



## **BOARD POLICY COMMITTEE**

**April 14, 2021**

**1:30 p.m.**

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

The following members of the BAWSCA Board Policy Committee are listed to permit them to appear telephonically at the BPC Meeting on April 14, 2021: Tom Chambers, Alison Cormack, Steve Jordan, Rob Kuta, Gustav Larsson, Juslyn Manalo, Al Mendall, Barbara Pierce, 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/86744101286>

- Meeting ID: **867 4410 1286**
- Password: **521916**
- 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 US Toll-free
  - Meeting ID: **867 4410 1286**
  - Password: **521916**
- To Mute or UnMute, Press \*6.
- To Raise Hand, Press \*9.
- The presentation will be available prior to the meeting at [www.bawasca.org](http://www.bawasca.org).

All audio and video will be OFF upon entry. Remaining on mute will reduce background noise.

Videos of Non-Board meeting participants will be kept OFF at all times during the meeting. Audio for Non-Board meeting participants will be enabled during allocated public speaking times and will be disabled when public comment time has expired.

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

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# BAWSCA

Bay Area Water Supply & Conservation Agency

## BOARD POLICY COMMITTEE

April 14, 2021

1:30 p.m.

### AGENDA

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page#</u>
<b>1. <u>Call To Order, and Roll Call</u></b>	(Zigterman)	
Roster of Committee Members ( <i>Attachment</i> )		Pg 5
<b>2. <u>Comments by Chair</u></b>	(Zigterman)	
<b>3. <u>Public Comment</u></b>	(Zigterman)	
<i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>		
<b>4. <u>Consent Calendar</u></b>	(Zigterman)	
A. Approval of Minutes from the February 10, 2021 meeting ( <i>Attachment</i> )		Pg 7
<b>5. <u>Action Items</u></b>		
A. Second Amendment to Hanson Bridgett Professional Services Contract ( <i>Attachment</i> )	(Sandkulla)	Pg 27
<u>Issue:</u> What additional legal services are needed to support activities that ensure critical results for FY 2020-21 are achieved, and to protect the interests of the member agencies and their water customers?		
<u>Information to Committee:</u> Memorandum and oral report.		
<u>Committee Action Requested:</u> That the Committee recommend the proposed Board action.		
B. Amendment to Strategic Counsel's FY 2020-21 Professional Services Contract ( <i>Attachment</i> )	(Sandkulla)	Pg 33
<u>Issue:</u> What additional resources are needed to ensure that the member agencies' water supply interests are represented in BAWSCA's efforts on the administration of the WSA, Bay Delta Plan, and FERC relicensing process?		
<u>Information to Committee:</u> Memorandum and oral report		
<u>Committee Action Requested:</u> That the Committee recommend the proposed Board action.		
C. Potential Refunding of BAWSCA's Revenue Bond Series 2013A – Action Needed to Proceed ( <i>Attachment</i> )	(Sandkulla)	Pg 35
<u>Issue:</u> What resources are needed for the initial planning and preparation for the potential refunding of Series 2013A bonds to achieve savings for the member agencies?		
<u>Information to Committee:</u> Memorandum and oral report		
<u>Committee Action Requested:</u> That the Committee recommend the proposed Board action.		

- D. Approval of Renewal to the Office Lease (*Attachment*) (Sandkulla) Pg 43  
Issue: To request Board authority to negotiate and execute a renewal of the existing office lease within specific parameters.  
Information to Committee: Memorandum and oral Report  
Committee Action Requested: That the Committee recommend the proposed Board action.

- E. Proposed Fiscal Year 2021-22 Work Plan, Results to be Achieved, and Operating Budget (*Attachment*) Pg 45  
Issue: What critical results must be achieved in FY 2021-22 to accomplish BAWSCA's goals and water reliability objectives?  
Information to Committee: Memorandum presenting Proposed Fiscal Year 2021-22 Work Plan, Results to be Achieved, and Operating Budget.  
Committee Action Requested: That the Committee recommend the proposed Board action.

**6. CEO Reports** (Sandkulla)

- A. Water Supply Conditions  
B. FERC/Bay Delta Plan Update  
C. CEO/General Manager's Letter (*Attachment*) Pg 77  
D. Board Policy Committee Calendar (*Attachment*) Pg 85  
E. Correspondence Packet ([Under Separate Cover](#))

**7. Closed Session** (Schutte)

- A. **Conference with Legal Counsel – Existing Litigation pursuant to** Paragraph (1) of subdivision (d) of Government Code Section 54956.9 Federal Energy Regulatory Commission Final License Application Proceedings for Don Pedro Hydroelectric Project, P-2299-082, and La Grange Hydroelectric Project, P-14581-002.  
B. **Conference with Legal Counsel – Existing Litigation pursuant to** Paragraph (1) of subdivision (d) of Government Code Section 54956.9 State Water Board Cases (Sacramento County Superior Court Case No. 5013).

**8. Report from Closed Session** (Schutte)

**9. Comments by Committee Members** (Zigterman)

**10. Adjournment to the Next Meeting** (Zigterman)

**Unless otherwise noticed:**  
June 9, 2021 at 1:30pm via Zoom

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE**

**2021 Committee Roster:**

Tom Zigterman, Stanford University (Chair)

Juslyn Manalo, City of Daly City (Vice Chair)

Thomas Chambers, Westborough Water District (BAWSCA Vice Chair)

Alison Cormack, City of Palo Alto

Steve Jordan, Purissima Hills Water District

Rob Kuta, California Water Service Co.

Gustav Larsson, City of Sunnyvale (BAWSCA Chair)

Al Mendall, City of Hayward

Barbara Pierce, City of Redwood City

Sepi Wood, City of Brisbane

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE**

**February 10, 2021 – 1:30 p.m.**

**Zoom Video Conference**

**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.**

<b>MINUTES</b>
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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 Calendar #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 \$2.5 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 does 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 in the current market value balance in the stabilization fund and the minimal 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 refunding of the 2013A bonds can occur. 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 fund in the 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 purposes, or for refunding cost purposes related to the 2013A and 2013B bonds.

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 reduces payments, therefore 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 funds are 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's 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 pays 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 the 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.

Respectfully submitted,

Nicole Sandkulla, CEO/General Manager

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Attachments: 1) Attendance Roster



# Bay Area Water Supply and Conservation Agency

## Board Policy Committee Meeting Attendance Roster

Agency	Director	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

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE MEETING**

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

**Summary:**

Activities associated with 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 2020-21. As a result, the contract with Hanson Bridgett must be amended to avoid disruption of necessary work to achieve critical results for FY 2020-21. 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 \$1,006,500.

**Fiscal Impact**

This recommended budget increase would be funded using a combination of \$197,000 from a requested transfer from the Water Supply Agreement Balancing Account (Balancing Account) and the remainder from a reallocation of unused funds within the existing agency operating budget.

**Recommendation:**

**That the Committee recommend 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 \$1,006,500; and**
- 2. Authorize the request for a transfer of \$197,000 from the Balancing Account to BAWSCA in accordance with BAWSCA's Balancing Account Policy, Res. No. 2020-02, and**
- 3. Increase the approved FY 2020-21 Operating Budget by \$197,000 to \$4,360,179.**

**Discussion:**

Expenses associated with completing the WSA Minimum Purchase amendment is significantly more than budgeted due to the unanticipated legal questions and concerns that have arisen over the last eight months requiring additional negotiations among the member agencies and with SFPUC. In addition, 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.

**Funding the Recommended Amendment Through Use of the Balancing Account**

A transfer of \$197,000 of available funds from the Balancing Account is included as part of the recommended action.

For FY 2020-21, the following expenses have already been incurred that are eligible for reimbursement to BAWSCA through a transfer from the Balancing Account:

- \$153,193 for Strategy implementation including work on Los Vaqueros Enlargement and Potable Reuse Exploratory Project, finalizing the 2020 Demand Projections to support Urban Water Management Plans, and use of BAWSCA's Regional Reliability Model to support planning efforts.
- \$48,875 for implementation of Core Conservation Program elements including BAWSCA's water efficient landscape classes and leak reduction programs, and support for member agency Urban Water Management Plans.

Pursuant to Section 6.05.B.1 of the Amended and Restated Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County, and Santa Clara County (WSA), if the Balancing Account maintains a positive balance for three successive years and represents 10 percent or more of the Wholesale Revenue Requirement for the most recent fiscal year, the Board may direct the SFPUC to apply the positive balance to "water conservation or water supply projects administered by or through BAWSCA," among other uses. The projects outlined above support both BAWSCA's water supply development and conservation efforts.

In accordance with Resolution No. 2020-02, a copy of which is attached to this memo, before appropriating funds from the Balancing Account, the Board must make written findings that reasonably demonstrate that applying all or a portion of the positive balance to the selected purpose(s) is in the best interests of the Wholesale Customers and the ultimate water customers.

Per the Balancing Account Policy, the findings must address the following:

- a) Projected annual Wholesale Rates for the next five fiscal years;
- b) Wholesale Revenue Coverage Reserve;
- c) Existing unpaid asset balance(s) under Section 5.03 of the WSA;
- d) Funding requirements and sources for water conservation or water supply projects administered by the Agency and an analysis comparing the use of the Balancing Account funds compared to implementing a Water Management Charge per WSA Section 3.06.A; and
- e) Any other factor(s) the Board of Directors determines compels application of all or part of the positive balance to a purpose specified in 6.05.B.2.a of the WSA.

An evaluation of the proposed use of the Balancing Account funds results in the following findings:

- The proposed appropriation of \$197,000 will not have a discernible impact on the wholesale rates in the next five years (a) or the need for funds for a Wholesale Revenue Coverage Reserve (b).
- Finding (c) is now moot as all asset balances have been paid.
- A Water Management Charge is not a preferred method of raising funds at this time given the size of the positive balance in the Balancing Account and the budget needs (d).
- At this time, there is no other competing interest that requires the Balancing Account to be reserved in its entirety rather than as a funding source for these specific budget items (e).

**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
FY 19-20	\$799,500	\$819,000	\$818,000	100%	June 2020 - \$19.5 reallocated from other expense categories; no change to operating budget
FY 20-21	\$606,500	\$806,500			March 2021 - additional \$200k - \$142k from the General Reserve & \$57k from contingency

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## **BAY AREA WATER SUPPLY & CONSERVATION AGENCY**

### **RESOLUTION NO. 2020-02**

#### **ESTABLISHING A BALANCING ACCOUNT POLICY**

**WHEREAS**, pursuant to Section 6.05.B.1 of the Amended and Restated Water Supply Agreement between the City and County of San Francisco and Wholesale Customers in Alameda County, San Mateo County, and Santa Clara County (WSA), at the close of each fiscal year, the difference between the amount billed to the Wholesale Customers for that fiscal year and the actual Wholesale Revenue Requirement for that fiscal year is charged to, or credited to, the Balancing Account, as appropriate; and

**WHEREAS**, if the Balancing Account maintains a positive balance for three successive years and represents 10 percent or more of the Wholesale Revenue Requirement for the most recent fiscal year, the Board of Directors of the Bay Area Water Supply and Conservation Agency (Agency) may direct the San Francisco Public Utilities Commission (SFPUC) to apply the positive balance to one or more of the purposes set forth in Section 6.05.B.2.a of the WSA; and

**WHEREAS**, Section 6.05.B.2.a provides the following purposes to which a positive balance may be applied: "(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"; and

**WHEREAS**, in the absence of a direction from the Agency, the SFPUC will continue to retain the balance for rate stabilization; and

**WHEREAS**, in the event the Agency chooses to direct application of a positive balance in the Balancing Account, it is a prudent governance measure to require the Board of Directors to make written findings justifying the allocation of the positive balance.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Bay Area Water Supply and Conservation Agency as follows:

1. In advance of taking action to apply all or a portion of the positive balance of the Balancing Account in accordance with Section 6.05.B.2.a of the WSA, the Board of Directors must adopt findings to support such action.
2. The Board must make written findings that reasonably demonstrate that applying all or a portion of the positive balance to the selected purpose(s) is in the best interests of the Wholesale Customers and the ultimate water customers taking into consideration the following considerations set forth in the WSA:
  - a) Projected annual Wholesale Rates for the next five fiscal years;
  - b) Wholesale Revenue Coverage Reserve;

- c) Existing unpaid asset balance(s) under Section 5.03 of the WSA;
- d) Funding requirements and sources for water conservation or water supply projects administered by the Agency and an analysis comparing the use of the Balancing Account funds compared to implementing a Water Management Charge per WSA Section 3.06.A; and
- e) Any other factor(s) the Board of Directors determines are relevant to deciding whether to apply all or part of the positive balance to a purpose specified in 6.05.B.2.a of the WSA.

The findings must be in writing, address consideration of the factors stated above, and be adopted by the Board of Directors at a regular meeting.

**PASSED AND ADOPTED**, this 17 day of Sept. 2020 by the following vote:

AYES: Benton, Breault, Chambers, Cormack, Davis, Hindi, Jordan, Keith, Kuta, Larsson, Manalo, Matichak, Mendall, Mickelsen, Moody, O'Mahony, Pierce, Quigg, Vella, Weed, Wood, Zigterman

NOES:

ABSENT:

  
Chair, Board of Directors

ATTEST:

  
Secretary



**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE MEETING**

**Agenda Title:**           **Amendment to Harlan L.P. Wendell, Management Communications Professional Services Contract**

**Summary:**

Activities associated with completing the 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 strategic counsel resources to date than originally budgeted, and requires additional use of strategic counsel services for the remainder of FY 2020-21. As a result, the contract with Management Communications must be amended to avoid disruption of necessary work to achieve critical results for FY 2020-21. A budget amendment for an additional \$35,000 is recommended to fund necessary work through June 2021 for a revised not to exceed total budget of \$185,000.

**Fiscal Impact**

The adopted FY 2020-21 Operating Budget has the funds available for this contract increase. The source of funds will be unspent funds associated with other financial and technical consultant contracts that are not anticipated to be fully expended this fiscal year.

**Recommendation:**

**That the Committee recommend the Board authorize the CEO/General Manager to amend the professional services contract with Management Communications by \$35,000 for a total not to exceed amount of \$185,000.**

**Discussion:**

The effort associated with completing the WSA amendments, the Bay Delta Plan and FERC have similarly continued to increase in complexity, requiring additional strategic counsel. 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.

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE**

**Agenda Title:**        **Potential Refunding of BAWSCA's Revenue Bond Series 2013A – Action Needed to Proceed**

**Summary:**

The objective of a potential refunding of BAWSCA's Revenue Bond Series 2013A is to generate debt service savings and eventually save the water customers money. At the last BPC meeting, BAWSCA presented the findings of the recent evaluation of three refunding scenarios: 1) taxable advance refunding; 2) tax-exempt forward delivery; and 3) tax-exempt regular delivery. As a result of the recent evaluation, a tax-exempt refunding is preliminarily determined more appropriate than a taxable advance refunding.

The preliminary estimate of the total refunding present value savings is over \$20 million, assuming the current market conditions with a modest cushion for adverse market changes. The estimated annual savings are approximately \$2.0 million, in addition to the \$3.5 million savings each year until 2034 resulting from the original issuance of 2013 bonds and the prepayment of the capital debt that the agencies owed to San Francisco. Assuming the tax-exempt refunding is delivered in early 2023 and the principal amortization is not accelerated, the member agencies' collective annual bond surcharge would be reduced by approximately 8% effective FY 2023-24 and the total annual capital recovery payment cost in FY 2023-24 and forward would be 24% more if BAWSCA did not issue the bonds in 2013 to prepay the capital debt that the agencies owed to San Francisco.

The preliminary estimate of the total cost of issuing the refunding bonds are approximately \$1-\$1.2 million, including both contingent and non-contingent costs. The preliminary refunding services outlined below are not expected to be the full set of legal and advisory services necessary to complete the execution of a refunding transaction.

This item asks the Board's approval of three actions needed to proceed with BAWSCA's initial planning and preparation for the potential bond refunding.

**Fiscal Impact:**

The combined budget, which will be funded by the excess bond stabilization fund, for the additional scope of services in three professional services contracts for the non-contingent portion of the bond refunding work is \$120,000.

**Recommendation:**

**That the Committee recommend that the Board approve the following additional scope of services to be included in the three on-going professional services contracts, subject to legal counsel's review, for the purposes of assisting BAWSCA during the initial planning and preparation for the potential refunding of Series 2013A bonds. These scopes will be in place by July 1, 2021 for work to be performed in FY 2021-22.**

- 1. Additional scope of service in Orrick, LLP's on-going legal services contract for the non-contingent portion of the bond counsel services for the bond refunding with a not-to-exceed amount of \$55,000.**

- 2. Additional scope of service in KNN Public Finance's on-going financial advisory services contract for the non-contingent portion of the financial advisory services for the bond refunding with a not-to-exceed amount of \$40,000.**
- 3. Additional scope of service in Hanson Bridgett's on-going legal counsel services contract for the non-contingent portion of the legal counsel services for the bond refunding with a not-to-exceed amount of \$25,000.**

**Discussion:**

The agency's Revenue Bond Series 2013A and Series 2013B (Taxable) were issued to prepay the then remaining capital cost recovery payments that the BAWSCA member agencies owed San Francisco as of June 30, 2013 per WSA section 5.03. The 2013 Bonds were issued in a par amount of \$335.8 million at an all-in true interest rate of 3.14%, which takes into account the interest rates on the bonds, the upfront premium paid by investors, and the underwriting and issuance costs.

When BAWSCA issued the 2013 bonds, based on the recommendations from the financial advisor and the underwriter, the agency structured the Series 2013B taxable bonds as effectively non-callable in order to achieve lower interest rates and ultimately greater savings to the member agencies at the time. Therefore, the recent refunding analysis is only applicable to the callable portion of Series 2013A tax-exempt bonds in the par amount of \$163.8 million that can be redeemed starting on April 1, 2023, the call date. The callable 2013A bonds have an average weighted interest rate of approximately 4.75%.

Based on the results of a recent evaluation, a tax-exempt refunding is preliminarily determined to be more appropriate than taxable refunding at this time, however, the options are being left open at this time. The Board's approval of the following three actions is needed in order to proceed with the initial planning and preparation for the potential bond refunding, regardless of which delivery method is selected.

1. Authorize the CEO/General Manager to include an additional scope item in Orrick's annual legal support contract, for their non-contingent portion of the bond counsel services with a not-to-exceed amount of \$55,000. Services include advising on legal aspects of the various options, participating in member education and finance team meetings, and preliminary work in executing the transaction. The draft scope of services to be included in Orrick's legal services contract for FY 2021-22 is shown in Attachment 1.
2. Authorize the CEO/General Manager to include an additional scope item in KNN's annual financial advisory services contract, for their non-contingent portion of the municipal advisory services for the bond refunding with a not-to-exceed amount of \$40,000. Services include continuing evaluation of the options, monitoring market conditions and savings levels, conducting a Request for Proposal (RFP) process for underwriter(s) on behalf of BAWSCA, participating in member education and finance team meetings, and preliminary work in executing the transaction. The draft scope of services to be included in KNN's financial advisory services contract for FY 2021-22 is shown in Attachment 2.
3. Authorize the CEO/General Manager to include an additional scope item in Hanson Bridgett's annual legal counsel contract for issuer counsel services with a not to exceed amount of \$25,000. Services include advising on member engagement and education,

finance team meetings, and preliminary work on the transaction. The draft scope of services will be included in Hanson Bridgett's on-going legal services contract for FY 2021-22.

Attachments:

1. Draft scope of service and billing rates for Orrick's assistance in BAWSCA's initial planning and preparation for the potential bond refunding
2. Draft scope of service and billing rates for KNN Public Finance's assistance in BAWSCA's initial planning and preparation for the potential bond refunding

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**Attachment 1**

**Consulting Services Agreement Between BAWSCA and Orrick, Herrington & Sutcliffe, LLP**  
**DRAFT FY 2021-22 SCOPE OF SERVICES FOR 2013A BONDS REFUNDING**

**Purpose**

For FY 2021-22, BAWSCA requires continued bond counsel legal support toward the planning for and preparation of a refunding of the 2013A Bonds.

**Work to be Performed:**

Initial Strategy Conferences with Finance Team

Refunding Options – Address any legal issues during BAWSCA's selection process of available options:

1. Taxable advance refunding
2. Tax-exempt forward delivery
3. Tax-exempt regular delivery
4. Tax-exempt advance refunding

**Member Education**

1. If requested, participate in meeting(s) with BAWSCA member agency representatives to provide overviews of the refunding.
2. Review information letter for member agencies.
3. Prepare initial information request for top users re disclosure.
4. If needed, attend BAWSCA Board Policy Committee and Board meetings to approve retaining the service providers and/or to provide refunding overviews (during non-contingent phase). Review/comment on draft staff reports.

**Member Authorization Option (only if necessary)**

1. Participate in conference call(s) to discuss, confirm member authorization plan (if needed, broad authorization to refund for PV savings without regard to a specific structure; authorize staff to provide, approve disclosure (top users only).
2. If necessary, draft form of member resolution and circulate to BAWSCA (including counsel and municipal advisor) for review.
3. Review information packages for member agencies, including transmittal letter, written material agencies may use for staff reports, and sample power point slides.
4. Participate in conference call to discuss draft form of resolution, letter and supporting docs, if necessary

**Underwriter RFP/Selection and Miscellaneous**

1. If requested by BAWSCA, BAWSCA counsel and/or the municipal advisor, review aspects of proposals, if any, for which there may be legal questions. It is anticipated that respondents will be asked to address taxable advance and forward delivery refunding but may suggest additional approaches such as tenders, exchanges, etc.
2. If requested, review draft debt policy for compliance with statutory requirements.

**Not to Exceed Contract Limit: \$55,000**

**Rates & Charges:**

<u>Name</u>	<u>Hourly Rate</u>
Stephen A. Spitz	\$950/hour
Devin Brennan	\$895/hour
Richard J. Moore	\$950/hour

The Consultant also agrees to defer the receipt of compensation for the refunding preparation work under this Agreement until BAWSCA receives a transfer from the bond stabilization fund held at the Trustee, which is anticipated to occur no later than October 2021.



**Attachment 2**

**Consulting Services Agreement Between BAWSCA and KNN Public Finance  
DRAFT FY 2021-22 SCOPE OF SERVICES FOR 2013A BONDS REFUNDING**

**Purpose**

For FY 2021-22, BAWSCA requires continued work toward the planning for and preparation of a refunding of the 2013A Bonds.

**Work to be Performed:**

Assist in the continuing evaluation of and certain preparations for the potential refunding of the Series 2013A bonds as needed including, but not limited to: assist in the procurement of other service providers; periodically refine and update the financing timetable; prepare/update analyses and advice in connection with various refunding structures and timing alternatives, including monitoring market conditions and interest rate outlooks; prepare a draft and final request for proposal (RFP) for underwriters, manage the RFP process on behalf of BAWSCA, evaluate proposals and alternate strategies, participate in the selection process and interviews; participate on finance team conference calls; review draft staff reports and participate in staff and Board/Council meetings as requested to present refunding information and/or answer questions; and other activities that may be requested or necessary in connection with the potential refunding.

**Not to Exceed Contract Limit: \$40,000**

**Rates & Charges:**

Managing Director	\$345
Vice President	\$325
Asst. Vice President/ Sr. Analyst/ Sr. Assoc.	\$275
Associate	\$230
Analyst	\$205

The Consultant also agrees to defer the receipt of compensation for the refunding preparation work under this Agreement until BAWSCA receives a transfer from the bond stabilization fund held at the Trustee, which is anticipated to occur no later than October 2021.

The refunding services outlined above are not expected to be the full set of municipal advisory services necessary to complete the execution of a refunding transaction. To the extent that actual time spent on planning and initial preparations for the potential refunding between July 1, 2021 and June 30, 2022 exceeds the amount compensated pursuant to this Agreement, any uncompensated portion may be taken into account in the determination of any contingent transaction fee for the execution of 2013A refunding. Such contingent transaction fee, if any, would be subject to a separate agreement between the parties.

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE**

**Agenda Title:**        **Authorization to Extend Office Lease**

**Summary:**

The lease for office space at 155 Bovet Road expires September 30, 2021. The terms of the current lease offer an option to extend at market rate. A lease rate of \$4.00 per square foot and four months free rent has been negotiated with the property management's agent. This rate is in line with comparable properties and represents the best value in terms of efficiency and moving costs. The current lease rate of \$4.22 per square foot will continue for the first three months of FY 2021-22. It is recommended to extend the current lease for a period of sixty-four months.

**Fiscal Impact:**

There will be no fiscal impact in FY 2020-21. The rate change would not occur until FY 2021-22. The abatement of four months' rent will result in a savings of \$53,328. Based on the existing office square footage, the recommended action would result in a net monthly rent decrease of \$736 beginning October 1, 2021. Combined, the estimated savings in FY 2021-22 is \$61K.

**Recommendation:**

**That the Committee recommend the Board authorize the CEO/General Manager to extend the current lease for a period of sixty-four months.**

**Discussion:**

Due to the pandemic, touring comparable properties in person was limited, however, a few were visited. In addition, comparable properties were reviewed electronically. Based on comparisons, it is cost-effective for BAWSCA to remain at its current location. The extended lease rate is in line with comparable office space in San Mateo.

The current lease rate is \$4.22 per square foot. Under the recommended lease extension, the lease rate starting October 1, 2021 would be \$4.00 per square foot with an annual 3% increase. In addition to a lower rate per square foot, an abatement of four months' rent, beginning October 1, 2021, results in a FY 21-22 savings of \$53,328. Together, the reduced per square foot cost and rent abatement result in an estimated FY 2021-22 savings of \$61K. Table 1 provides lease rate history for BAWSCA.

**Table 1. BAWSCA Historical Lease Rates**

May 2000 - April 2005	\$3.45 - \$4.25
May 2005 - Oct. 2008	\$1.85 - \$2.08
Nov. 2008 - July 2011	\$3.20 - \$3.46
Aug. 2011 - Sept. 2016	\$2.20 - \$2.48
Oct. 2016-Sept. 2021	\$3.75-\$4.22
Oct. 2021-Jan. 2027	\$4.00-\$4.50

The real estate broker advising BAWSCA states current lease rates on the SF Peninsula are slightly lower than before the pandemic, but there has not been a dramatic shift. While there have been shifts in landlord concessions, evidenced by the rent abatement BAWSCA has negotiated, rents have generally held steady. The combination of a reduced office supply – due to housing and life science redevelopment – has buffered the market to date and at this time, many users that have not been using their space since the beginning of the pandemic are now planning to return to the office by the end of the year.

Despite COVID, building occupancy remains steady with true vacancy being much less severe than in more vertical, urban markets like San Francisco. The current site for the BAWSCA offices was chosen many years ago due to its central location in the BAWSCA service area and ease of access to San Francisco. The building continues to offer excellent value in the market.

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE MEETING**

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

**Summary:**

This memorandum presents the proposed 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 and March 18, 2021 Board meeting have been reviewed and addressed.

The proposed 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 staff-only 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 WSA (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 internship program.

The proposed Operating Budget is \$4,783,794 which is 15% above the approved FY 2020-21 Operating Budget. The proposed Operating Budget represents approximately a \$1.16 increase in annual cost per person in the service area for an estimated cost to the water customer of \$7.75 per person per year.

The proposed Work Plan and Operating Budget can be funded with a combination of assessment increases, use of the General Reserve, a transfer from the WSA Balancing Account (Balancing Account), and use of BAWSCA 2013 Bond Stabilization Fund (Stabilization Fund).

Based on the analysis provided in this memo, funding Option 3 with a 5% assessment increase is recommended as it combines a modest rate increase with balanced use of other funding sources and results in an estimated year-end General Reserve that is within the budgetary guidelines.

**Recommendation:**

**The Committee is asked to recommend the:**

- 1. Proposed FY 2021-22 Work Plan and Results to be Achieved;**
- 2. Proposed Operating Budget of \$4,783,794;**

- 3. Proposed funding plan of a 5% assessment increase, a transfer of \$281,676 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Stabilization Funds for funding the Operating Budget; and**
- 4. Authorization of a request for a transfer of \$331,000 from the Balancing Account to BAWSCA in accordance with BAWSCA's Balancing Account Policy, Res. No. 2020-02.**

**Discussion:**

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

**PROPOSED 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 February, and with the Board in January and March.

The proposed 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 staff-only 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 two 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 proposed 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 proposed 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 seven new, significantly rescoped, or expanded activities included in the proposed 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. One item, drought support for member agencies, was previously included in this list. However, the planned level of effort has been reduced in the proposed Work Plan to provide staff level support only at this time given current conditions.

**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 proposed 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's efforts to develop new sources of water supply, as well as its 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 adopted 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 proposed 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 proposed budget includes an estimated \$54,000 for consultant and legal support.

**3. 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 proposed budget includes an estimated \$34,000 for consultant support and a modest budget for legal counsel support.

**4. 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 proposed budget includes \$75,000 for technical consultant and legal counsel support.

**5. Refunding of BAWSCA's Revenue Bond Series 2013A  
Estimated FY 2021-22 Non-Contingent 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 \$20 million or 12% of the refunded bonds, assuming current interest rates with a modest cushion for adverse market changes.

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 fees. Monies for financial consultant support is also included in the proposed 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.

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

The implementation of an 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 released a Request for Qualifications (RFQ) that was sent 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 disadvantaged or underserved 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 proposed budget includes a \$44,000 budget allocation with the goal of having an intern in FY 2021-22.

**7. 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 proposed 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 proposed FY 2021-22 Work Plan and Results to be Achieved.

**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 Proposed Work Plan and Results to be Achieved:**

An alternative to the proposed 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.

**PROPOSED FY 2021-22 OPERATING BUDGET:**

The proposed Operating Budget of \$4,783,794 presented in Table 5 reflects the allocation of funding necessary to achieve the full Work Plan and includes an estimated pre-funding contribution for Other Post-Employment Benefits (OPEB), which is shown as a separate line item.

**Explanation and Alternatives for Salaries and Benefits:**

The increase for salaries and benefits of \$47,664 shown in the proposed Operating Budget is a result of a variety of changes. The proposed 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 proposed 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 Proposed Operating Budget:**

Four principles have historically been used by BAWSCA when considering how to fund the proposed 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 \$476,400 transfer from the General Reserve. The General Reserve has a current balance of \$996,743. That balance includes the 476,400 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. That balance also reflects the transfer of \$142,500 from the General Reserve to fund a portion of a contract increase for BAWSCA legal counsel approved by the Board at its March 18, 2021 meeting. The resulting General Reserve is 24% of the adopted FY 2020-21 budget of \$4,163,179, which is within the BAWSCA budgetary guidelines.

BAWSCA's General Reserve Policy as adopted by Board Resolution 2018-02 provides the following guidance for the General Reserve:

- “Whereas, it is a prudent financial measure to maintain surplus funds in a reserve in order to provide funds for urgent but unanticipated expenses and for one-time, non-recurring expenses to moderate variations in annual assessments”
- “For budgetary purposes, the guideline for the minimum balance in the General Reserve is twenty percent of the budget year’s operating expense” and “the guideline for the maximum balance in the General Reserve is thirty five percent of the budget year’s operating expense.”

Each year, unspent funds (if available) are moved to the General Reserve to fund special needs and future budgets. Appendix K 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 94% 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.

Options for Funding the Proposed Work Plan and Operating Budget:

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

1. Member Agency Assessments
2. BAWSCA General Reserve
3. 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. 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. These funds will be available for BAWSCA use no later than October 2021, which is sufficient to provide the funding necessary for the allowable expenses.

Table 6 presents a range of four funding options. Each option relies on a combination of the identified four funding sources. For information and comparison purposes, the table also includes the current FY 2020-21 Operating Budget and Funding Plan and a Revised Operating Budget and Funding Plan, as will be considered by the BPC in April and the Board in May.

- **Option 1 “2% Assessment Increase”:** A 2% increase in assessments (\$3,760,515), a transfer of \$392,279 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Stabilization Funds. This option results in a General Reserve balance of \$848,064, or 18% of the total proposed Operating Budget and 20% of the Total Operating Budget excluding one-time expenses.
- **Option 2 “4% Assessment Increase”:** A 4% increase in assessments (\$3,834,250), a transfer of \$318,544 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Stabilization Funds. This option results in a General Reserve balance of \$921,799 or 19% of the total proposed Operating Budget and 22% of the Total Operating Budget excluding one-time expenses.
- **Option 3 “5% Assessment Increase”:** A 5% increase in assessments (\$3,871,118), a transfer of \$281,676 from the General Reserve, a transfer of \$331,000 from the

Balancing Account, and use of \$300,000 in excess Stabilization Funds. This option results in a General Reserve balance of \$958,667 or 20% of the total proposed Operating Budget and 23% of the Total Operating Budget excluding one-time expenses.

- **Option 4 “7% Assessment Increase”:** A 7% increase in assessments (\$3,944,854), a transfer of \$207,940 from the General Reserve, a transfer of \$331,000 from the Balancing Account, and use of \$300,000 in excess Stabilization Funds. This option results in a General Reserve balance of \$1,032,403 or 22% of the total proposed Operating Budget and 25% of the Total Operating Budget excluding one-time expenses.

For each option shown in Table 6, calculations are provided showing the General Reserve as a percent of the total Operating Budget and General Reserve as a percent of the Operating Budget minus \$631K of one-time expenses included in the proposed Work Plan.

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.

Based on the information provided above, funding Option 3 with a 5% assessment increase is recommended as it combines a modest rate increase with use of other funding sources and results in an estimated year end General Reserve that is within the budgetary guidelines even if the total Operating Budget or the Operating Budget minus the one-time expenses, is used for the calculation.

#### **MAJOR CHANGES REFLECTED IN THE PROPOSED WORK PLAN AND OPERATING BUDGET FROM THE PRELIMINARY WORK PLAN AND OPERATING BUDGET**

The proposed Work Plan and Operating Budget reflects the following changes from the preliminary Work Plan and Operating Budget in response to the Board’s direction and further review of critical tasks necessary:

- Deletion of \$24K budget allocation for outside support or other expenses associated with planned drought support for member agencies. This modification was made in response to the Board’s direction to reduce costs where appropriate and in light of the current water supply conditions.
- Reduction of \$61K in planned rent cost associated with savings secured in recent successful negotiation of an extension of the existing lease for BAWSCA’s current office space. This identified savings assumes the Board authorization of the lease extension at the May 2021 board meeting.

#### **FINDINGS RELATED TO USE OF BALANCING ACCOUNT:**

Pursuant to Section 6.05.B.1 of the WSA, if the Balancing Account maintains a positive balance for three successive years and represents 10 percent or more of the Wholesale Revenue Requirement for the most recent fiscal year, the Board may direct the SFPUC to apply the positive balance to "water conservation or water supply projects administered by or through BAWSCA," among other uses. Two proposed FY 2021-22 Work Plan items - the 2020 Demand Study Refresh and Update and the Scoping for an Update to BAWSCA’s 2009 Strategy - support both BAWSCA’s water supply development and conservation efforts and are therefore eligible for funding via the Balancing Account.

In accordance with Resolution No. 2020-02, before appropriating funds from the Balancing Account, the Board must make written findings that reasonably demonstrate that applying all or

a portion of the positive balance to the selected purpose(s) is in the best interests of the Wholesale Customers and the ultimate water customers.

Per the Balancing Account Policy, the findings must address the following:

- a) Projected annual Wholesale Rates for the next five fiscal years;
- b) Wholesale Revenue Coverage Reserve;
- c) Existing unpaid asset balance(s) under Section 5.03 of the WSA;
- d) Funding requirements and sources for water conservation or water supply projects administered by the Agency and an analysis comparing the use of the Balancing Account funds compared to implementing a Water Management Charge per WSA Section 3.06.A; and
- e) Any other factor(s) the Board of Directors determines compels application of all or part of the positive balance to a purpose specified in 6.05.B.2.a of the WSA.

An evaluation of the proposed use of the Balancing Account funds results in the following findings:

- The proposed appropriation of \$331,000 will not have a discernible impact on the wholesale rates in the next five years (a) or the need for funds for a Wholesale Revenue Coverage Reserve (b).
- Finding (c) is now moot as all asset balances have been paid.
- A Water Management Charge is not a preferred method of raising funds at this time given the size of the positive balance in the Balancing Account and the budget needs (d).
- At this time, there is no other competing interest that requires the Balancing Account to be reserved in its entirety rather than as a funding source for these specific budget items (e).

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

(Percent of Proposed 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.
- (16.0%) 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 staff-only 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 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 WSA**

- a. Administer the WSA 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 Student Internship Program.*
- b. *Implement Board policy directives for management of BAWSCA's unfunded pension liability obligations.*

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

<p><b>RELIABLE SUPPLY</b></p> <ol style="list-style-type: none"><li>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.</li><li>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.</li><li>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.</li></ol>
<p><b>FAIR PRICE</b></p> <ol style="list-style-type: none"><li>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.</li><li>5. Arbitrate issues related to the 2009 WSA.</li></ol>
<p><b>HIGH WATER QUALITY</b></p> <ol style="list-style-type: none"><li>6. Perform technical studies of water quality or San Francisco's treatment of the water it delivers to the BAWSCA agencies.</li><li>7. Advocate changes to water quality regulations or the manner in which San Francisco treats water for drinking and other purposes.</li></ol>
<p><b>AGENCY EFFICIENCY</b></p> <ol style="list-style-type: none"><li>8. Add resources to support additional Board, Board committee, or technical committee meetings.</li><li>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.</li></ol>

**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 Joint 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 full of critical items.	Noted.
3	Montano	Is SFPUC experiencing any increased homeless encampments on the RWS 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.	For BAWSCA's "Reliable Water Supply" work plan areas, the work plan & workload 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 "Fair Price" work plan areas, analysis of the current & anticipated workload indicates little potential need for additional staff resources & insufficient benefit that can be had by offsetting the current use of outside consultant resources.
5	Weed	BAWSCA should look into alternative rate structures to help address the member agencies' financial challenges caused by the water revenue loss due to water consumption reduction.	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 (Proposed 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 <sup>1</sup>	\$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 five 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

					<p>BAWSCA staff vs. support from consultants. 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 <sup>2</sup>	\$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 amendments to the WSA. 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 LVE and PREP. LVE expenses are not reported in this table, however the costs associated with PREP participation are reported. If BAWSCA continues participation in the PREP project, the cost of participation would be significant over time. The bulk of consultant costs for FY 2021-22 and beyond are associated with 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. Proposed FY 2021-22 Operating Budget by Major Expenditure Category**

<b>Cost Category</b>	<b>Approved FY 2020-21 Revised Budget (\$) (as of 3/18/2021)</b>	<b>Proposed FY 2021-22 Budget (\$)</b>	<b>Change from FY 2020-21 Budget (\$)</b>
<b>Consultants/ Direct Expenditures</b>			
Reliability	1,314,850	1,506,600	191,750
Fair Pricing	239,500	565,700	326,200
Administration	100,000	140,000	40,000
<i>Subtotal Consultants</i>	1,654,350	2,212,300	557,950
<b>Administration</b>			
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	385,900	(41,500)
<i>Subtotal Administration</i>	2,502,754	2,507,919	5,164
<b>Total Operating Expenses</b>	<b>4,157,104</b>	<b>4,720,219</b>	<b>563,114</b>
<b>Capital Expenses</b>	3,000	3,000	0
<b>Budgeted Contingency</b>	0	57,500	57,500
<b>Regional Financing Authority</b>	2,025	2,025	0
<b>Bay Area Water Users Assn.</b>	1,050	1,050	0
<b>Grand Total Operating Budget</b>	<b>4,163,179</b>	<b>4,783,794</b>	<b>620,614</b>

**Table 6. Analysis of Funding Options**

	FY 2020-21		FY 2021-22			
Fund Source	Adopted Funding Plan as of 3/18/2021	Revised Funding Plan to be Considered 5/20/2021 <sup>(1)</sup>	Option 1 Proposed Work Plan & 2% Assessment Increase	Option 2 Proposed Work Plan & 4% Assessment Increase	Option 3 Proposed Work Plan & 5% Assessment Increase	Option 4 Proposed Work Plan & 7% Assessment Increase
Assessments	\$3,686,779	\$3,686,779	\$3,760,515	\$3,834,250	\$3,871,118	\$3,944,854
Transfer from General Reserve	\$476,400	\$476,400	\$392,279	\$318,544	\$281,676	\$207,940
Transfer from Balancing Account	\$0	\$197,000	\$331,000	\$331,000	\$331,000	\$331,000
Use of Stabilization Fund	\$0	\$0	\$300,000	\$300,000	\$300,000	\$300,000
Total Available Operating Funds/Operating Budget	\$4,163,179	\$4,360,179	\$4,783,794	\$4,783,794	\$4,783,794	\$4,783,794
Potential End of FY20-21 Transfer to General Reserve			\$243,600	\$243,600	\$243,600	\$243,600
Estimated Year-End Reserves	\$996,743	\$996,743	\$848,064	\$921,799	\$958,667	\$1,032,403
% of Total Budget	24%	23%	18%	19%	20%	22%
% of "Total Budget Minus One-Time Expenses" <sup>(2)</sup>	24%	24%	20%	22%	23%	25%
Assessment to Budget Ratio	89%	85%	79%	80%	81%	82%
Assessment to Budget Ratio Minus One-Time Expenses <sup>(2)</sup>	89%	89%	91%	92%	93%	95%

Note:

(1) FY 2020-21 Revised Funding Plan reflects the proposed transfer of \$197,000 from the Balancing Account to fund a portion of the contract increase associated with the second Hanson Bridgett contract amendment to be considered by the Board for approval on May 20, 2021.

(2) The one-time expenses include the water resource project expenses funded by the Balancing Account and the cost of bond refunding funded by the excess Stabilization Fund.



## **APPENDICES**

Appendices A through J present additional detail about the proposed 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 WSA; 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 WSA, 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: Proposed Budget for the Bay Area Water Users Association (BAWUA)**

The proposed 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 proposed FY 2021-22 Operating Budget.

**Appendix D: Proposed 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 proposed 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 proposed 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
<b>2015-16</b>			
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		
<b>Total</b>	<b>\$666,175</b>	<b>\$23,976</b>	<b>\$1,470</b>
<b>2016-17</b>			
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		
<b>Total</b>	<b>\$660,263</b>	<b>\$13,144</b>	<b>\$1,355</b>

Fiscal Year and Program Name	Direct Program Cost - Reimbursed	BAWSCA Staff Cost - Reimbursed	BAWSCA Admin. Cost - Reimbursed
<b>2017-18</b>			
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		
<b>Total</b>	<b>\$561,853</b>	<b>\$11,174</b>	<b>\$27</b>
<b>FY 2018-19</b>			
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		
<b>Total</b>	<b>\$662,580</b>	<b>\$9,305</b>	<b>\$0</b>
<b>FY 2019-20</b>			
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		
<b>Total</b>	<b>\$706,005</b>	<b>\$8,342</b>	<b>\$0</b>

**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	\$2.58	\$7.75

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

Pursuant to Section 8.04 of the 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. 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.

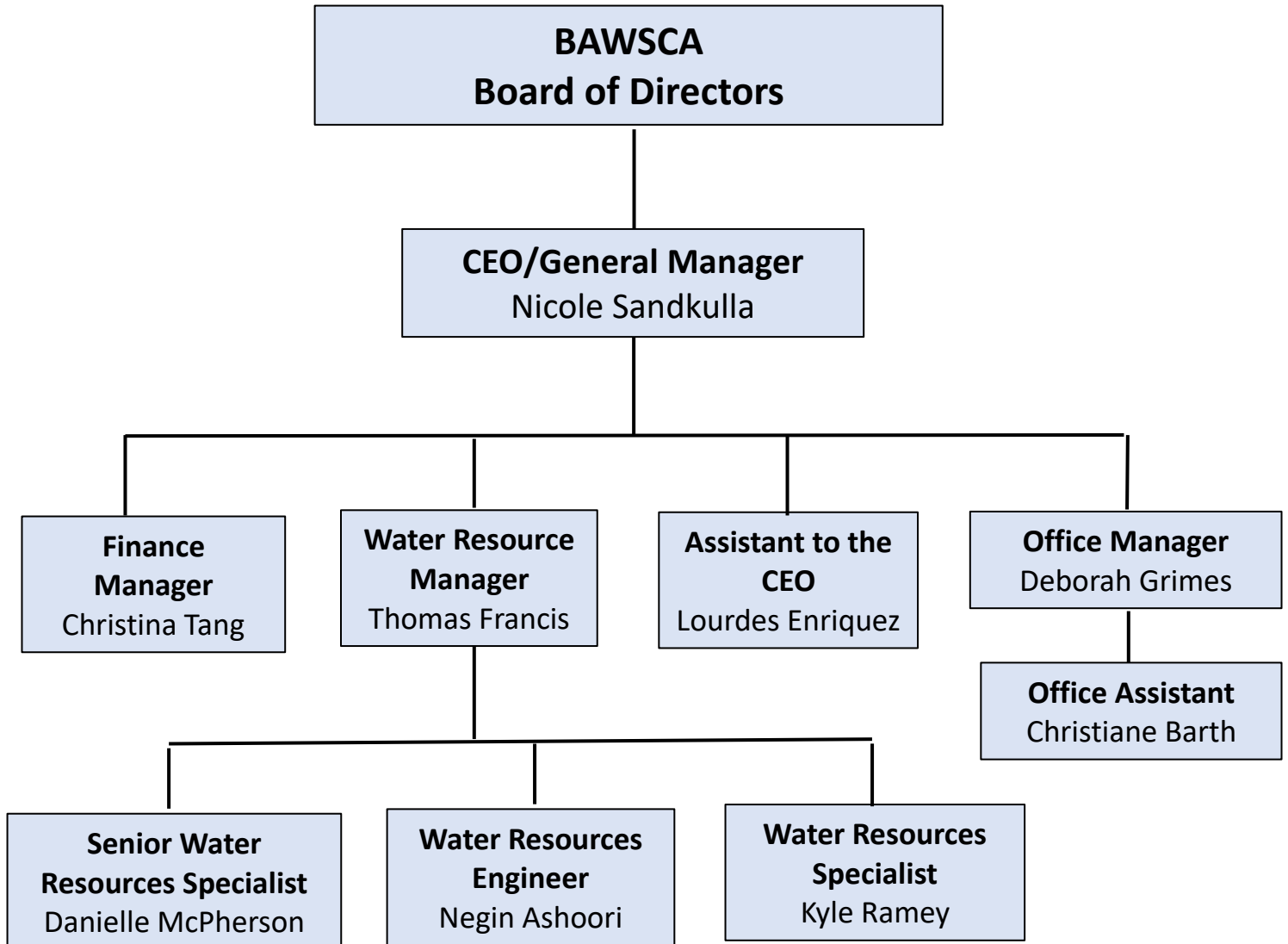
Note that the savings shown in Table H-1 do not include the ongoing savings resulting from any specific year's settlement. For example, the revised 525 Golden Gate operating and capital cost allocation methodology, as a result of the FY11-12 and FY12-13 settlements, generates an ongoing WRR savings to 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
<b>Total</b>	<b>\$44,492,418</b>

**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)**

<b>BAWSCA Goal and Associated Challenges</b>	<b>FY 2021-22 (Near-Term)</b>	<b>2022-2035 (Mid-Term)</b>	<b>2035-2050 (Long-Term)</b>
<b>Reliable Supply: Ensure Long-Term Water Supply Reliability</b>			
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	
<b>Reliable Supply: Ensure SF RWS Facility Reliability</b>			
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	
<b>High Quality Supply &amp; Fair Price: Enforce 2009 Water Supply Agreement (WSA)</b>			
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	
<b>Management of Agency</b>			
<u>BAWSCA CALPERS pension &amp; 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 WSA; 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
									\$352,378 <sup>(1)</sup>				
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					
													HB Amendment - Board approved 3/2019
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	Fund LVE participation, Demand Study, FERC, Bay Delta
2020-2021	\$3,686,779	0%	\$4,163,179	-8.90%			\$333,900	To fund budget		\$996,743			
							\$142,500	To fund budget					HB Amendment - Board approved 3/2021

Footnotes

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

3/12/2020

Footnotes:

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

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# **BAWSCA**

**Bay Area Water Supply & Conservation Agency**

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

## **MEMORANDUM**

**TO:** BAWSCA Board of Directors  
**FROM:** Nicole Sandkulla, CEO/General Manager  
**DATE:** April 9, 2021  
**SUBJECT:** Chief Executive Officer/General Manager's Letter

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### **BAWSCA's Unfunded Pension Liability Funding Program**

Per the latest CalPERS actuarial valuation as of June 30, 2019, BAWSCA's projected unfunded pension actuarial liability (UAL) as of June 30, 2022 is estimated to be \$707,333, which is scheduled to be paid off by June 30, 2038.

In February 2021, 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.

Once BAWSCA's audited financial report for FY 2020-21 is released in November 2021, staff will present the surplus fund balance from FY 2020-21. Additional discussion will take place at the BPC in December 2021, followed by discussions with the full Board, to determine whether the suggested approach or an alternative funding approach is preferred.

### **Urban Water Management Plan - Update**

BAWSCA continues its efforts to support member agencies in the development of their respective 2020 Urban Water Management Plans (UWMPs). Four UWMP Workshops for member agency representatives and their consultants have been held to date, and a fifth is scheduled for April 9, 2021.

The focus of the Workshops has been to discuss how UWMPs were being prepared and to provide common language, from both BAWSCA and the SFPUC, that the SFPUC and member agencies would incorporate into their respective UWMPs. Shortage estimates during prolonged droughts are required to be detailed in each UWMP. The SFPUC has assumed that the adopted Bay Delta Plan, and its associated unimpaired Tuolumne River flow requirement, is in place for the purpose of evaluating the reliability of the Regional Water System and estimating drought shortages. Substantial shortfalls result, and are proving to be challenging for agencies as they prepare their UWMPs. Additionally, shortage information has arrived late from the SFPUC, making it difficult for member agencies to complete their UWMPs in accordance with an end of June submittal deadline established by the State of California. Workshop 5 will continue the discussion of how member agency UWMPs are addressing that significant shortfall challenge and will allow member agencies to report their ability to meet State submittal deadlines.

The SFPUC has completed a draft of its UWMP, making it available for public comment as of April 5, 2021. The SFPUC plans to hold a public meeting on April 13, in conjunction with its regular Commission meeting, at which time staff will present the Draft UWMP to the Commission and take public comment. BAWSCA intends to make comments, noting the concerns BAWSCA and member agencies have with the significant supply shortfalls noted in the document and as provided to member agencies for use in their plan. BAWSCA has been encouraging member agencies to also make comments at the SFPUC's Commission meeting.

### **SFPUC Workshop #3**

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. The third workshop was held on Friday March 26, 2021 and consisted of presentations by the SFPUC, the Tuolumne River Trust, the Pacific Institute, and the California Sportfishing Protection Alliance. The focus of the third workshop was the Bay Delta Plan and the analytical results of various runs by the SFPUC using its Water Supply and Demand Worksheet. Those runs included options to adjust the length of the Design Drought, increase rationing requirements on BAWSCA member agencies, and presumed implementation of a number of alternative water supply options, such as regional desalination and potable reuse.

BAWSCA representatives have provided public comments at each of the three workshops. BAWSCA has expressed its concerns to SFPUC staff and Commission regarding the fact that BAWSCA has not been invited to present or serve as a panelist at any of the workshops. BAWSCA's comments at the workshops made a number of points, chief among them was BAWSCA's continuing interest in having the Tuolumne River Voluntary Agreement move forward to the State Board for its review and analysis as an alternative to the adopted Bay-Delta Plan.

The SFPUC intends to hold more workshops, although the number and timing of additional workshops has not been identified by the SFPUC. BAWSCA is engaging with the SFPUC staff and its Commission in an effort to understand if the SFPUC's strategy or position related to the Bay-Delta Plan and the TRVA has changed as a result of the workshops held to date.

### **Association of Bay Area Governments**

The Association of Bay Area Governments (ABAG) is in the process of preparing Plan Bay Area 2050 Final Blueprint. As part of Plan Bay Area 2050, ABAG is also preparing an Implementation Plan that will focus on short-term, tangible actions that the Metropolitan Transportation Commission (MTC) and ABAG can take to advance the adopted 35 strategies included in its Plan Bay Area 2050 Final Blueprint. Water Agencies, including BAWSCA, have had some engagement with ABAG on its early development of an implementation plan on matters related to water supply. In those discussions, the majority of the water agencies that have attended, including BAWSCA, voiced deep concern that the growth proposed by Plan Bay Area 2050 can not be supported by the available water supply. While that input has been provided on several occasions, it is BAWSCA's understanding that no adjustment to planned growth in Plan Bay Area 2050 is being proposed by ABAG.

The Draft Plan Bay Area 2050 will be released by ABAG later this spring and will kick off its "Partnership Phase" of Implementation Plan development, in which ABAG/MTC staff have committed that they will "build on the conversations held with the water agencies" over prior months. In addition to its Draft Plan, ABAG will be issuing a draft Environmental Impact Report. BAWSCA will review the draft documents, prepare comments, and continue to participate in discussions with ABAG staff.

ABAG released its Draft Regional Housing Needs Allocation (RHNA) Methodology on February 11, 2021. RHNA aims to identify the total number of housing units the Bay Area must plan to accommodate growth for 2023 through to 2031. The RHNA methodology breaks the housing units down into four affordability levels and allocates to each local government a housing needs assessment. Further, the RHNA methodology encourages housing growth in the Bay Area by ensuring that local governments' housing elements meet all residents' needs. Releasing the draft methodology began a 60-day statutory review period by the State Housing and Community Development, which ends on April 12th. After receiving findings from the State, ABAG will then adopt its draft needs allocation for local governments. There is no stipulated timeline by which ABAG must release its draft allocation, however, within 45 days of receipt of the draft allocation, local governments may appeal their allocation. ABAG expects that it will adopt its draft allocation this spring (e.g., shortly after it receives HCD's findings) and therefore RHNA appeals would need to be requested by the summer or early fall of 2021.

ABAG population projections directly impact a member agency's Urban Water Management Plan as well as BAWSCA Demand Studies. BAWSCA is working to identify an appropriate strategy to best assist the member agencies in providing comments to ABAG and moreover in influencing decisions made by ABAG regarding RHNA numbers and the importance of factoring water supply availability into Plan Bay Area 2050. Potential actions include providing formal comment on the Plan Bay Area 2050 Draft Environmental Impact Report and assisting member agencies in development or analysis of potential requested adjustments to RHNA numbers.

#### **BAWSCA Service Area Map – collaboration with LAFCO**

BAWSCA has been working since 2019 to prepare an update to the member agency service area map as the current map is out of date, and includes some inaccuracies with current service area boundaries for select member agencies. BAWSCA's consultant, Geosyntec, is assisting with this map update including a transition to a GIS platform.

The bulk of the service boundaries for BAWSCA member agencies are now final. However, the service area boundary for Alameda County Water District and the City of Hayward remains unresolved. Discussions were held with staff at both agencies, and there was no agreement on a single boundary line that was acceptable. Specifically, ACWD's service area overlaps the City of Hayward corporate boundary in the southeast portion of the City of Hayward.

BAWSCA is working with the Alameda County Local Agency Formation Commission (LAFCo) to obtain precise boundary information for ACWD's water service boundary. Per LAFCo, they are currently preparing an updated boundary map for ACWD. Once that map is produced and provided to BAWSCA, it will serve as the source document for the ACWD service area boundary. The portion of ACWD's boundary that overlaps will be trimmed from Hayward's service area boundary. LAFCo has indicated that due to COVID-19 staffing impacts, they have been delayed in producing the required update. BAWSCA anticipates that an updated boundary map will be available by Fall 2021.

**Student Internship Program - Update**

The proposed FY 2021-22 work plan includes the Board's directives for a student internship program, which was held back from the FY 2020-21 work plan due to COVID-19. BAWSCA released a request for Statement of Qualifications (SOQ) to seek partner organizations that can provide BAWSCA support and assistance with program implementation as well as a broader reach of qualified candidates. Responses are due May 7<sup>th</sup>.

**Valley Water – Pacheco Reservoir Partnership Opportunity (Attachment)**

For Santa Clara Valley Water District (Valley Water), the Pacheco Reservoir Expansion Project represents a strategic and long-term investment toward ensuring a more reliable supply of safe, clean drinking water in the face of climate change for their customers. Valley Water has partnered with San Benito County Water District and the Pacheco Pass Water District on the Project. The proposed expansion would increase Pacheco Reservoir's operational capacity from 5,500 acre-feet to up to 140,000 acre-feet. Pacheco Reservoir is located in Santa Clara County, about eight miles from the existing San Luis Reservoir.

Valley Water has secured \$496.65 million in funding from California's Proposition 1 Water Quality, Supply and Infrastructure Improvement Act of 2014. Until a recent update, the cost of the project was estimated by Valley Water as \$1.2B. That cost estimate was preliminary, however, and as a result of engineering work, including field investigations, the proposed cost of the project is now estimated by Valley Water as \$2.5B. That significant increase in costs has prompted Valley Water to seek additional project partners.

Per a partner outreach brochure (attached), Valley Water is offering new partners the rights to use up to 50,000-acre feet of storage in the expanded Pacheco Reservoir. Partners would have to have their own water source and further would have to arrange to deliver the water to Pacheco Reservoir for storage. In addition, arrangements to move that water from storage and convey it to a partner's service area would also have to be arranged.

BAWSCA has alerted the SFPUC of this potential partnership opportunity. More information and outreach with Valley Water staff is required to better define a potential partnership opportunity and if this project has possibilities as an element of the SFPUC's Alternative Water Supply Program. BAWSCA understands that Valley Water has reached out to the SFPUC to discuss partnership opportunities. In that discussion, Valley Water indicated they had plans to reach out to BAWSCA. At this time, Valley Water has not contacted BAWSCA.

Attachment:

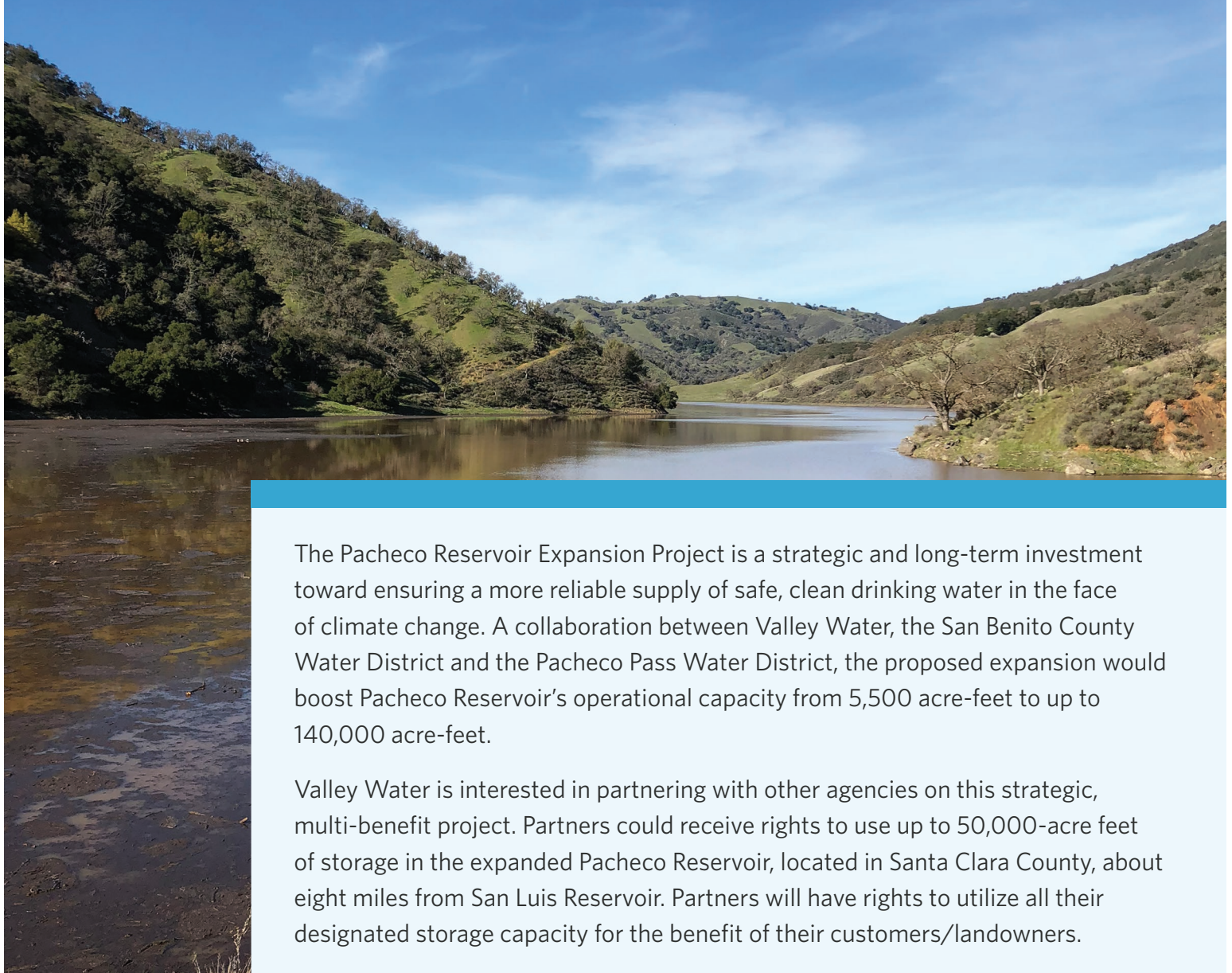
1. Pacheco Reservoir Expansion Project – Partnership Brochure



## PACHECO RESERVOIR EXPANSION PROJECT

Diversify Your Investment Portfolio with a

# Unique Partnership Opportunity



The Pacheco Reservoir Expansion Project is a strategic and long-term investment toward ensuring a more reliable supply of safe, clean drinking water in the face of climate change. A collaboration between Valley Water, the San Benito County Water District and the Pacheco Pass Water District, the proposed expansion would boost Pacheco Reservoir's operational capacity from 5,500 acre-feet to up to 140,000 acre-feet.

Valley Water is interested in partnering with other agencies on this strategic, multi-benefit project. Partners could receive rights to use up to 50,000-acre feet of storage in the expanded Pacheco Reservoir, located in Santa Clara County, about eight miles from San Luis Reservoir. Partners will have rights to utilize all their designated storage capacity for the benefit of their customers/landowners.



Clean Water • Healthy Environment • Flood Protection



**San Benito County  
Water District**

April 14, 2021 Board Policy Committee Meeting Agenda Packet Page 81

**PPWD** Pacheco Pass  
Water District

Attachment 3

## About the Reservoir

Located on the lower end of North Fork Pacheco Creek, the expanded reservoir project includes the construction of a dam upstream of the existing dam, a pump station, a pipeline and other supporting infrastructure. The expanded reservoir would be filled by a combination of rainfall, runoff from the watershed upstream of the new dam, and imported water supplies.

Water released from the reservoir will help threatened fish by keeping Pacheco Creek flowing, before seeping into the underlying groundwater aquifer as it winds to the Pajaro River.

The aquifer fed by Pacheco Reservoir begins at its northern tip in Santa Clara County and extends south into San Benito County. Agricultural users served by the Pacheco Pass and San Benito County water districts pump water from this aquifer.



Northern view of the Pacheco Reservoir from the North Fork Dam.

## Project Benefits



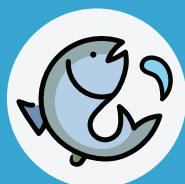
### Ensuring a more reliable supply of safe, clean drinking water

Climate change is a global reality, and droughts are predicted to be more extreme in the future. The most recent drought in California lasted five years, and prompted a significant reduction of water storage in reservoirs across the state. By investing in the Pacheco Reservoir now, our region will be better prepared with a reliable supply of safe, clean water in the face of extreme droughts and emergencies. The enlarged reservoir will capture runoff from the North Fork Pacheco Creek watershed, but most importantly provide storage for some of Valley Water's and San Benito County Water District's imported water supply. That water is fed from the San Luis Reservoir, which lies to the east along Highway 152.



### Providing an emergency supply of safe, clean drinking water

Droughts are not the only events that could negatively impact our region's water supply. Two-thirds of California's water originates in the Sierra Nevada as snowpack and eventually flows through the Delta. Earthquake damage to Delta levees could cause significant supply interruptions and future climate change may increase the variability of supply. By expanding Pacheco Reservoir, Valley Water and its partners could use the expanded Pacheco Reservoir to supply water in an emergency.



### Improving habitat for fish

With the expanded reservoir, managed water flows from it into Pacheco Creek would increase the quality of fish habitat downstream. Water released into the creek will be the rainfall and watershed runoff captured in the reservoir. It would provide suitable flow and water temperatures to Pacheco Creek and improve approximately 10 miles of habitat to support the migration and survival of the South-Central California Coast Steelhead. The project will also commit water supplies for wildlife refuges in Central California.



### Flood risk reduction

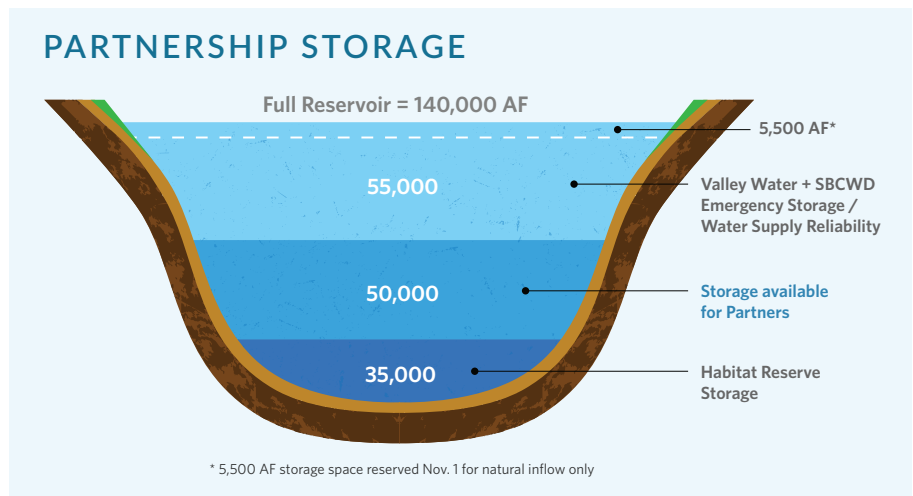
The expanded Pacheco Reservoir will incidentally reduce flood risk along Pacheco Creek and downstream Pajaro River by holding back peak flows, offering some relief to communities in Dunneville, Watsonville and Pajaro.



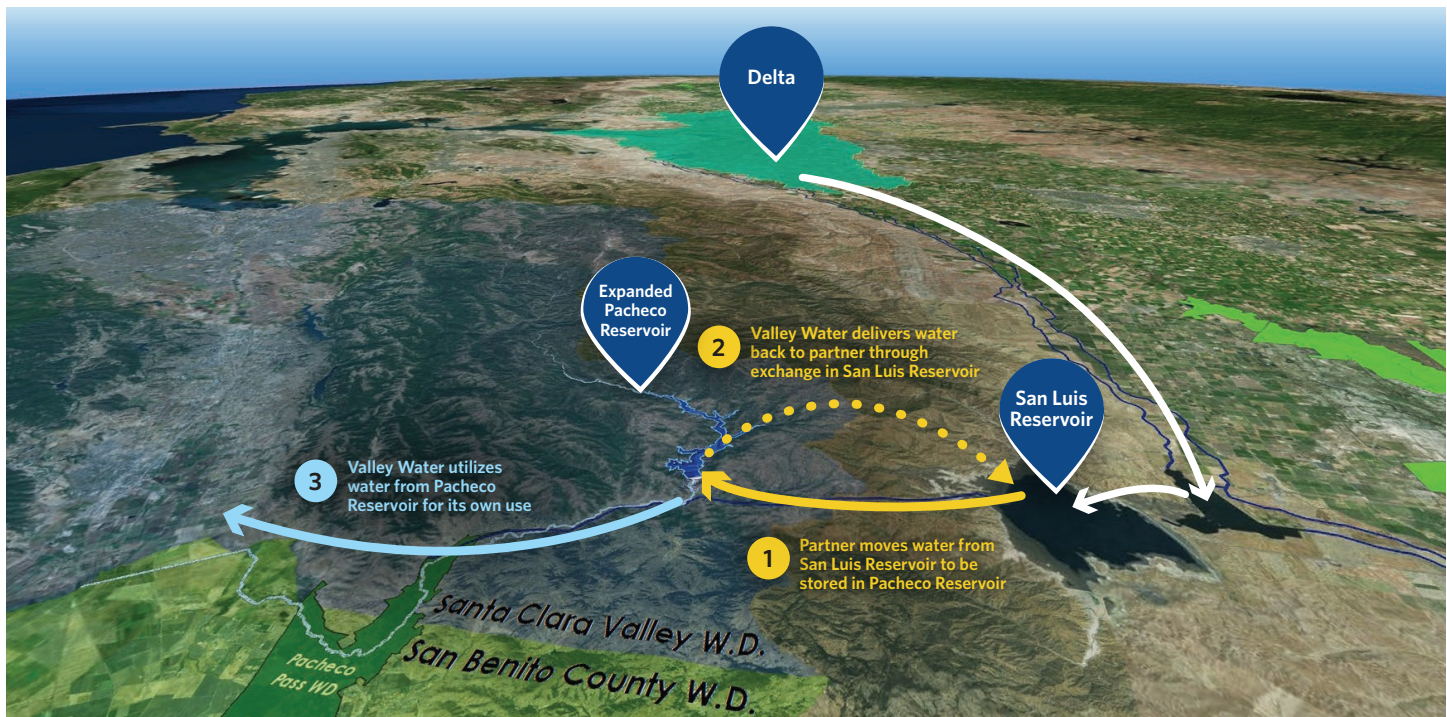
## Project Operation for Partners

The San Benito County Water District (SBCWD) is an existing partner with an allocation of up to 10% of the reservoir capacity. The Pacheco Pass Water District is also an existing partner with the rights to receive storage consistent with its water rights.

**New project partners will have the opportunity to fully utilize their dedicated share of up to 50,000 acre-feet (AF) of storage capacity.** The primary path for a partner agency to place water in the expanded Pacheco Reservoir will be through San Luis Reservoir. For example, water from a project partner may be placed in Pacheco Reservoir directly or by exchange with Valley Water, and this water may later be withdrawn from the reservoir by exchange. The map below illustrates a mode of conveyance and exchange. More specific examples are described as follows.



## PROJECT OPERATIONS



All modes of conveyance and exchange will require discussion and approvals of other agencies including potentially the Bureau of Reclamation and or the Department of Water Resources:

- Partners will have rights to utilize all their designated storage capacity for the benefit of their customers/landowners.
- Since the flow of imported water into Pacheco Reservoir is always via the Federal/State San Luis Reservoir, partners may source their inbound water by exchange with Valley Water.
- Partners who are Central Valley Project (CVP) or State Water Project (SWP) contractors would receive in future years, by exchange, a portion of Valley Water's CVP/SWP allocations.
- Bay Area Regional partners may bring in their source water via San Luis Reservoir, involving use of federal/state facilities, and pumped into Pacheco Reservoir. In this case, partner arrangements for wheeling their inbound water would be made with the Bureau of Reclamation, (potentially) the California Department of Water Resources, and Valley Water. Partnership withdrawals of water would be facilitated by Valley Water and wheeled through the San Felipe pipeline and Valley Water's pipelines for delivery to their system or may be exchanged for Valley Water's CVP or SWP water..
- Alternatively, Bay Area regional partners may explore with Valley Water other ways of exchanging water involving Pacheco Reservoir storage.

## PARTNERSHIP COST

	Environmental Reserve (WSIP) <sup>1</sup>	Valley Water and San Benito County Water District	Partners	Total
<b>Reservoir Reserved Volume</b> ( <i>acre-feet, AF</i> )	35,000 AF	55,000 <sup>2</sup> AF	50,000 AF	140,000 AF
<b>Capital Cost</b>	\$ 0.5 billion <sup>2</sup>	\$ 1.1 billion <sup>3</sup>	\$ 0.9 billion	\$ 2.5 billion
<b>Capital Cost</b> (% of Total)	20%	44%	36%	100%
<b>Annual O&amp;M Cost<sup>4</sup></b> ( <i>\$million/year, 2030</i> )	-	\$ 2.6 million/year	\$ 2.4 million/year	\$ 5.0 million/year

1 Water Storage Investment Program

2 Includes payment for emergency storage benefits (Valley Water).

3 Will increase if Partnership commitment is less than 50,000 acre-feet.

4 Transfer costs and evaporation losses are not included in this estimate.

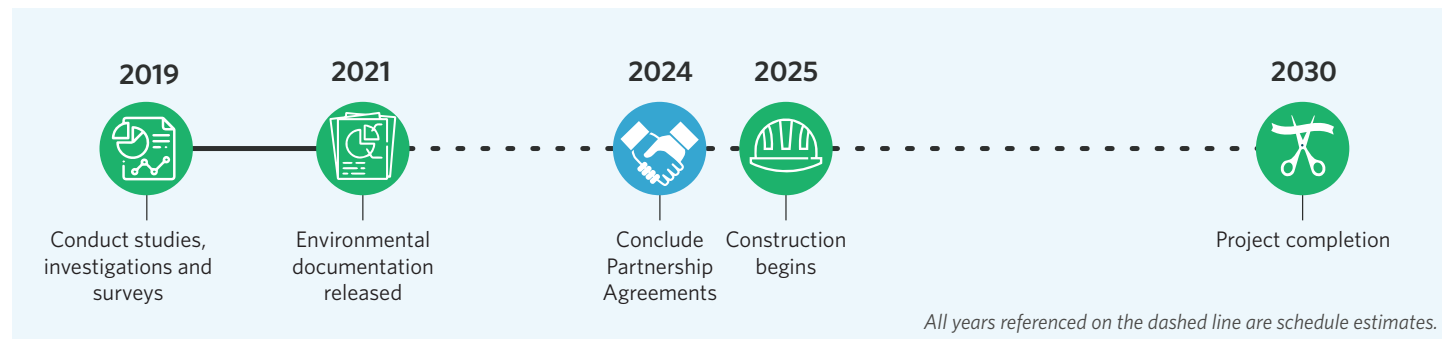
## Project Funding

Valley Water, the Pacheco Pass Water District and the San Benito County Water District collaborated to secure \$496.65 million in funding from California's Proposition 1 Water Quality, Supply and Infrastructure Improvement Act of 2014. The Act, passed by California voters, provides for \$7.5 billion in general obligation bonds, including \$2.7 billion for investments in surface and groundwater storage projects. The Prop 1 funding was conditionally approved in July 2018.

The current estimated cost of the project is \$2.5 billion. Valley Water will make up to 50,000 acre-feet of storage space in the reservoir available to its partners at an equivalent cost participation level. For example, a project partner could secure 50,000 acre-feet, or 36% of the total storage, at 36% of the project cost consistent with the table above.

## Project Timeline

Valley Water is continuing to conduct investigations and surveys to design and evaluate feasibility and potential environmental impacts. Construction is anticipated to begin in 2025. Preliminary estimates indicate construction of the Pacheco Reservoir Expansion Project will take at least five years.



## Contact Us

To get more information about this partnership opportunity, contact **Chris Hakes**, Deputy Operating Officer of Valley Water's Dam Safety & Capital Delivery Division at [chakes@valleywater.org](mailto:chakes@valleywater.org) or at (408) 630-3796.

# Board Policy Committee

## Policy Calendar Through October 2021

Meeting Date	Purpose	Issue or Topic
April 2021	D&A D&A R	Consideration of Proposed FY 2021-22 Work Plan and Budget Consideration of Renewal of Office Lease Review of Water Supply Forecast
June 2021	D&A D&A R&D	Discussion and Possible Action on CEO/General Manager Evaluation Procedure Review and Possible Action on Agency Personnel Handbook Update on Long-Term Reliable Water Supply Strategy Implementation
August 2021	R&D R&D R&D	Update on Review of Current Tier 2 Drought Plan OPEB Report Update on the Refresh of Demand Study
October 2021	D&A D&A	Annual Review and Consideration of BAWSCA's Statement of Investment Policy Review and Consideration of BAWSCA's General Reserve Policy
December 2021	R&D	Mid-Year 2020-21 Work Plan, Budget and General Reserve Review