAWSCA Residential Landscape Education Classes

BAWSCA will be hosting another season of the Residential Landscape Education Program this Spring. Due to the ongoing Covid-19 pandemic, the classes and workshops will continue to be hosted via Zoom and posted on the BAWSCA website for access by residents afterwards.

From March to May 2021, BAWSCA will host a total of 20 classes discussing a diverse range of topics including Native Plants & Design, Rain Barrel Installation, Rain Gardens, Edible Gardening and Gardening with Succulents. The complete list of classes and workshops will be posted on the BAWSCA website and shared with the member agencies in a few weeks.

Attachments:

- Tuolumne River Trust Letter to SFPUC dated March 1, 2021
- SFPUC Reply Letter to Tuolumne River Trust dated March 9, 2021

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March 1, 2021

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President Sophie Maxwell and Commissioners
SFPUC

525 Golden Gate Ave.
San Francisco, CA 94102

Via Email

Re: Need to correct SFPUC information provided to the BAWSCA agencies for preparation of their Urban Water Management Plans.

Dear President Maxwell and Commissioners:

Recent information provided by the SFPUC to BAWSCA to help its member agencies prepare their Urban Water Management Plans (UWMP) is inaccurate and needs to be corrected as soon as possible. I request that you direct staff to address this issue immediately, or if there is a controversy, to place this item on your next agenda. It's important for this information to be corrected prior to release of the draft UWMPs, because the UWMPs will inform a number of development decisions and other considerations for the next five years.

On January 22, 2021 the SFPUC provided information to BAWSCA to help its member agencies prepare their UWMPs.¹ The information distorts potential impacts on water supply by:

- Treating the SFPUC's sales cap of 265 million gallons per day (mgd) as 2020 baseline water demand. Actual water demand in the SFPUC's service area in FY 2019/20 was 198 mgd – 25% below the sales cap.
- Using the SFPUC's design drought to make it appear that implementation of the Bay Delta Water Quality Control Plan would require 55% rationing beginning in the third year of the "Five-Consecutive-Year Drought" analysis required for UWMPs.

I. The SFPUC conflates water supply with demand.

The SFPUC letter states, "All tables assume that the wholesale customers will purchase 184 mgd from the RWS through 2045."² However, current BAWSCA

¹ Letter from Paula Kehoe (SFPUC) to Danielle McPherson (BAWSCA), January 22, 2021 – <https://static1.squarespace.com/static/5eebc0039b04b54b2fb0ce52/t/6036a59384fa615011fb0b4/1614194069715/UWMP+2020+Supply+Reliability+Ltr+%281.22.21%29.pdf>

² Ibid.

demand is only 132 mgd,³ and a letter from BAWSCA to the SFPUC dated January 15, 2021 states, “the combined permanent and interruptible Wholesale Customer purchases from the San Francisco Regional Water System (RWS) alone will be approximately 163 MGD in 2045.”⁴

The BAWSCA letter also states, “The Bay Area Water Supply and Conservation Agency (BAWSCA) writes in support of the San Francisco Public Utilities Commission’s (SFPUC) continued use of the 184 million gallons per day (MGD) Supply Assurance for planning projection purposes in its 2020 Urban Water Management Plan (UWMP).”⁵

BAWSCA’s rationale for using the 184 mgd Water Supply Assurance is as follows:

Fifteen (15) Wholesale Customers rely solely on the RWS for water supply while the eleven (11) remaining Wholesale Customers use other local and imported supplies to meet their water customers’ needs...In 2045, the combined permanent and interruptible Wholesale Customer purchases from the RWS alone are projected to be approximately 163 MGD. This projection of purchases from the RWS is based on the current reliability of the other water supplies relied upon by the Wholesale Customers. Several factors may impact the future reliability of these alternative supplies, including, but not limited to, a final decision on the Bay Delta Water Quality Control Plan (both Phase 1 and Phase 2) and climate change. Further, it is possible that the other local and imported water supplies anticipated in this planning could be interrupted or reduced in the future, requiring those impacted Wholesale Customers to increase their reliance on the RWS. Such action would be consistent with the Wholesale Customers’ rights and SFPUC’s obligations under the WSA.⁶

Of the 11 BAWSCA agencies that have access to other local or imported water supplies, almost half only have access to local supplies, which would not be impacted by the loss of imported water. The agencies that could be impacted by the loss of water from Valley Water, the State Water Project or the Central Valley Project are the Alameda County Water District, Milpitas, Mountain View, San Jose, Santa Clara and Sunnyvale. The difference between the Individual Supply Guarantees for these agencies and the amount of water they purchased from the SFPUC in 2020 was 18.66 mgd. This is the maximum amount of additional water the SFPUC might have to provide if other imported water were not available.

The 15 BAWSCA agencies that rely solely on the RWS, plus those that have local supplies, are already purchasing as much water as they need from the SFPUC, and they should not be

³ SFPUC Water Resources Division Annual Report Fiscal Year 2019-2020 – <https://sfwater.org/Modules/ShowDocument.aspx?documentID=16513>

⁴ Letter from Nicole Sandkula (BAWSCA) to Steve Ritchie (SFPUC), January 15, 2021 – <https://static1.squarespace.com/static/5eebc0039b04b54b2fb0ce52/t/603819cc1a64be61aba4b033/1614289356792/BAWSCA+Request+for+184.pdf>

⁵ Ibid.

⁶ Ibid.

expected to purchase additional water simply because they could. The difference between their Individual Supply Guarantees and how much water they purchased from the SFPUC in 2020 was slightly over 41 mgd. Therefore, if the SFPUC continues to accept BAWSCA's rationale for inflating potential demand (cloaked as supply), 41 mgd should be subtracted from BAWSCA's 184 mgd Water Supply Assurance, leaving 143 mgd as the maximum potential BAWSCA demand from the SFPUC.

Table 2 in the SFPUC letter lists Wholesale Supply as 184 mgd and RWS Supply as 265 mgd starting in 2020. It's important to remember that 184 mgd and 265 mgd are not demand projections, but rather sales caps. In FY 2019/20, RWS deliveries were 198 mgd, 25% below the sales cap.⁷

Table 2: Projected Wholesale Supply from Regional Water System [For Table 6-9]:

Year	2020	2025	2030	2035	2040	2045
RWS Supply (mgd)	265	265	265	265	265	265
Wholesale Supply (mgd)	184	184	184	184	184	184

Here's the problem. Table 3 in the SFPUC letter treats the 265 mgd sales cap (labeled supply) as demand, which increases the level of rationing needed to manage the "Five-Consecutive-Year Drought." The SFPUC's 8.5-year manufactured design drought that is used to calculate rationing requirements for the "Five-Consecutive-Year Drought" is based on SFPUC reservoir storage being full at the beginning of the drought, and adding SFPUC water entitlements to supply during the design drought years (both historical conditions). From this supply/storage, water demand is subtracted.

Column 3 of Table 3 in the SFPUC letter is titled "Regional Water System Volume Available," but is treated as demand when subtracting water from supply/storage each year.

⁷ See footnote 2.

Table 3: Basis of Water Supply Data [For Table 7-1], 2020 Infrastructure Conditions With Bay Delta Plan

Year Type	Base Year	RWS Volume Available (mgd)	% of Average Supply	Wholesale Volume Available (mgd)	Notes on Calculation of Wholesale Supply
Average year	2020	265	100%	184	
Single dry year		238.5	90%	157.5	<ul style="list-style-type: none"> At 10% shortage, wholesale allocation is 64%, or 152.6 mgd Retail allocation is 36%, or 85.9 mgd Retail allocations above 81 mgd are re-allocated to Wholesale Customers, per the 2018 WSA 4.9 mgd added to wholesale allocation, bringing it to 157.5 mgd
Consecutive 1 st Dry year		238.5	90%	157.5	<ul style="list-style-type: none"> Same as above
Consecutive 2 nd Dry year		212	80%	132.5	<ul style="list-style-type: none"> At a 20% shortage, wholesale allocation is 62.5%, or 132.5 mgd Retail allocation is 37.5%, or 79.5 mgd
Consecutive 3 rd Dry year ¹		119.25	45%	74.5	<ul style="list-style-type: none"> WSA does not define percentage split above a 20% shortage level Assume same split as for a 20% shortage level, i.e. Wholesale Customers receive 62.5%
Consecutive 4 th Dry year		119.25	45%	74.5	<ul style="list-style-type: none"> Same as above
Consecutive 5 th Dry year		119.25	45%	74.5	<ul style="list-style-type: none"> Same as above

¹ Assuming this year represents 2023, when Bay Delta Plan Amendment would come into effect.

I confirmed the SFPUC used 265 mgd for demand by modeling the design drought at 265 mgd demand using the rationing scenario in Column 4 (% of Average Supply), and I ended up with the same numbers listed in Column 3 (RWS Volume Available).

Table 3 must be corrected using actual demand figures.

II. The SFPUC is gaming the UWMP Guidelines regarding analysis of a “Five-Consecutive-Year Drought.”

The draft “Urban Water Management Plan Guidebook 2020” defines the “Five-Consecutive-Year Drought” as follows:

Five-Consecutive-Year Drought. The five-consecutive year drought for the DRA [Drought Risk Assessment] would be the driest five-year historical sequence for the Supplier (Water Code Section 10612)...Suppliers are encouraged to characterize the five-consecutive-year drought in a manner that is best suited for understanding and managing their water service reliability.⁸

⁸ Draft Urban Water Management Plan Guidebook 2020, p. 7-7 – <https://water.ca.gov/-/media/DWR-Website/Web-Pages/Programs/Water-Use-And-Efficiency/Urban-Water-Use-Efficiency/Urban-Water-Management-Plans/Draft-2020-UWMP-Guidebook.pdf?la=en&hash=266FE747760481ACF779F0F2AAEE615314693456>

The SFPUC is gaming the wiggle room included in the definition of the “Five-Consecutive-Year Drought.” The SFPUC did not use its driest five-year historical sequence, but instead used the design drought, which covers eight-and-a-half years and spreads potential rationing requirements from the last three-and-a-half years into the first five years. In the Substitute Environmental Document (SED) for the Bay Delta Plan, the State Water Board rejected use of the design drought because it represents hydrological conditions far more severe than historically experienced.

At current demand, the SFPUC could manage the driest five-year sequence on record, as well as the entire six-year drought of record (1987-92), without requiring any rationing or developing any new water supplies. In other words, if Table 3 strictly followed the UWMP guidelines, instead of showing 55% rationing in years 3-5 of the drought, it would show no need for rationing at all.

Following is a modified version of the SFPUC’s Table 3 substituting “Demand” for “Supply” and based on the driest five-year sequence (1987-1991).

Year Type	Base Year	RWS Demand (mgd)	% of Demand Available
Average Year	2020	198	100%
Single Dry Year		198	100%
1 st Dry Year		198	100%
2 nd Dry Year		198	100%
3 rd Dry Year*		198	100%
4 th Dry Year		198	100%
5 th Dry Year		198	100%

* Assuming this year represents 2023, when Bay Delta Plan Amendment would come into effect.

As mentioned above, a sixth year (1992) could be added to the above table – making it equivalent to the worst drought on record – and “% of Demand Available” would remain at 100%.

Even if the BAWSCA agencies that have access to other water supplies were to request their full Individual Supply Guarantees from the SFPUC (as suggested in the BAWSCA letter), and adding the SFPUC’s 2020 retail demand (66 mgd) to BAWSCA’s unlikely 143 mgd demand, RWS demand would total 209 mgd. In this case, the SFPUC’s Table 3 would look like this.

Year Type	Base Year	RWS Volume Available (mgd)	% of Volume Available	Wholesale Volume Available (mgd)
Average Year	2020	209	100%	143
Single Dry Year		209	100%	143
1 st Dry Year		209	100%	143
2 nd Dry Year		209	100%	143
3 rd Dry Year*		209	100%	143
4 th Dry Year		209	100%	143
5 th Dry Year		209	100%	143

* Assuming this year represents 2023, when Bay Delta Plan Amendment would come into effect.

And if for some unforeseen reason BAWSCA demand did total 184 mgd, Table 3 would look like this.

Year Type	Base Year	RWS Volume Available (mgd)	% of Volume Available	Wholesale Volume Available (mgd)
Average Year	2020	250	100%	184
Single Dry Year		250	100%	184
1 st Dry Year		250	100%	184
2 nd Dry Year		250	100%	184
3 rd Dry Year*		250	100%	184
4 th Dry Year		250	100%	184
5 th Dry Year		250	100%	184

* Assuming this year represents 2023, when Bay Delta Plan Amendment would come into effect.

Under all scenarios, the SFPUC could manage the “Five-Consecutive-Year Drought” without requiring any rationing or developing any new water supplies.

I hope we can address the bigger issues of demand projections and the length of the design drought prior to the UWMPs being finalized by July 1, 2021. The BAWSCA agencies should be interested in this, given that they would likely face intense opposition to any future

development if their constituents believed 55% rationing would already be required in the third year of a drought.

In the meantime, please direct staff to provide the BAWSCA agencies with correct information for their UWMPs or place this item on your next agenda.

Thank you for the opportunity to provide comments.

Sincerely,



Peter Drekmeier
Policy Director

cc:

Nicole Sandkula, BAWSCA
Julia Ekstrom, DWR
Erin Foresman, SWRCB

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March 9, 2021

Mr. Peter Drekmeier, Policy Director
Tuolumne River Trust
57 Post Street, Suite 711
San Francisco, CA 94104

Dear Mr. Drekmeier:

We are writing to clarify some of the points made in your recent letter "Re: Need to correct SFPUC information provided to the BAWSCA agencies for preparation of their Urban Water Management Plans" sent to the Commissioners on March 1, 2021. This letter addresses the two main points of your letter: (1) SFPUC conflates water supply with demand by using 265 mgd as an assumed demand in supply modeling, and (2) SFPUC games the UWMP guidelines regarding the analysis of a five-consecutive-year drought.

Use of 265 mgd as Assumed Demand Input to Supply Model

SFPUC uses the value of 265 mgd in two contexts. First, it is the Interim Supply Limitation (ISL) that was adopted in 2008, and SFPUC is limited to taking no more than an annual average of 265 mgd from our watersheds. SFPUC also has Level of Service objectives of meeting average annual water demand of 265 mgd from the SFPUC watersheds for retail and Wholesale Customers during non-drought years and limiting rationing to a maximum 20 percent system-wide reduction in water service during extended droughts.

It is appropriate for SFPUC to conduct modeling based on a demand of 265 mgd in order to facilitate planning that supports meeting these Level of Service objectives. The Level of Service objectives encompass the needs of both retail and Wholesale Customers.

- SFPUC has a contractual obligation to supply 184 mgd to the Wholesale Customers. This obligation exists in perpetuity. Although we don't expect demands from the Wholesale Customers to exceed this supply assurance during the planning period, we believe it is important and prudent to plan for them given that we are contractually obligated to do so, and that unforeseen events can have significant impacts on demands.

London N. Breed
Mayor

Sophie Maxwell
President

Anson Moran
Vice President

Tim Paulson
Commissioner

Ed Harrington
Commissioner

Newsha Ajami
Commissioner

Michael Carlin
Acting
General Manager



- In addition to planning for meeting our contractual obligation to the Wholesale Customers, SFPUC also plans for being able to provide the 81 mgd retail allocation.

Given that projected demands do not reach 265 mgd within the planning period of this UWMP, SFPUC has decided to include additional modeling to reflect the supply reliability based on the retail demand projections and Wholesale Customer projected purchase requests. However, this information will be included as an appendix to the draft UWMP for informational purposes. The results of the additional modeling show the following:

- Without implementation of the Bay Delta Plan Amendment, and with demand at current and projected levels (based on retail demand projections and Wholesale purchase request projections), no rationing will be required until system demand grows to the level that is projected in 2045.
- SFPUC's modeling shows that with implementation of the Bay Delta Plan Amendment, significant system-wide shortages will occur in single dry and multiple dry years. Using the retail demand projections and Wholesale purchase request projections does not change this outcome; although in some dry years there is some additional supply available to both retail and Wholesale customers, there are still significant system-wide shortages.

Meeting the Requirements of the Urban Water Management Plan

In preparing the Urban Water Management Plan, SFPUC aims to comply with all of the requirements set forth in the Water Code while maintaining consistency with our own water supply planning methods and tools.

As noted in the Department of Water Resources (DWR) draft guidebook for 2020 UWMPs regarding the requirement to evaluate a five-consecutive-year drought, "Suppliers are encouraged to characterize the five-consecutive-year drought in a manner that is best suited for understanding and managing their water service reliability." In addition, the draft guidebook also states that for the supply reliability analysis, "Suppliers analyze their water supplies and water uses under normal hydrological conditions, a single dry year condition, and *at least five consecutive years of drought*" (emphasis added).

For water supply planning purposes, SFPUC uses a design drought of 8.5 years that is more severe than what the RWS has historically experienced. Although the length and severity of the drought are conservative compared to historical hydrology, the assumed operation of the RWS during the design drought is more aggressive, i.e. the total useable system storage of the RWS is brought down to 0 at the end of the design drought. SFPUC has determined that the combination of a severe drought sequence with aggressive operational assumptions is an appropriately conservative basis for planning and modeling of future scenarios.

In order to fulfill the requirements for the UWMP and remain consistent with our other water supply planning efforts, SFPUC models projected supply over the 8.5-year design drought sequence, and used the results from the first five years of this sequence in which rationing is required as the five-consecutive-year drought for the UWMP.

If you have additional questions about our Urban Water Management Plan, you can direct them to Sarah Triolo (striolo@sfwater.org).

Sincerely,



Steven R. Ritchie
Assistant General Manager for Water

cc: SFPUC Commissioners
Michael Carlin, Acting General Manager, SFPUC
Nicole Sandkulla, CEO/General Manager, BAWSCA
Julia Ekstrom, DWR
Erin Foresman, SWRCB

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Board of Directors

Policy Calendar Through November 2021

Meeting Date	Purpose	Issue or Topic
March 2021	D&A R&D R R	Consideration of BAWSCA Bond Surcharges for FY 2021-22 Presentation of Preliminary FY 2021-22 Work Plan and Operating Budget Annual Review of WSA Balancing Account Status Review of Water Supply Forecast
May 2021	D&A D&A R	Consideration of Proposed FY 2021-22 Work Plan and Budget Consideration of Annual Consultant Contracts Review of Water Supply Forecast
July 2021	R&D R R	Discussion and Possible Action on CEO/General Manager Evaluation Procedure Update on Long-Term Reliable Water Supply Strategy Implementation Review of Agency Personnel Handbook
Sept 2021	R&D R&D	Update on Review of Current Tier 2 Drought Plan OPEB Report
Nov 2021	D&A	Annual Review and Consideration of BAWSCA's Statement of Investment Policy Review and Consideration of BAWSCA's General Reserve Policy

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**Bay Area Water Supply and Conservation Agency
and Regional Financing Authority****Meeting Schedule through June 2022**

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.

Schedule for BAWSCA Board Meetings (Meetings are held from approx. 6:30 – 8:45 p.m.)	
<u>Date</u>	<u>Location</u>
Thursday – May 20, 2021	Zoom Meeting
Thursday – July 15, 2021	Oak Room, San Mateo Main Library
Thursday – September 16, 2021	Oak Room, San Mateo Main Library
Thursday – November 18, 2021	Oak Room, San Mateo Main Library
Thursday – January 20, 2022	Oak Room, San Mateo Main Library
Thursday – March 17, 2022	Oak Room, San Mateo Main Library
Thursday – May 19, 2022	Oak Room, San Mateo Main Library

Schedule for RFA Board Meetings (Meeting time will be announced)	
<u>Date</u>	<u>Location</u>
Thursday – January 20, 2022	Oak Room, San Mateo Main Library

Schedule for BAWSCA Board Policy Committee Meetings (Meetings held from 1:30-4:00 p.m.)	
<u>Date</u>	<u>Location</u>
Wednesday – April 14, 2021	Zoom Meeting
Wednesday – June 9, 2021	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – August 11, 2021	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – October 13, 2021	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – December 8, 2021	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday – February 9, 2022	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, April 13, 2022	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, June 8, 2022	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.