



BOARD POLICY COMMITTEE

February 10, 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 February 10, 2021: Tom Chambers, Alison Cormack, Steve Jordan, Rob Kuta, Gustav Larsson, Juslyn Manalo, Al Mendall, Barbara Pierce, Sepi Wood, 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/85862356323>

- Meeting ID: 858 6235 6323
- Password: 900079
- 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: 858 6235 6323
 - Password: 900079
- To Mute or UnMute, Press *6.
- To Raise Hand, Press *9.
- The Presentation will be available prior to the meeting at www.bawsca.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

February 10, 2021

1:30 p.m.

AGENDA

CORRECTED

<u>Agenda Item</u>	<u>Presenter</u>	<u>Page#</u>
1. <u>Call To Order, and Roll Call</u> Roster of Committee Members (<i>Attachment</i>)	(Zigterman)	Pg 7
2. <u>Comments by Chair</u>	(Zigterman)	
3. <u>Public Comment</u> <i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i>	(Zigterman)	
4. <u>Consent Calendar</u> A. Approval of Minutes from the December 9, 2020 meeting (<i>Attachment</i>)	(Zigterman)	Pg 9
5. <u>Action Item #1</u> A. Proposed Fiscal Year 2021-22 Bond Surcharges (<i>Attachment</i>) <u>Issue:</u> How much will the surcharges be for FY 2021-22? <u>Information to Committee:</u> Staff memo and oral report. <u>Committee Action Requested:</u> That the Committee recommend Board approval of the proposed FY 2021-22 bond surcharges as presented in the staff memorandum.	(Tang)	Pg 27
6. <u>Reports and Discussion Items</u> A. Preliminary Fiscal Year 2021-22 Work Plan and Results to be Achieved (<i>Attachment</i>) <u>Issue:</u> What critical results must be achieved in FY 2021-22 to accomplish BAWSCA's goals and water reliability objectives? <u>Information to Committee:</u> Memorandum presenting Preliminary Fiscal Year 2021-22 Work Plan and Results to be Achieved. <u>Committee Action Requested:</u> 1) Comments and suggestions concerning the preliminary Fiscal Year 2021-22 Work Plan and results to be achieved; 2) Feedback on presented responses from January 21 st work plan and budget preparation planning session; and 3) Suggestions concerning presentation of the preliminary Work Plan and Operating Budget to the Board of Directors in March.	(Sandkulla)	Pg 35

- B. Findings of Financial Impact Analysis on BAWSCA's Unfunded Pension Liability Funding Alternatives (*Attachment*) Pg 49
(Tang)
Issue: What are the estimated funding needs and financial impact based on alternative funding approaches to pay off the unfunded pension liability?
Information to Committee: Memorandum and Oral Report
Committee Action Requested: This item is for informational purposes only. Feedback from the BPC on the alternative funding approaches and next steps is requested at this time.

- C. Potential Refunding of BAWSCA's Revenue Bond Series 2013A (*Attachment*) Pg 53
(Tang)
Issue: What are the findings of the recently updated bond refunding analysis? What refunding method could potentially achieve greater savings to the member agencies?
Information to Committee: Memorandum and Oral Report
Committee Action Requested: This item is for informational purposes only. Feedback from the BPC on the refunding methods available to BAWSCA's Series 2013A bonds is requested at this time.

7. Reports (Sandkulla)

- A. Water Supply Conditions
B. FERC/Bay Delta Plan Update
C. CEO/General Manager's Letter (*Attachment*) Pg 59
D. Board Policy Committee Calendar (*Attachment*) Pg 63
E. Correspondence Packet ([Under Separate Cover](#))

8. 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).

9. Report from Closed Session

10. Action Item #2:

- A. Amendment to Hanson Bridgett Contract Professional Services Contract Pg 65
Issue: What resources were needed to address the WSA Amendments, the SWRCB Bay Delta Plan Update, and FERC activities in FY 2020-21?
Information to Committee: Oral report and memorandum
Committee Action Requested: That the Committee recommend the Board of Directors to authorize the CEO/General Manager to:
- amend the professional services contract with Hanson Bridgett by \$200,000 for a total not to exceed amount of \$806,500;
 - to transfer \$142,000 from the General Reserve to the Operating Budget to fund a portion of this contract increase; and
 - to use \$57,500 from budgeted contingency to fund a portion of this contract increase.

11. Comments by Committee Members

(Zigterman)

12. Adjournment to the Next Meeting

(Zigterman)

Unless otherwise noticed:

April 14, 2021 at 1:30pm via Zoom

Accessibility for Individuals with Disabilities

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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

December 9, 2020 – 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.

MINUTES

1. **Call to Order:** Committee Chair, Tom Chambers, called the meeting to order at 1:30 pm. A list of Committee members who were present (8), absent (0) and other attendees is attached.

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

2. **Comments by Committee Chair:** Committee Chair Chambers welcomed members of the Committee and reviewed the general procedures for conducting the meeting virtually. He 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, Spreck Rosekrans, and Carol Steinfeld.
4. **Consent Calendar:** Approval of Minutes from the October 14, 2020 meeting.

Director Pierce made a motion, seconded by Director Larsson, that the minutes of the October 14, 2020 Board Policy Committee meeting be approved.

The motion carried unanimously by roll call vote.

5. **Action Calendar:**

- A. **Mid-Year 2020-21 Work Plan, Budget and General Reserve Review:** Ms. Sandkulla stated that a critical task at the end of the calendar year is BAWSCA's annual mid-year review of the work plan and budget. The review process evaluates the progress made in achieving the results planned for the fiscal year, and provides the opportunity to make necessary course corrections. Included in the staff memo is Table 1 which presents the current status of each item in the work plan adopted by the Board in May 2020.

Ms. Sandkulla was pleased to report that as a whole, implementation of the work plan is on schedule and on budget. However, there are changes on the scope of two work plan items that are being recommended as a result of the review.

The first is associated with the Potable Reuse Exploratory Plan (PREP) Phase 3 Study. This work involves a partnership with Silicon Valley Clean Water (SVCW), SFPUC, the Cities of San Mateo and Foster City, and Cal Water. The effort examines the potential for potable reuse through the effluent produced by SVCW's wastewater plant coupled with effluent produced by the wastewater treatment plant

that serves San Mateo and Foster City. Completion of the work was anticipated in FY 2020-21, but progress is delayed while the project MOU is being amended as necessary to ensure that it addresses all the issues at hand. The delay was also associated with the impacts of COVID-19 as agencies worked to address county health and safety requirements. Work will continue, but completion will be in FY 2021-22.

The second change is reducing planned efforts on 2 new subscription conservation programs for FY 2020-21. The work plan anticipated the implementation of 3 to 4 new subscription programs. The residential self-audit tool and irrigation hardware rebate programs are on track for implementation by July 2021. However, two new programs, the landscape area measurement program and the leak detection/certification program, are delayed.

The landscape area measurement program is a support program for member agencies that provides an “as-needed” service. It brings an outside consultant onboard with expertise to refine and confirm the landscape area measurement that the state will use in its new water efficiency guidelines. The program development has been slowed down as a result of delays at the state level in providing those guidelines. That information is needed from the state before the program can be further developed to ensure that it is aligned with the state’s new efficiency guidelines that are currently under development.

The leak detection/certification program is intended to develop a pool of experts, through a very specific training and certification program, in detecting leaks that are not surface evident. These certified experts will be accessible to the water customers in the region. This program currently does not exist anywhere, and BAWSCA is in close coordination with the Valley Water in developing this program in the most effective way. Work will continue on this effort to gain more information in the next 6 months such that a program could be implemented as early as FY 2021-22.

Ms. Sandkulla presented the status of efforts in each area of the work plan categories and noted key highlights and developments

The area of Water Reliability includes several categories including facility reliability, which involves BAWSCA’s oversight of the SFPUC’s WSIP, 10-year CIP, and Asset Management. Ms. Sandkulla reported that the SFPUC is scheduled to adopt an Asset Management Policy (Policy) by the end of calendar year 2020. This is a result of the Water Supply Agreement (WSA) amendment, negotiated with the SFPUC and adopted by each of the member agencies in 2018, which requires the SFPUC to develop and submit, to the Commission for approval, an Asset Management Policy applicable to the Regional Water System. SFPUC’s Policy takes into consideration BAWSCA’s findings and recommendations from an audit of SFPUC’s asset management practices that BAWSCA conducted and completed in FY 2019-20. BAWSCA was engaged in reviewing and providing comments on the Policy, and Ms. Sandkulla noted that the SFPUC’s adoption of the Policy is a positive development in this critical area.

Another category under Water Reliability is BAWSCA’s implementation of its Long-Term Water Supply Strategy (Strategy). Ongoing efforts include, but are not limited

to, providing assistance to the member agencies in completing their state-required Urban Water Management Plans (UWMP) by July 1, 2021, as well as maintaining engagement in the Los Vaqueros Expansion (LVE) project in keeping with SFPUC continued role in LVE as a Local Agency Partner.

The Strategy's near-term supply solutions speaks to the implementation of water conservation programs and drought response. BAWSCA will be hosting its second symposium for Advanced Metering Infrastructure (AMI) in Spring 2021 to provide regional coordination and the opportunity for robust conversations among the member agencies in support of their AMI implementation and data management. Work will continue in the execution of subscription and core conservation programs.

Water Reliability also includes protecting the member agencies' water supply interests in the administration of the WSA. An area of increased efforts and critical progress which was anticipated to be completed by Summer of 2020, is the WSA amendment associated with enabling agencies to transfer a portion of their minimum purchase requirement coupled with an individual supply guarantee to another agency in need of additional supply. BAWSCA has been facilitating negotiations among the member agencies and SFPUC on this critical amendment, which has required more time than anticipated this fiscal year. Negotiations are nearly done and the SFPUC is scheduled to consider the proposed amendment in January followed by the member agencies.

Ms. Sandkulla noted the progress in the efforts on the Bay-Delta Plan and FERC relicensing process. It continues to be a critical area that will require robust conversations and significant work.

Lastly under Water Reliability, is BAWSCA's work in recording and tracking member agencies' water use information which allows BAWSCA to be a reliable source of information for the region. BAWSCA's Annual Survey presents the most detailed and informative data on the member agencies' water use, and therefore, has become the source of information for many other agencies. Similarly, BAWSCA's Annual Conservation Report details all BAWSCA's efforts for water conservation. Work on these reports are underway and will be available on the website later this fiscal year.

The area of Water Quality in the work plan is critical for BAWSCA and one in which the final level of activity is difficult to predict because BAWSCA's work in this area is generally on an as needed basis in response to issues with the Regional Water System. There is a Joint Water Quality Committee that is set up in the WSA that is chaired and co-chaired alternatively between BAWSCA and the SFPUC. The Committee monitors water quality concerns and ensures that issues are addressed by the SFPUC in a timely manner.

The area of Fair Price involves the administration of the WSA to protect the financial interests of the member agencies with the SFPUC, as well as managing capital debt and BAWSCA's bond issuance.

Ms. Sandkulla noted that the mid-year review also looks at the budget spending to date and management of the General Reserve. Ms. Sandkulla reported that as of

December 4th, the General Reserve balance is \$1,139,243, or 28% of the current operating budget, which is within the agency's guidelines for the General Reserve.

Typically, any additional resources needed to achieve the fiscal year's work plan are identified during the mid-year review and the General Reserve is considered as a source of funding. Ms. Sandkulla was pleased to report that the work plan is on budget, and there are no recommended changes to the General Reserve as part of the mid-year work plan and budget review.

The staff recommendation for the Committee's consideration is to recommend Board approval of the modification of the work plan as presented.

Chair Chambers called upon each member of the Committee for their comments and questions.

In response to Director Larsson, Ms. Sandkulla explained that BAWSCA will continue its work on the leak detection/certification program with a focus on broadening the scope to identify what the process will entail to develop that certification program. The intention is to reach out to experts and gain better understanding, as well as input, to develop a proper scope in FY 2021-22.

Director Larsson appreciated the clarification on what level of effort can be expected in the upcoming fiscal year and agrees that it is an innovative and exciting program.

Director Mendall appreciated the formatting of Table 1 in the memo to effectively convey the status and progress of each effort in the various areas of the workplan. He stated his support for the recommendation.

Director Pierce supports the proposed recommendation to the work plan. She finds the formatting of Table 1 helpful, and suggested that stating whether the causes for the delays in the efforts are internal or external would be helpful for the Board. She looks forward to the discussion on water sustainability and how it will be integrated into the work plan and budget for the coming fiscal year.

Directors Wood and Zigterman echoed the committee members' comments and stated their support for the staff recommendation.

Director Jordan suggested including a reference to the status of the LVE project's Joint Power Authority (JPA) development in terms of BAWSCA's respective engagement in that part of the project.

Ms. Sandkulla can make that clarification to the Board at the January Board meeting. BAWSCA is actively involved with the other local agency partners on LVE, not as direct participants, but as agreed upon by the BAWSCA board. Part of that involvement is reviewing the JPA agreements and looking at the SFPUC's role in the project and what it means in the interests of the wholesale customers.

Director Kuta thanked the staff for the progress on the work plan and supports the proposed recommendation. He asked if the CEO/General Manager anticipates being underbudget given the shift in the work efforts.

Ms. Sandkulla explained that the savings from the efforts being shifted are going towards work that is the next item on the agenda for Committee discussion and action.

Director Mendall made a motion, seconded by Director Wood, that the Committee recommend the Board approval of the modification of Work Plan Item 2a “PREP Phase 3” and Item 3c “Implement New Subscription Programs” in the FY 2020-21 Work Plan.

The motion passed unanimously by roll call vote.

- B. Professional Services Contract Amendment with Woodard & Curran, Inc. to provide as Needed Specialized Water Resources Services: Water Resources Manager, Tom Francis reported that on July 1, 2020, as documented in the Monthly Budget Report presented to the Board in July, BAWSCA entered in a \$25K agreement with Woodard & Curran under the CEO/General Manager’s discretionary spending authority. The agreement was to provide specialized resources needed to continue efforts in achieving the results in the work plan while filling two staff vacancies and managing coverage for a maternity leave.

Mr. Francis noted that the agreement with Woodard & Curran allowed continued access to Andree Johnson, and provided BAWSCA the most time and cost-effective way to maintain productivity on work already in progress while training a new hire, filling a vacancy, and managing a temporary leave.

The initial budget of \$25K will be expended by December 2020, and an additional \$25K is proposed to extend the agreement through the end of FY 2020-21. The extension will provide continued resources needed during the ongoing training and transitional period. While the scope of the agreement remains the same, the recommendation is to amend the existing agreement to reflect the additional \$25K, increasing the contract amount to \$50K, which requires board approval.

The professional services will continue to be provided by Andree Johnson who, in her prior role as BAWSCA’s Sr. Water Resources Specialist, has institutional knowledge to guide BAWSCA staff in providing the critical support member agencies need on a number of conservation programs. Specifically, Ms. Johnson will support BAWSCA in assisting member agencies with their Urban Water Management Plan (UWMP) updates. BAWSCA’s critical role in assisting member agencies in this task include coordination with the SFPUC in developing common language and technical data incorporated by member agencies into their UWMPs. Most importantly, BAWSCA serves as a resource to member agencies’ questions and discussions throughout the process and Ms. Johnson’s experience with the UWMP process in 2015 is providing guidance to BAWSCA’s new Sr. Water Resources Analyst.

Additionally, Ms. Johnson is closely working with BAWSCA staff on the management of conservation programs, development of new conservation programs for implementation in FY 2020-21 and FY 2021-22, and preparation of the Annual Survey and Conservation Reports.

Mr. Francis noted that some of the work plan elements may be compromised without the support from Ms. Johnson through Woodard & Curran. Particularly, the development of the new conservation programs can greatly benefit from Ms. Johnson's proficiency in the industry and her familiarity with the member agencies' unique needs as individual agencies, and as a region.

The amendment to the agreement will not have a fiscal impact on the budget that was adopted by the Board in May 2020. Funding is available within BAWSCA's existing conservation program budget that can be reallocated to avoid impacts on the overall work plan. The recommendation for an additional \$25K to extend Woodard & Curran's professional services can be accommodated within BAWSCA's adopted budget.

The proposed action is for the Committee to recommend the Board to authorize the CEO/General Manager to negotiate and execute a contract amendment with Woodard & Curran that would increase the total not-to-exceed contract amount to \$50,000 for as-needed specialized water resources services for FY 2020-21.

Chair Chambers called upon each member of the Committee for their comments and questions.

Director Larsson was pleased that BAWSCA is able to utilize Ms. Johnson's institutional knowledge through Woodard & Curran, and stated that it is a cost-effective way to support and train staff quickly but efficiently. He is supportive of staff recommendation.

Director Mendall stated his support for the recommendation and asked if \$50K includes some cushion given the significant staff challenges.

Mr. Francis stated that it is sufficient because a significant part of the work was in the first half of the fiscal year, in which a workshop for the UWMPs was held. The work for the second half of the year involves guidance for staff and member agencies, and addressing unexpected issues that may come up.

Director Pierce supports the recommendation and is pleased that staff is receiving training from Ms. Johnson.

Director Wood supports the recommendation and appreciated the CEO's effective management and connection with staff, that enables an ongoing professional opportunity for both parties.

Directors Zigterman and Jordan were pleased with and were supportive of the recommendation.

In response to Director Jordan, Mr. Francis stated that Ms. Johnson will strictly serve as a consultant and her hours will be based on BAWSCA's need for her services. If BAWSCA wants to hire Woodard & Curran in the future, it will be on a project specific request.

Director Kuta agrees with the comments made and sees the approach as the most logical way to meet the resource need for continuing work efforts while training new staff. He asked what policy BAWSCA has for staff who leaves and come back.

Legal Counsel, Allison Schutte, explained there is no implications to BAWSCA on this particular agreement with Woodard & Curran. There is a Retired Annuitant rule that requires a 6-month break in-between services with prior employees, but it is not applicable in this case since Ms. Johnson's services are through a consultant firm versus hiring her independently.

Director Larsson made a motion, seconded by Director Kuta, that the Board to authorize the CEO/General Manager to negotiate and execute a contract amendment with Woodard & Curran that would increase the total not-to-exceed contract amount to \$50,000 for as-needed specialized water resources services for FY 2020-21.

The motion passed unanimously by roll call vote.

6. Reports and Discussions:

- A. BAWSCA's Pension Liability Funded Status Update: Finance Manager, Christina Tang, reported that BAWSCA's CalPERS pension plan funded status was provided to the Board at its November 19, 2020 Board meeting. In response to the Board's feedback that further discussion is needed, Ms. Tang presented further information for the Committee's discussion purposes in looking at the available options for voluntary additional pension funding.

Ms. Tang presented the same table used at the November Board meeting that shows BAWSCA's current liability funded status. As of June 30, 2019, BAWSCA's current Unfunded Accrual Liability (UAL) is \$740,356, which is scheduled to be paid off by June 30, 2038. Per CalPERS, the measure of funded ratio is the assessment of sufficiency of the plan assets to cover future employer contributions. BAWSCA's current funded ratio is 80.8% which is higher than most member agencies based on everyone's CalPERS pension actuarial evaluation reports for the miscellaneous plans as of 2019.

In light of the rise and volatility of CalPERS pension costs, many public agencies have voluntarily chosen to set aside or contribute additional pension funding to address their long-term pension liabilities. Ms. Tang presented three options currently available for the Board's consideration in addressing BAWSCA's current UAL.

Option 1 is to make Additional Discretionary Payments (ADP) of UAL. CalPERS allows employers to make ADPs at any time and in any amount to reduce the UAL and future required contributions. Employers can also use ADPs to stabilize annual contributions as a fixed dollar amount, or a percentage of payroll. Making an ADP during a fiscal year does not set a precedence for future years, nor does it change the remaining amortization period of UAL.

Ms. Tang presented a table that shows BAWSCA's estimated FY 2021-22 employer contributions of \$201,522 based on the current 30-year funding target, and four

alternatives with different levels of ADPs ranging from \$2K to \$103K. With limited information provided in the CalPERS report, Ms. Tang explained that the calculation between the funding target and the ADP amount is unclear given that BAWSCA is almost half-way through the 30-year amortization term. If the committee is interested in the exact impact or benefit of the different levels of one-time ADPs, a consultation with the actuary will be needed.

Option 2 is to re-amortize annual UAL contributions. CalPERS allows employers to pay off the UAL more quickly than required based on an alternative “Fresh-start” amortization schedule. Ms. Tang presented a table that illustrates BAWSCA’s current 30-year amortization schedule with a minimal required employer contribution to UAL and an expected payoff by 2038. The same table provides two examples of the “Fresh-start” alternative that results to interest savings; a 15-year amortization schedule with a fixed payment amount of \$73,594 each year between now and 2035, and a 10-year amortization schedule with fixed payment amount of \$95,433 each year between now and 2030.

Option 3 is to make contributions to prefunding trusts. Ms. Tang reported that there are various pre-funding trust programs available to allow employers to set aside funds that can be used to offset future growing pension liability. This method serves as a rainy-day contingency fund to pay for future pension liability contribution. A benefit of this method is that the prefunding trust allows the employer to invest in higher yielding investment options and generate greater interest earnings. The funds accumulated in the trust can be used to prefund future ADPs, annual UAL payments or future normal cost payments.

In October 2020, BAWSCA conducted a survey of all member agencies who maintain pension benefit plans under CalPERS. The results show that nine city governments and one water district have established an irrevocable IRS Section 115 to voluntarily prefund future required employer pension contributions.

Ms. Tang reminded the Committee that the presentation is for information purposes only, in response to the feedback received from the Board following the November Board meeting. Staff has no recommendation at this time given BAWSCA’s relatively high pension liability funded ratio of 80.8%. Staff is looking for the BPC’s feedback on the options presented. Feedback received will be used as guidance for additional investigation the Board requests. The feedback will also serve as guidance for any consideration of additional funding that should be included in the preparation of the FY 2021-22 Operating Budget.

Chair Chambers called upon each member of the Committee for their feedback and questions.

Director Larsson commented that BAWSCA seems to be doing its best with what appears to be a moving target given that the UAL is based on projections and assumptions. It seems that the UAL can change if CalPERS’ rate of return performs better or worse than their target, and therefore; even if BAWSCA gets to 100% funded, it could still end up being under-funded in the future depending on how CalPERS’ target performs.

Ms. Tang confirmed this understanding and added that because the UAL is a result of actuarial analysis based on various assumptions, including the discount rate. In response to Director Larsson's question about why BAWSCA's current 30-year amortization schedule under Option 2 peaks at 2033 and drops by 80% in year 2034, Ms. Tang explained that it is, again, based on assumptions and projections, but can be further clarified with CalPERS.

Director Larsson stated that while CalPERS can provide clarification on the reason behind the peak and the sudden drop, the answer provided now may not be relevant in the future as the numbers can change anytime. He anticipates BAWSCA's budget will have naturally increased proportionately and the peak does not present a concerning percentage of BAWSCA's expected future budget.

Director Larsson stated his perspective on when the UAL should be paid down. First is if the annual payments are large and volatile relative to an agency's budget. But it appears to be a relatively manageable percentage to BAWSCA. Second is if the peak payment becomes a significant part of the budget. But BAWSCA's current peak does not appear to be excessive. Third is the future interest payments; therefore, a quantification of the interest savings for the 15 and 10-year amortization would be helpful. Otherwise, BAWSCA's current plan seems sustainable and can entertain the question of how it can be improved.

Ms. Tang reported that the estimated present value savings for the 15-year amortization schedule is \$4,900, and \$154,000 for the 10-year amortization schedule. The savings are minimal for the 15-year because BAWSCA currently has 18 years remaining.

Director Mendall noted that Christina's presentation is very similar to information he has seen for the City of Hayward and, from his independent research, is typical for other jurisdictions. He noted that CalPERS has forecasted additional UAL increases that are likely to come in the future as they continue to adjust their actuarial assumptions. They are still working off unrealistically high rate of return estimates of approximately 7%. They will have to adjust that down and will continue to trigger additional UAL increases on member jurisdictions such as BAWSCA.

Given the high funded ratio of 80.8%, Mr. Mendall proposed Option 1, making additional discretionary payments to pay off the UAL as a recommended solution for the Committee to present to the Board for consideration. The Balancing Account has funds in which a portion can be used to pay off the UAL and eliminate payments for the next 18 years for the purpose of providing future rate stabilization for the member agencies.

Based on the estimated present value savings of \$154,000 to pay off the 10-year amortization, a pre-payment on an 18-year amortization can provide significant savings. Additionally, the funds in the Balancing Account are probably projected to earn about 1% for the next 18 years while CalPERS is estimated to earn approximately 7% in the next 18 years. Moving the funds from a low-earning vehicle to a high-earning vehicle can provide BAWSCA significant savings in the long run. Even if CalPERS' earnings go down to 5%, it is still a financial benefit for BAWSCA to pay the UAL off. Mr. Mendall strongly recommends the Committee's consideration of this option.

Director Pierce stated that having seen the fluctuations in the rates and unrealistic expectations from CalPERS, she believes that it is worth looking at Director Mendall's proposal. She would like staff to have a thorough understanding of whether the use of the Balancing Account is applicable for this purpose, how will it be done, and what implications should be considered.

Director Wood supported the consideration of Option 1 as proposed by Director Mendall given BAWSCA's ability to do so and based on the anticipated increase in UAL.

Director Zigterman likes Director Mendall's proposal and was curious to hear staff's feedback on that recommendation.

Ms. Sandkulla deferred the question to legal counsel who has taken an initial look at the WSA language relative to this possibility.

Ms. Schutte explained that the Balancing Account Policy, adopted by the BAWSCA Board in September 2020, requires; for any use of the Balancing Account, written findings about the best use of the funds in light of other obligations. She noted that the Balancing Account funds are directly applied to stabilize Wholesale Water Rates from San Francisco. A direct deposit from the Balancing Account into BAWSCA's operating funds to directly pay a liability such as the UAL is not within the spirit of the language in the WSA. However, the Balancing Account can be used to fund water conservation and water supply projects. As the Balancing Account policy states, written findings must evaluate those projects and the implications of using the Balancing Account funds versus other funding sources such as the Water Management Charge. The Board can consider items under the work plan that can be appropriately funded by the balancing account to allocate operating funds towards additional contributions on the UAL. Ms. Schutte encouraged staff's thorough analysis of SFPUC's future wholesale water rate increases given that the current Balancing Account is dedicated to rate stabilization and future rate increases are anticipated in the next several years. Ms. Schutte noted that wholesale rates have been flat as a result of having the Balancing Account, and emphasized the inclusion of this factor in the written findings. While the scale is extreme between the current balance of the Balancing Account and what is needed to fully fund the UAL, it is prudent to have a thorough analysis in accordance with the policy.

Director Zigterman suggested including an Option 4 that provides the Board the latitude to use the Balancing Account, or not, in that fashion. He agrees with Director Mendall's proposal, and stated that avoided interest has the same financial affect for BAWSCA as revenue. It is an approach worth investigating for consideration by the Board.

Director Chambers agreed to look at the immediate issues with the UAL and the possibilities and benefits of using the Balancing Account. But he stated his concerns on the use of the Balancing Account since it is not always going to have a positive balance. Secondly, CalPERS can change their projected interest rates and the UAL can increase. Another consideration for an ADP is the use of, or a portion of, the excess operating funds at the end of the fiscal year that is typically put into the general reserve. It is another source of funds that has less risks to wholesale rate stabilization. He is pleased that BAWSCA is in a good position with its unfunded

liability, and that the current situation presents no urgent action. If the use of the available funds in the Balancing Account is applicable to address BAWSCA's needs, he supports staff's further investigation for the Board's consideration.

Director Jordan believed that BAWSCA should use its own discount rate assumption to project present value savings. He agrees with Director Mendall's logic of paying off a liability with an interest rate of over 6% versus holding on to funds in the Balancing Account that has 1% interest earning.

He would like to see a solid analysis of how much better, or worse, it would be for the member agencies to pay-off the UAL. If CalPERS' calculations for the 15-year, 10-year and 0-year ADP alternatives are firm as presented, and if the written findings provide justification for an applicable use of funds in the Balancing Account, he believes it is in BAWSCA's best interest to pay off the UAL. It becomes pretty obvious given the disparity between what CalPERS' assumes and what the real market is for the next few years.

Director Kuta stated the CalPERS discount rate hasn't been changed since 2016, and that the underlying conditions are worse than they were back then. He supports a pay-off, and in response to Legal Counsel's information and Director Jordan's comments, those calculations would be required if we drew from the Balancing Account, through whatever mechanism. He does not support Option 2.

Director Mendall supported Director Chamber's suggestion of considering, all or a portion of, the excess funds at the end of the fiscal year to pay off the UAL over a course of 2 or 3 years. This is an excellent Plan B, should the use of the Balancing Account be objectionable. He encourages staff to investigate those two options and provide recommendations to the Board for its consideration for action.

Director Pierce added that a helpful information for the Board would be the SFPUC's plans for the wholesale water rates in the next several years.

Director Larsson stated his support for saving interest that we do not have to pay. He agrees with Director Pierce on having a full understanding of the projected wholesale water rates from the SFPUC over the next several years, if the Balancing Account will be used.

He added that if the Board considers using the excess funds that would otherwise be rolled into the General Reserve at the end of a fiscal year, the impacts that would have on the agency's reserves should be identified. There is a risk trade-off if the reserves are dragged down and there is less margin for future uncertainties. He cautioned against drawing too quickly on the reserves. Overall, however, if BAWSCA can develop a smooth path to saving interest over a period of several years, he agrees that it is a fiscally responsible consideration.

Director Wood reminded the Committee that Mr. Ritchie's report at the November Board meeting indicated a substantial water rate increases in the future. At the same time, she supports BAWSCA's further investigation of the feasibilities of the options discussed so the Board can make an informed and responsible decision.

Director Kuta referred to Option 3 and BAWSCA's ability to set up a trust, in which the interest is used to finance the owed money for the UAL. He asked what flexibility does BAWSCA have with the balance of such a trust. Are the funds accessible to BAWSCA for withdrawal and use for other purposes?

Ms. Tang explained that the pre-funding trusts are irrevocable IRS Section 115 trusts. Funds not used for pension purposes are not accessible to BAWSCA for other purposes. She noted that the same restrictions apply with CalPERS. If, for example, BAWSCA chooses to fully fund the UAL at once, and interest rates go up from 7% to 8%, BAWSCA will be overfunding the UAL and the excess is not refundable to BAWSCA. However, it can be used to fund the normal cost of the other part of the liability.

With no further comments, Committee Chair Chambers thanked members of the Committee for their feedback and recommendations.

Ms. Sandkulla stated that staff will follow the Committee's direction to analyze the financial impact of paying off BAWSCA's UAL under alternative approaches and the potential funding source of additional contributions.

7. Reports:

- A. Water Supply and Demand Update: Ms. Sandkulla noted that the State board has modified their reporting timelines and with that, BAWSCA's analysis of the monthly data has been delayed. She presented the total water use for the month of September which shows that water demand is rebounding slightly from the recent drought. Water use in September 2020 is 9% less than the high before the drought (2013), and higher than the low drought period (2015). Even with the pandemic, the majority of the member agencies are experiencing increasing use in the residential customer base. Commercial and Industrial use remain low.

BAWSCA is closely monitoring the current water use trend as the Winter season progresses under continuing dry conditions. She has asked SFPUC Assistant General Manager, Steve Ritchie, to present a broader water supply status report to the Board at its January meeting.

- B. Bay-Delta Plan/FERC Update: Ms. Sandkulla reported that the SFPUC Bay-Delta Plan Workshop held on November 30th did not have the expected panel presentation by the SFPUC on the science behind the Tuolumne River Voluntary Agreement (TRVA) in response to the comments and information presented by the environmental advocacy groups that support of the Bay-Delta Plan. Ms. Sandkulla stated that she understands that the SFPUC's presentation on the TRVA has been postponed to another workshop in early 2021. The date has not been announced yet, but will be provided to the Board as soon as it is released.

Because the workshop did not provide a balanced presentation between the environmental advocates on the Bay-Delta Plan and SFPUC's TRVA, it has created some questions about the science behind the TRVA, and the facts associated with the TRVA.

To provide the Committee with some facts, Ms. Sandkulla presented responses to six concerns raised and eight recent comments on the TRVA that have been expressed in general, during public comments, as well as in conversations she has had.

The first concern is that **the TRVA does not include enhanced stream flow**. Ms. Sandkulla stated that the TRVA provides increased flows on the Tuolumne River in all water year types over current average requirements. It will provide enhanced Tuolumne River flows resulting in 24,000-110,000 acre-feet of greater flows above current average requirements.

Habitat enhancement is being advanced instead of flows in the TRVA. The TRVA habitat enhancements are designed to work in concert with additional flows. It is based on and framed around adaptive management that includes the ongoing implementation and evaluation of flow and non-flow measures to achieve the objective and targets.

The TRVA is based on inadequate science and flawed governance. The TRVA is built on best available science and decades of monitoring, data collection and multiple Tuolumne River-specific scientific studies. These studies were primarily done in coordination with the Federal Energy Regulatory Commission (FERC) in advance of the FERC studies required as part of FERC's Environmental Impact Study (EIS). Additionally, a new Tuolumne River Partnership Advisory Committee has been proposed and will be formed to guide the implementation of the Lower Tuolumne River Habitat Improvements described in the TRVA.

A review performed by a National Marine Fisheries Services (NMFS) consultant of the fishery models that support the TRVA proves that the scientific basis of the TRVA is inadequate to evaluate long-term fish management on the river. Ms. Sandkulla stated that the models reviewed by the NMFS consultant were not designed to be a tool for long-term fishery management for conservation purposes, but were developed and approved by FERC as part of the FERC re-licensing study plan for the purpose of evaluating the relative changes to in-river fish populations resulting from possible license conditions. It is meant to be a tool for FERC to use in evaluating different options on the river, built at the direction and design of FERC through a public process.

State and federal funding will be required to implement the TRVA. The TRVA proposes \$83M in capital funding and \$44.5M in annual Operation and Maintenance (O&M) funding that will be paid for by the irrigation districts, SFPUC, and BAWSCA member agencies who depend on that water supply. It does not depend on state or federal grants, loans, taxes or fees.

The TRVA development process lacked sufficient public input. The TRVA is the result of close collaboration and good faith discussions among the three public agency partners (TID, MID, SFPUC) and numerous stakeholders through the FERC integrated licensing process. The Stakeholders include federal, state and local agencies; scientists; and environmental stewards, including stakeholders engaged in pre-scoping, scoping, development of technical tools, and the completion and publication of a final EIS by FERC. BAWSCA, specifically Ms. Sandkulla, was fully engaged in those efforts since 2000 under BAWSCA's predecessor agency,

BAWUA. BAWSCA continues to be engaged through Ms. Sandkulla's and BAWSCA's staff and technical consultants.

In addition to concerns raised on the TRVA, Ms. Sandkulla noted eight comments on the TRVA that are worth going over with the Committee.

The first comment is that **BAWSCA and SFPUC's demand estimates are flawed and too high.** BAWSCA's demand studies are highly detailed, follow best practices, and result in future water demand projections suitable for water supply planning purposes. While no projections are exactly right, BAWSCA's demand studies are as detailed as it can possibly be, and go beyond the best practices.

SFPUC's design drought is too long and overly conservative. The SFPUC's design drought is appropriately based on actual historical conditions coupled with the addition of an acceptable level of caution for what the future may hold, including climate change and potential for more severe droughts and extreme weather conditions.

The population projections estimated for the BAWSCA service area are too high, including the projected housing need. BAWSCA relies on projected population figures from the Association of Bay Area Governments (ABAG) and locally adopted land use plans, both of which are highly detailed, based on sound science, and reflect a comprehensive public engagement process.

BAWSCA member agencies and their customers can readily reduce water use during drought as required by the Bay-Delta Plan. As shown in the graph presented during the water supply and demand update, BAWSCA member agencies responded strongly during the 2015 drought, but the level of rationing required under the Bay-Delta Plan will reach 50% or greater, creating severe hardships beyond what any resident has experienced before, and which cannot be borne by the residential sector only.

BAWSCA's constituents do not support the TRVA. Business communities including key community groups such as Silicon Valley Leadership Group (SVLG) have expressed support for the TRVA.

There will be no economic impact on the Bay Area during a drought if the Bay-Delta Plan is implemented. An extensive economic analysis was prepared by the SFPUC and relied upon during a recently completed FERC Don Pedro Final EIS review, and results indicate severe economic impacts due to the high level of rationing that would be required.

BAWSCA Staff and BAWSCA Board Members have no understanding of the TRVA or its components. BAWSCA has been actively engaged in the TRVA development, its technical review, and is knowledgeable of its scientific basis, content, impacts and implementation. Additionally, the BAWSCA Board has been and continues to be well-informed on the TRVA through briefings by SFPUC and BAWSCA staff as critical information become available.

BAWSCA has not provided opportunities for the public to discuss the Bay-Delta Plan and the TRVA in an open forum/workshop. The Bay-Delta Plan has

been included as a regular item on the BAWSCA Board agenda since 2018, during which time the opportunity for public comment is provided. At the September 19, 2019 BAWSCA Board meeting, the Bay-Delta Plan was included as a special report with presentations given by the Tuolumne River Trust, SFPUC and BAWSCA.

BAWSCA and its member agencies continue to support the Bay-Delta Plan objectives, and are committed to working with other stakeholders to protect water quality in the Bay-Delta for humans, fish and other wildlife. Governor Newsom's leadership is critical to the resolution of this issue. BAWSCA believes that the voluntary agreement will enable the region to move forward, and it will continue its focus on the efforts including having the State Water Board perform an environmental evaluation of the TRVA.

- C. **FY 2021-21 Work Plan and Operating Budget Preparation:** Ms. Sandkulla reported that BAWSCA's budget process for FY 2021-22 has begun with an assessment of long-term critical issues and major challenges. This allows us to view the timeline of actions, and becomes the basis for identifying the critical results that need to be achieved in the upcoming and subsequent fiscal years. The January Board meeting will include a budget planning session in which long-term critical issues and major challenges will be presented. Input from the Board will inform the draft work plan that will be presented to the Committee in February, and to the Board in March. The Committee will then be presented with the proposed work plan and operating budget in April, for a final discussion before it is presented to the Board for adoption in May.

Director Jordan appreciated the CEO's report of the facts and responses to the concerns and comments on the TRVA. He suggested having SFPUC present the science behind the TRVA to the BAWSCA Board at a future meeting.

Ms. Sandkulla will work with the Chair in including that item on a future agenda. She noted that the SFPUC plans on having additional workshops, one of which will be in January and will include SFPUC's response to the environmental advocates' presentation.

Director Wood echoed Director Jordan's comments and values the staff efforts to keep the BAWSCA Board well-informed of the critical issues.

8. **Closed Session:** The Committee adjourned to Closed Session at 3:27pm.
9. **Reconvene to Open Session:** The Committee reconvened from Closed Session at 4:19 pm. Ms. Schutte reported that no action was taken during Closed Session.
10. **Comments by Committee Members:** There were no further comments from Committee members.
11. **Adjournment:** The meeting was adjourned at 4:20 pm. The next meeting is February 10, 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	Dec. 9 2020	Oct. 14, 2020	Aug. 12, 2020	Jun. 10, 2020	Apr. 8, 2020	Feb. 12, 2020
Westborough	Chambers, Tom (Chair)	✓	✓	✓	✓	✓	✓
Palo Alto	Cormack, Alison (V Chair)		✓	✓	✓	✓	✓
Purissima	Jordan, Steve	✓	✓	✓	✓	✓	✓
Cal Water	Kuta, Rob	✓	✓	✓	✓	✓	✓
Sunnyvale	Larsson, Gustav	✓	✓	✓	✓	✓	✓
Hayward	Mendall, Al	✓	✓	✓	✓	✓	✓
Redwood City	Pierce, Barbara	✓	✓	✓	✓	✓	✓
Brisbane	Wood, Sepi	✓	✓	✓	✓	✓	✓
Stanford	Zigterman, Tom	✓	✓	✓	✓	✓	✓

✓: present

☎: Teleconference

Dec. 9, 2020 Meeting Attendance (Via Zoom in compliance with Gov. Order #29-20 due to COVID-19)

BAWSCA Staff:

Nicole Sandkulla	CEO/General Manager
Tom Francis	Water Resources Manager
Danielle McPherson	Sr., Water Resources Specialist
Negin Ashoori	Water Resources Engineer
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
Sean Herman	Legal Counsel, Hanson Bridgett, LLP
Bud Wendell	Strategic Communications

Public Attendees:

Leonard Ash	ACWD
Paul Sathy	ACWD
Cheryl Munoz	Hayward
Karla Daily	Palo Alto
Spreck Rosekrans	Restore Hetch Hetchy
Alison Kastama	SFPUC
Peter Drekmeier	Tuolumne River Trust
Dave Warner	Self
Carol Steinfeld	Self

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

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

Summary:

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

Recommendation:

That the Committee recommend Board approval of the proposed FY 2021-22 bond surcharges as presented in this memorandum.

Discussion:

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

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

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

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

Table 1. Proposed BAWSCA FY2021-22 Bond Surcharges

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

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

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

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

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

Alternative uses of excess fund balance in the Stabilization Fund

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

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

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

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

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

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

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

Background:

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

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

Calculating the "True Up" Adjustment

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

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

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

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

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

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

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

Summary:

This memorandum presents the preliminary Fiscal Year 2021-22 Work Plan and results to be achieved. Comments received from the Board at the January 21, 2021 Work Plan and Budget Preparation Planning Session have been reviewed and addressed. The preliminary Work Plan includes the CEO's recommendations for addressing comments received during the Budget Planning Session. As was discussed with the Board in January, this memorandum does not present a preliminary Operating Budget. Initial operating budget considerations will be included in the staff presentation. The Board will be presented with a preliminary Work Plan and Operating Budget at its March meeting.

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

Recommendation:

That the Committee provide:

- 1. Comments and suggestions concerning the preliminary Fiscal Year 2021-22 Work Plan and results to be achieved;**
- 2. Feedback on presented results from January 21, 2021 Work Plan and Budget Planning Session; and,**
- 3. Suggestions concerning presentation of the preliminary Work Plan and Operating Budget to the Board of Directors in March.**

Discussion:

Preliminary Work Plan:

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

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

- Oversight of the SFPUC's WSIP, 10-Year Capital Improvement Program (CIP), and Regional Water System (RWS) Asset Management Program.
- Implement BAWSCA's 2009 Strategy, including the following actions:
 - Complete Phase 3 pre-feasibility studies for the Potable Reuse Exploratory Plan (PREP), a potential purified water project in partnership with SFPUC, Silicon Valley Clean Water and others. Engage with advocacy groups (e.g., WaterReuse) to access and exchange critical technical, legislative, and legal information to support these studies;
 - Participate in the development of the Bay Area Regional Reliability Partnership (BARR) Bay Area Regional Water Market (Exchange/Transfer) Program, with inclusion of a pilot water transfer that includes ACWD, BAWSCA and SFPUC;
 - Promote the continued sustainable use of San Mateo Plain Groundwater Basin (Basin) for long-term water supply reliability through the Groundwater Reliability Partnership and other multi-party efforts;
 - Refresh and update BAWSCA's Demand Study; and
 - Complete scoping activity for an update to BAWSCA's 2009 Strategy.
- Provide drought support to member agencies and their customers, assuming dry conditions in FY 2021-22.
- Represent member agency interests in regional and statewide discussions related to the new State of California "Making Water Conservation a Way of Life" long-term conservation requirements.
- Implement 2 new subscription conservation programs developed in FY 2020-21.
- Implement regional core and subscription conservation programs to support member agencies and their customers.
- Take actions to protect member agencies' water supply interests in administration of the 2009 WSA including the following:
 - Monitor SFPUC's development of new supplies through its Alternative Water Supply Planning Program and participate as appropriate to ensure that the SFPUC can meet its water supply reliability obligations to its Wholesale Customers; and
 - Initiate development of an updated Tier 2 drought allocation plan.
- Participate in the SWRCB's Bay Delta Water Quality Control Plan Update to ensure member agency interests are represented.
- Participate in the New Don Pedro and La Grange FERC proceedings to protect regional water supplies.
- Administer the 2009 WSA.
- Administer BAWSCA's bonds, including possible refunding.
- Initiate a new 3 to 6-month diversity internship program.
- Implement Board policy directives for management of BAWSCA's unfunded pension liability obligations.

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

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

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

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

1. Drought Support (if needed) for Member Agencies
Estimated FY 2021-22 Cost: \$26K

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

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

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

2. Complete Scoping for an Update of BAWSCA's 2009 Strategy
Estimated FY 2021-22 Cost: \$50K

In 2009, BAWSCA initiated the development of its Strategy to provide a comprehensive, regional assessment of the BAWSCA member agencies' water supply reliability needs, complete an evaluation of potential water management actions that could be implemented to meet these needs, and identify potential actions for consideration by the Board to achieve an increased level of regional reliability. The 2009 Strategy effort spanned several fiscal years and was completed in 2015. The total technical cost for the 2009 Strategy was \$1.9M, including \$117K for scoping.

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

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

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

3. Refresh and Update BAWSCA 2020 Demand Study
Estimated FY 2021-22 Cost: \$200K

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 update of all 28 water demand models. BAWSCA would secure consultant support for this effort with the overall update starting in FY 2021-22. The draft preliminary budget includes an estimated \$200,000 for consultant support and includes a modest budget for legal counsel support.

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

Estimated FY 2021-22 Cost: \$34K

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

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

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

Estimated FY 2021-22 Cost: \$75K

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

The existing Tier 2 Plan was first adopted by each Wholesale Customer in the winter/spring of 2011 pursuant to Section 3.11.C of the WSA. That Tier 2 Plan, which initially expired on December 31, 2018, has been extended each year since such that the current Tier 2 Plan will expire 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 thru the spring of 2022, such that final requirements would be released in June of 2022.

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

6. Refunding of BAWSCA's Revenue Bond Series 2013A

Estimated FY 2021-22 Cost: \$200K

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, a tax-exempt forward delivery refunding is determined most appropriate. The par amount of the callable portion of Series 2013A bonds is \$163.8 million. The estimated net present value savings are about \$29.2 million or 17.9% of the refunded bonds, assuming current interest rates.

A preliminary estimate of the total cost to refund BAWSCA's series 2013A bonds is approximately \$1-\$1.2 million, including both contingent and non-contingent costs. The non-contingent portion of the cost of issuance is estimated to be about \$200,000 and are mostly associated with the rating agency fees, trustee and escrow agent and verification agent. For a tax-exempt forward delivery, most of the non-contingent costs would have to be paid near the time of pricing in early 2022. The rest of the costs would be paid from the refunding bond proceeds, contingent upon the successful sale and delivery of bonds.

7. BAWSCA's Unfunded Pension Liability Funding Program
Estimated FY 2021-22 Cost: \$70K-\$730K

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 increased annual contribution is in a range of \$166K to \$730K, assuming the unfunded pension liability would be scheduled 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 actual cost included in the preliminary budget for FY 2021-22 will depend on feedback received from the BPC on February 10th.

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

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

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

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

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

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

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

Background:

BAWSCA's work plan development process begins by reviewing and updating the major activities and long-term future challenges. These long-term activities require coordinated action by BAWSCA and its member agencies to ensure a reliable supply of high-quality water at a fair price.

Table 4 lists these activities updated as part of the FY 2021-22 preliminary Work Plan development through 2050. In each case, the results identified in Table 4 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 1. Draft Preliminary FY 2021-22 Work Plan and Results to Be Achieved
(New/Expanded items shown in blue italic font)

RELIABLE WATER SUPPLY

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.

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.*

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

- a. *Provide drought support to member agencies and their customers (assuming dry conditions in FY 2021-22).*
- b. Represent member agency interests in regional and statewide discussions on the development of and compliance with California's "Making Water Conservation a Way of Life" requirements, including new Water Efficiency Targets in development by the State.
- c. Provide regional coordination to support member agency Advanced Metering Infrastructure (AMI) implementation and data mgmt.

- d. Administer and implement BAWSCA's core water conservation programs.
- e. Administer BAWSCA's subscription conservation rebate programs that benefit, and are paid for by, participating member agencies.
- f. Administer an irrigation hardware rebate program – a new subscription program for FY 2021-22.***
- g. Administer a residential self-audit tool – a new subscription program for FY 2021-22.***
- h. Develop a leak repair and training certification program for implementation in FY 2022-23.***
- i. Represent agencies in regional and State-level discussions relative to water conservation-related regulations, grant funding opportunities, and programs where regional participation is possible.
- 4. Take Actions to Protect Members' Water Supply and Financial Interests in Water Supply Agreement (WSA) Administration**
 - a. Monitor SFPUC's development of new supplies through its Alternative Water Supply Planning Program and participate as appropriate to ensure that the SFPUC can meet its water supply reliability obligations to its Wholesale Customers.***
 - b. Protect members' water supply interests to ensure that the SFPUC meets its legal and contractual obligations for water supply from the Regional Water System in light of ongoing risks.
 - c. Adopt a temporary extension of the existing Tier 2 drought allocation plan that expires Dec. 2021.
 - d. Initiate development of an updated Tier 2 drought implementation plan.***
 - e. Protect members' water supply and financial interests in the SFPUC's required 2028 decisions.
- 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.
- 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.
- 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

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

9. Perform Matters that Members Agencies Delegated to BAWSCA in the Water Supply Agreement

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

AGENCY EFFECTIVENESS

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.

11. Manage the Activities of the Agency Professionally and Efficiently

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

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

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

Table 3. FY 2021-22 Work Plan and Budget Planning Session – Comments and Suggested Work Plan Items for Further Consideration
(Questions presented in alphabetical order by Board Member)

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

Table 4: Future Challenges Facing BAWSCA, Member Agencies, and Their Customers (Preliminary FY 2021-22)
(Proposed Changes Shown in Blue Underlined Italic Font)

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

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Findings of Financial Impact Analysis for BAWSCA's Unfunded Pension Liability Funding Alternatives**

Summary:

At the last Board Policy Committee (BPC) meeting, staff presented an update on BAWSCA's pension liability funded status and the options available to contribute additional funding for addressing BAWSCA's long-term pension liability. Based on BPC feedback received, further financial impact analysis was performed and this memo presents these results including estimates of the funding needed to pay off BAWSCA's unfunded pension liability under alternative funding approaches.

Per the latest CalPERS actuarial valuation as of June 30, 2019, BAWSCA's projected pension Unfunded Accrued Liability (UAL) 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.

Fiscal Impact:

The information from the latest CalPERS actuarial valuation report as of June 30, 2019 will be used in BAWSCA's FY 2021-22 Operating Budget preparation process. BAWSCA's minimum required employer contribution towards the UAL for FY 2021-22 is \$68,648.

Recommendation:

This item is for informational purposes only. Feedback from the BPC on the alternative funding approaches and next steps is requested at this time.

Discussion:

CalPERS retirement benefits are defined benefits based on a formula, rather than contributions and earnings to a savings plan. Every year, CalPERS provides BAWSCA an actuarial valuation report that includes the latest pension trust plan funded status and the minimum required employer contributions for the next fiscal year. The minimum required employer contributions represent the sum of the Normal Cost (expressed as a percentage of total active payroll) plus the amortization of the Unfunded Accrued Liability.

Per the latest CalPERS actuarial valuation as of June 30, 2019, BAWSCA's projected unfunded pension liability as of June 30, 2022 will be \$707,333, which is scheduled to be paid off by June 30, 2038. The unfunded pension liability represents the liability for service that has been earned but not funded. Based on the current amortization schedule, BAWSCA's minimum required employer contribution towards the UAL for FY 2021-22 is \$68,648.

Voluntary Additional Pension Funding Options Discussed at Last BPC

In light of the rise and volatility of CalPERS pension costs, many public agencies have voluntarily chosen to set aside or contribute additional pension funding to address their long-term pension liabilities. At the last BPC meeting, staff presented three options currently available: (1) Making additional discretionary payments (ADPs) to reduce the UAL and future required contributions; (2)

Making more UAL contributions each year based on an alternative “fresh start” amortization schedule to pay off the UAL more quickly than required; and (3) Establishing an irrevocable pension prefunding trust to set aside and invest additional funds that accumulate interest earnings and can be used to offset future growing pension liability.

The BPC expressed interest in the first option and paying off the unfunded pension liability sooner than what the CalPERS’ minimum amortization policy requires. In general, paying off the UAL sooner will save BAWSCA interest payments that are currently calculated at a discount rate of 7% by CalPERS. The BPC asked BAWSCA to analyze the financial impact of paying off BAWSCA’s UAL under alternative funding approaches.

Financial Impact Analysis of Alternative Unfunded Pension Liability Funding Approaches

BAWSCA’s Actuary recently performed a financial impact analysis to estimate the funding needed to pay off the unfunded pension liability and the approximate interest savings under alternative funding approaches. Table 1 illustrates the estimated present value savings of each alternative. The approaches included in the analysis are:

- Current approach follows CalPERS’ minimum amortization policy and illustrates the annual amortization payments until June 30, 2038 when the unfunded pension liability is currently scheduled to be paid off.
- Alternative 1 assumes the unfunded pension liability to be paid off in 1 year, by June 30, 2022. The estimated present value savings are about \$252,000.
- Alternative 2 assumes the unfunded pension liability to be paid off in 2 years, by June 30, 2023. The estimated present value savings are about \$237,000.
- Alternative 3 assumes the unfunded pension liability to be paid off in 3 years, by June 30, 2024. The estimated present value savings are about \$221,000.
- Alternative 4 assumes the unfunded pension liability to be paid off in 5 years, by June 30, 2026. The estimated present value savings are about \$190,000.

Please note that the amortization payments and the savings calculated under the four alternatives are only estimates, based on CalPERS assumed annual investment return of 7% and a discount rate of 2.5% per year for the present value calculations. The estimated amortization payments under Alternatives 1-4 are calculated assuming a one-time payment at the beginning of each fiscal year, around July 1st. If the payments are made at mid-year as a one-time payment or through equal monthly payments, the estimated amortization payment for each year would be higher than the current estimates shown in Table 1, and the present value savings would be slightly lower accordingly.

Next Steps

Feedback from the BPC on this information is requested and will be used in the next step of this investigation that will focus on the potential funding sources for any additional UAL payments.

Guidance related to consideration of additional funding that should be included in the preparation of FY 2021-22 Operating Budget would also be useful at this time.

Attachment: Table 1 “Estimated Present Value Savings of Alternative Unfunded Pension Liability Funding Approaches”

**Table 1. Estimated Present Value Savings of Alternative Unfunded Pension Liability Funding Approaches
(Miscellaneous Plan and PEPRA Plan Combined)**

	<u>Current Funding Schedule</u>			<u>Alternative #1</u>			<u>Alternative #2</u>			<u>Alternative #3</u>			<u>Alternative #4</u>		
Fiscal Year Ending June 30	Unfunded Liability Balance	Amortization Payments	Present Value of Amortization Payments	Unfunded Liability Balance	Amortization Payments	Present Value of Amortization Payments	Unfunded Liability Balance	Amortization Payments	Present Value of Amortization Payments	Unfunded Liability Balance	Amortization Payments	Present Value of Amortization Payments	Unfunded Liability Balance	Amortization Payments	Present Value of Amortization Payments
2,022	707,333	68,648	68,648	707,333	727,423	727,423	727,423	376,010	376,010	727,423	259,052	259,052	727,423	165,805	165,805
2,023	681,372	72,964	71,184	0	0	0	376,012	376,010	366,839	501,157	259,052	252,734	600,932	165,805	161,761
2,024	648,949	77,454	73,721				0	0	0	259,052	259,052	246,569	465,586	165,805	157,816
2,025	609,426	82,124	76,260							0	0	0	320,766	165,805	153,966
2,026	564,754	84,426	76,486										165,808	165,805	150,211
2,027	523,181	78,407	69,301										0	0	0
2,028	476,556	80,479	69,396												
2,029	424,466	82,607	69,494												
2,030	366,468	84,793	69,594												
2,031	302,087	87,040	69,695												
2,032	230,810	89,348	69,799												
2,033	152,091	91,720	69,904												
2,034	65,333	94,157	70,011												
2,035	49,826	19,413	14,082												
2,036	32,769	19,861	14,056												
2,037	14,041	20,322	14,032												
2,038	(5,674)	20,796	14,009												
Total Payments		1,144,211	979,672		727,423	727,423		752,020	742,849		777,156	758,355		829,025	789,559
Estimated Savings					(416,788)	(252,249)		(392,191)	(236,823)		(367,055)	(221,317)		(315,186)	(190,113)
						PV			PV			PV			PV
Assumptions:															
1. CalPERS' investment return rate remains at 7% per year.															
2. CalPERS Board's amortization policy remain unchanged.															
3. All other CalPERS actuarial assumptions remain unchanged.															
4. Estimated amortization payments under Alternatives 1-4 are calculated assuming a beginning-of-year payment (approx. July 1).															
5. Present value of amortization payments are computed using a discount rate of 2.5%.															

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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**

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. In February 2020, BAWSCA performed a refunding analysis on the Series 2013A bonds to determine whether a taxable bond refunding at that time would save the member agencies money. Based on the results of that analysis, BAWSCA and its financial advisor believed that there would be potential greater savings closer to the time of the call date (April 1, 2023) for a tax-exempt refunding of Series 2013A. Since then, BAWSCA and its financial advisor have been monitoring the market developments and recently updated the refunding analysis.

In January 2021, BAWSCA evaluated three refunding scenarios: 1) taxable advance refunding; 2) tax-exempt forward delivery; and 3) tax-exempt regular delivery. The three scenarios and the estimated results are further described below in the "Discussion" section. Based on the findings of the recent evaluation, 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.

Feedback from the BPC on the refunding methods available to BAWSCA's Series 2013A bonds is requested at this time. Based on the feedback received, BAWSCA will make a recommendation on the refunding approach and present necessary action items to the BPC in April and then to BAWSCA Board for consideration of approval in May.

Fiscal Impact:

Preliminary estimates of the potential refunding savings are over \$23 million, assuming the current market conditions. More details are shown in the "Discussion" section below. 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 contingent cost of issuance, including the financial advisory fee, bond/disclosure counsel fee, and the underwriters' compensation, will be paid directly from the refunding bond proceeds, contingent upon the successful delivery of the new bonds.

The non-contingent portion of the costs of issuance is estimated to be about \$200,000 and are mostly associated with the rating agency fees, trustee and escrow agent and verification agent. For a forward delivery (Scenario 2), most of the non-contingent costs would have to be paid near the time of pricing (as early as late 2021 to early 2022); while for a regular delivery (Scenario 1 and 3), the payments of the non-contingent costs are not due until near the issuance date (mid-2021 in Scenario 1 or early 2023 in Scenario 3). BAWSCA funds used to cover the out-of-pocket costs can be reimbursed by the bond proceeds, contingent upon successful delivery of new bonds.

Recommendation:

This item is for informational purposes only. Feedback from the BPC on the refunding methods available to BAWSCA's Series 2013A bonds is requested at this time.

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 practically 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%.

Under the federal 2017 Tax Cuts and Jobs Act, refunding bonds for BAWSCA's Series 2013A tax-exempt bonds are not allowed to be issued and delivered as tax-exempt before 90 days prior to the redemption date (known as an advance refunding). The 2013A bonds can be advance refunded with *taxable* bonds any time before January 1, 2023 (taxable advance refunding). It is also possible to issue tax-exempt refunding bonds on a *forward delivery* basis, whereby the bonds are priced earlier than 1 month prior to delivery and typically no more than 12 months prior to delivery (tax-exempt forward delivery refunding). Taxable bonds and tax-exempt forward delivery bonds have higher costs relative to tax-exempt regular delivery bonds, with the primary tradeoffs being locking in rates/savings earlier and the potential opportunity cost/interest rate risk of waiting to remove the cost inefficiencies and price and deliver the bonds closer to the call date.

Table 1 provides a summary of the updated refunding analysis performed by BAWSCA's financial advisor based on three refunding scenarios for the Series 2013A tax-exempt bonds under various assumed market conditions. The key findings are summarized below.

- Scenario 1 illustrates a taxable advance refunding priced and delivered in mid-2021, assuming current market conditions (as of 1/28/21). The estimated net present value savings are about \$23.2 million or 14.2% of the refunded bonds in the par amount of \$163.8 million.
- Scenario 2 illustrates a tax-exempt forward delivery refunding priced in January 2022 and delivered in January 2023, again assuming current market conditions. The estimated net present value savings are about \$29.2 million or 17.9% of the refunded bonds.
- Scenario 3 illustrates a tax-exempt regular delivery refunding priced near and delivered in January 2023, again assuming current market conditions. The estimated net present value savings are about \$35.6 million or 21.7% of the refunded bonds.

The above figures do not account for the potential for adverse market changes prior to the time a pricing can be implemented. For example, assuming reoffering yields rise by 50 basis points (0.50%) by the pricing of each scenario, the estimated net present value savings for the taxable, the forward delivery and regular delivery would be reduced to \$17.0 million (10.4%), \$23.8 million (14.5%) and \$30.0 million (18%), respectively.

While there are other methods to achieve potential interest savings, the three approaches described in this memo are considered the most viable at this time. If BAWSCA is advised of

other methods during and following an underwriter selection process, BAWSCA will update the BPC or Board in a timely manner, as appropriate.

Difference between Tax-exempt Forward and Tax-exempt Regular Deliveries

The difference between the two approaches is mainly the timing of pricing, however, the issuance date of the refunding bonds remains the same (i.e., January 2023). A tax-exempt forward delivery refunding would allow BAWSCA to price the bonds (which locks in the interest rates and other borrowing costs) up to a year prior to the delivery refunding bonds, though the feasibility of pricing a bit earlier than a year prior to delivery will also be explored.

While a tax-exempt forward delivery refunding takes advantage of the interest rates/yields at the time of pricing, it costs issuers a pricing premium over what a regular delivery pricing would be at the time. Scenario 2 assumes that the yields for the refunding bonds are 60 basis points (0.60%) higher than the estimate of a hypothetical regular delivery pricing in January 2022.

Tax-exempt Refunding is Preliminarily Determined More Appropriate than Taxable Refunding at this Time

While the estimated potential savings of issuing taxable advance refunding bonds in mid-2021 is at a level at which would be reasonable to proceed, the timeframe needed to wait for a tax-exempt forward refunding from the point of a projected taxable pricing is down to about 6 months or so. There are three primary reasons why the agency currently believes that there will be potential greater savings near the time of the call date (April 1, 2023) for Series 2013A:

1. In general, tax-exempt bonds result in much lower borrowing costs than taxable bonds based on the same market conditions.
2. Issuing in advance of the call date entails an additional cost of funding the interest payments through the call date whereby the investment earnings on refunding bond proceeds are lower than the borrowing cost of the additional refunding bonds needed to fund those payments. This factor, referred to as “negative arbitrage,” can significantly reduce the savings generated by a refunding. This cost will largely go away if the refunding bonds are issued no earlier than 90 days prior to the call date since the period of time from the issuance of the refunding bonds to the early redemption of the old bonds is less than 90 days rather than about 20 months. In the current market scenarios, the negative arbitrage on the taxable refunding represents a cost of approximately \$4.6 million. In contrast, the cost of the negative arbitrage on the two tax-exempt scenarios are approximately \$500,00 and \$250,000, respectively.
3. The refunding bonds have a shorter term when issued near the call date rather than 1-2 years prior. In most markets, shorter-term bonds result in slightly lower interest rates and ultimately greater savings to the member agencies.
4. Compared to a taxable advance refunding, based on break-even analyses for the scenarios, the refunding bond yields would need to rise roughly 65-75 basis points before the wholesale customers would be worse off by waiting until January 2022 (roughly 6 months) to refund the bonds based on tax-exempt forward delivery; and the interest rates would need to rise roughly 135-140 basis points before the wholesale customers would be worse off by waiting until January 2023 (roughly 18 months) or so to refund the bonds based on tax-exempt regular delivery. Though there is time before a decision between forward and regular deliveries would need to be made, based on the current analysis, refunding bond yields would have to rise by roughly 70 basis points before the wholesale customers would be worse off by waiting until January 2023 (12 months) relative to pricing a forward in January 2022.

Possible Federal Legislation Re-authorizing Tax-exempt Advance Refunding

In May 2019 and July 2020, legislation was introduced in the U.S. House of Representatives and the US. Senate, respectively, to restore the authorization to issue tax-exempt advance refunding bonds, however, the legislation did not proceed. If Congress does pass such legislation in the near future, a tax-exempt advance refunding would likely become the recommended approach if the refunding has not yet been completed at that time. The status of such potential legislation will be monitored, and the plan modified accordingly.

Next Steps

Given that a taxable refunding is a viable alternative at this time, feedback from the BPC on the preliminarily recommended tax-exempt refunding of the Series 2013A bonds (with the decision as to a specific approach to be finalized at a later time) is requested at this time.

Based on the feedback received, BAWSCA will make a recommendation on a more specific approach to the refunding and present necessary action items to the BPC in April and then to BAWSCA Board for consideration of approval in May.

Given BAWSCA's bond issuance authorization process is longer compared to most other public agencies due to the need to get approval from all member agencies, staff anticipate the need to bring a bond counsel on board soon, no matter what refunding method is selected eventually. This will allow BAWSCA the ability to work with the bond counsel and municipal advisor in moving further along toward effectuating a refunding, initially focusing on the elements likely to apply regardless of the ultimate method selected.

Attachment: Table 1 "Summary of Refunding Analysis for BAWSCA Revenue Bond Series 2013A"

Table 1. Summary of Refunding Analysis for BAWSCA Revenue Bond Series 2013A

Market Scenario:	A. Current Market Conditions			B. Current Market Conditions + 50 bps (0.50%)		
Refunding Scenario:	Taxable	TE Forward	TE Regular	Taxable	TE Forward	TE Regular
Approx. Pricing Timeframe:	in Mid 21	in Early 22	in Early 23	in Mid 21	in Early 22	in Early 23
Price Date vs. Taxable:	--	+6 mos.	+18 mos.	--	+6 mos.	+18 mos.
Est. Net Present Value Savings:	\$23,203,016	\$29,255,236	\$35,597,842	\$17,001,085	\$23,785,266	\$30,011,352
Pct. Bonds Refunded:	14.2%	17.9%	21.7%	10.4%	14.5%	18.3%
All-in True Interest Cost:	1.82%	1.63%	0.95%	2.32%	2.11%	1.43%
Negative Arbitrage Cost:	\$4,568,152	\$498,486	\$254,569	\$5,243,345	\$585,064	\$342,033
	Tax-exemt vs. Taxable Scenarios			Tax-exemt vs. Taxable Scenarios		
Est. Net Present Value Savings:		\$6,052,220	\$12,394,826		\$6,784,182	\$13,010,267
Pct. Bonds Refunded:		3.7%	7.6%		4.1%	7.9%
All-in True Interest Cost:		-0.19%	-0.87%		-0.21%	-0.89%
Negative Arbitrage Cost:		(\$4,069,666)	(\$4,313,583)		(\$4,658,281)	(\$4,901,313)
Approx. Break-even (basis points):		65 bps	135 bps		75 bps	140 bps
	Annual and Total Savings			Annual and Total Savings		
<u>Year</u>						
2022:	\$955,462	\$0	\$0	\$723,854	\$0	\$0
Avg. 2023-34:	2,108,097	2,778,390	3,381,603	1,598,954	2,343,901	2,959,483
Total:	\$26,254,317	\$33,340,676	\$40,579,232	\$19,915,861	\$28,126,817	\$35,513,794

General Notes:

Current market scenarios reflect conditions and assumptions as of 1/28/21.

Bonds refunded in all scenarios = \$163,790,000 (13A callable bonds only). Average weighted interest rate is approx. 4.75%.

The callable 13A bonds are redeemed on the 4/1/23 first call date in all scenarios.

Break-even (B/E) yield increase is the approximate increase in tax-exempt yields for the tax-exempt refundings to have roughly the same present value savings as the taxable refunding in 2021.

All pv figures are discounted to 8/1/21 at 1.72% (2.22% for CM +50 scenarios).

Savings are net of costs and the difference in the Stabilization Fund requirement.

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BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
FROM: Nicole Sandkulla, CEO/General Manager
DATE: February 5, 2021
SUBJECT: Chief Executive Officer/General Manager's Letter

Urban Water Management Plan Preparation Assistance

Urban Water Management Plans (UWMPs) are prepared by urban water suppliers every five years. These plans support water suppliers' long-term resource planning efforts to ensure that adequate water supplies are available to meet existing and future water needs. The requirements for UWMPs are found in two sections of California Water Code, §10610-10656 and §10608. Every urban water supplier that either provides over 3,000 acre-feet of water annually, or serves more than 3,000 urban connections, is required to submit an UWMP.

Within UWMPs, water suppliers must: assess the reliability of water sources over a 20-year planning time frame; describe demand management measures and water shortage contingency plans; report progress toward meeting a targeted 20 percent reduction in per-capita (per-person) urban water consumption by the year 2020; and discuss the use and planned use of recycled water. There are a number of other content requirements made of water agencies that must be covered in their UWMPs. The information collected from the submitted UWMPs is useful for local, regional, and statewide water planning. Agencies are in the midst of preparing their 2020 UWMPs, which are due to the State by July 1, 2021. Following UWMP submittals, DWR reviews the plans to make sure they have addressed the requirements identified in the Water Code and submits a report to the Legislature summarizing the status of the plans for each five-year cycle.

The majority of BAWSCA member agencies are required to prepare 2020 UWMPs. BAWSCA provides assistance to member agencies by providing a number of key documents for use in their UWMPs. Those key documents include, but are not limited to, common language that details BAWSCA and its efforts on behalf of the member agencies. Further, BAWSCA works with the SFPUC to secure common language from the SFPUC about the Regional Water System (RSW) and SFPUC's role in meeting their water supply needs that can be used by the member agencies.

Aside from common language, SFPUC provides data for use by member agencies to assess water supply reliability under a 5-year drought, as required by the State for UWMPs. For this particular planning period, the SFPUC has supplied water supply reliability and drought data under two options. Option One assumes that the Bay-Delta Plan's 40% unimpaired flow requirement is in place and a regulatory requirement. Option Two assumes that the SFPUC will meet its Level of Service Goals and no greater than 20% rationing would be required over the course of a 5-year drought. The first option has a significant impact on supply reliability as data

shows that the supply from the SF RWS will be reduced by 55% starting the 3rd year of a 5-year drought.

For UWMP preparation purposes, the SFPUC in its UWMP is assuming a “with Bay-Delta Plan” approach and using Option One reliability and drought data. The SFPUC believes this is appropriate given the State has adopted the Bay-Delta Plan and has not taken any action on a potential voluntary agreement.

In consultation with legal counsel, BAWSCA also views it is appropriate for member agencies to take the same approach as the SFPUC. In other words, to prepare their 5-year drought analysis using the “with Bay-Delta Plan” assumption and the Option One reliability and drought data from the SFPUC, even though under that option supplies from the RWS are severely restricted.

Under a “with Bay-Delta Plan” approach, agencies are struggling to identify how water customers they serve will be able to reduce their water use by 50% or more. Member agencies envision that drastic measures would need to be enacted and could include development moratoriums and rationing to a level such that only minimum public health and safety needs could be met.

BAWSCA is continuing to work with the member agencies on this important topic, including hosting an upcoming meeting for the member agencies. BAWSCA is encouraging member agency legal counsel and technical consultants to participate in this upcoming meeting as well.

BAWSCA will keep the Board apprised on member agency UWMP development over the course of the next several months.

Plan Bay Area 2050

BAWSCA, along with representatives from large Bay Area water agencies, are engaging with the Association of Bay Area Governments (ABAG) on its Plan Bay Area 2050 efforts. BAWSCA has been invited to a meeting with ABAG staff on Monday February 8, 2021 where there will be discussion on the Implementation Plan for Plan Bay Area 2050.

The Final Blueprint for Plan Bay Area 2050 was approved by ABAG and Metropolitan Transportation Commission (MTC) in 2020. The Blueprint includes 35 strategies for transportation, housing, the environment, and the economy. ABAG has committed to meeting with water agency representatives in keeping with their goal of tailoring / developing strategies that relate most closely to water agencies. The purpose of the February 8th will be to begin the discussion of how those strategies can best be implemented over the next 30 years, particularly at the regional level.

Water agencies, including BAWSCA and its member agencies, continue to have concerns with ABAG’s population projections, in that they don’t adequately consider the limitations and constraints associated with being able to provide an adequate, reliable water supply capable of meeting proposed growth. In our discussions with ABAG, BAWSCA will work to make sure that message continues to be conveyed and will seek to have ABAG give due consideration to the needs of water agencies.

Status of Wholesale Revenue Requirement Review for FY 2017-18:

On February 4, 2020, BAWSCA received the compliance auditor’s report on the SFPUC’s calculation of the annual Wholesale Revenue Requirement (WRR) and changes in the Balancing Account for FY 2017-18. Pursuant to Section 7.06 of the 2009 Water Supply

Agreement, BAWSCA conducted a review of the WRR for FY 2017-18 and provided a list of questions to the SFPUC on April 3, 2020. The deadline for the parties to enter into a settlement agreement or for the wholesale customers to file a demand for arbitration on any unsolved issues for FY 2017-18 is February 4, 2021.

As of February 3, 2021, the SFPUC had not yet responded to BAWSCA's April 3, 2020 list of questions. As a result, on February 4, 2021, the parties agreed that it is desirable for further factual investigations and discussions to take place regarding the outstanding issues for FY 2017-18, and to resolve all such issues before May 10, 2021 through agreement rather than through arbitration. BAWSCA will report the results of the final settlement to the Board after the issues are resolved.

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Board Policy Committee

Policy Calendar Through June 2021

Meeting Date	Purpose	Issue or Topic
February 2021	D&A R&D R	Consideration of BAWSCA Bond Surcharges for FY 2021-22 Presentation of Preliminary FY 2021-22 Work Plan and Budget Review of Water Supply Forecast
April 2021	D&A R	Consideration of Proposed FY 2021-22 Work Plan and Budget Review of Water Supply Forecast
June 2021	D&A R&D R	Discussion and Possible Action on CEO/General Manager Evaluation Procedure Update on Long-Term Reliable Water Supply Strategy Implementation Review of Agency Personnel Handbook
August 2021	R&D R&D	Update on Review of Current Tier 2 Drought Plan OPEB Report
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

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

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

Summary:

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

Fiscal Impact

This recommended budget increase would be funded using two sources; a \$142,000 transfer from the General Reserve and budgeted contingency of \$57,500 from the FY 2020-21 Operating Budget, of which none has been expended to date. The current General Reserve balance is \$1,139,243. A transfer of \$142,000 from the General Reserve would leave a balance of \$997,243, or 25% of the current FY 2020-21 Operating Budget of \$4,020,679. This transfer would also increase the FY 2020-21 Operating Budget to \$4,162,679.

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 \$806,500;**
- 2. to transfer \$142,000 from the General Reserve to the Operating Budget to fund a portion of this contract increase; and**
- 3. to use \$57,500 from budgeted contingency to fund a portion of this contract increase.**

Discussion:

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

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

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