

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

February 10, 2021 – 1:30 p.m.

Zoom Video Conference

DUE TO COVID-19, THIS MEETING WAS CONDUCTED AS A TELECONFERENCE PURSUANT TO THE PROVISIONS OF THE GOVERNOR’S EXECUTIVE ORDERS N-25-20 AND N-29-20, WHICH SUSPEND CERTAIN REQUIREMENTS OF THE RALPH M. BROWN ACT.

MINUTES

1. **Call to Order:** Committee Chair, Tom Zigterman, called the meeting to order at 1:32 pm. A list of Committee members who were present (10), absent (0) and other attendees is attached.

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

2. **Comments by Committee Chair:** Committee Chair Zigterman welcomed members of the Committee at its first meeting in 2021. He reviewed the general procedures for conducting the meeting virtually. He noted that all actions by the committee will be done by roll call vote.
3. **Public Comments:** Public comments were provided by Dave Warner, Peter Drekmeier, and John Weed.

4. **Consent Calendar:** Approval of Minutes from the December 9, 2020 meeting. Director Cormack noted a correction on the draft minutes to reflect that she was absent.

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

The motion carried by roll call vote 9:1. Director Cormack abstained.

5. **Action Calendar #1:**

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

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

The calculation methodology used for FY2021-22 is the same as last year’s. The total proposed FY 2021-22 surcharge is \$24,692,592, which is about \$7K greater

than last year's. Assuming that SFPUC's projected wholesale water consumption is 133mgd, the surcharge is equivalent to \$0.38/ccf or \$166/AF.

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

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

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

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

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

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

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

Director Larsson expressed his support for staff's preliminary recommendation to maintain the current excess stabilization funds until bond refunding can occur, and for the proposed FY 2021-22 bond surcharges, as presented, be recommended by the Committee for Board approval.

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

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

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

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

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

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

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

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

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

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

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

The motion passed unanimously by roll call vote.

6. Reports and Discussions:

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

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

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

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

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

Another component under water reliability is long-term supply solutions which includes ongoing implementation of BAWSCA's Long-Term Reliable Water Supply Strategy (Strategy). This entails participation in the Bay Area Regional Reliability (BARR) to evaluate water marketing strategies and water transfer opportunities with water agencies in the region, completion of the Potable Reuse Exploratory Plan (PREP) Phase 2 feasibility study, and facilitating use of BAWSCA's Regional

Reliability Model by member agencies to assist in their own water supply planning and analysis. The model will be an element of a new subscription program which allows for engagement and consistency among the member agencies and BAWSCA.

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

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

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

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

Also, a critical part of BAWSCA's water reliability efforts is its core and subscription water conservation program implementation to address near-term supply solutions. Core programs are provided to the entire service area, and subscription programs are offered and paid for by member agencies who choose to participate. New programs include an Irrigation Hardware Rebate, a Residential Self-Audit tool, and

development of a leak repair and training certification program for implementation in 2022-23. Efforts in FY2021-22 for developing the certification program includes researching training methods and procedures to employ, developing program promotion plan, as well as methods for testing and certification. Member agencies have indicated a strong support for this program as it targets an important water use sector with potential for water savings. The estimated cost is \$34K.

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

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

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

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

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

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

Ms. Sandkulla reminded the Committee that included in the WSA are drought allocation plans that distribute water supplies in the region. Tier 1 is the drought allocation of water between the collective wholesale customers and the San Francisco retail customers. Tier 2 is the drought allocation plan that divides the water supply among the BAWSCA member agencies. The Tier 2 plan was adopted in 2011 with an expiration date of December 31, 2018. Since then, the Board has approved an extension of the plan on a yearly basis. BAWSCA has been anticipating the renegotiation of the plan but has been held by the pending Water Efficiency Guidelines being developed by the State given the guidelines' criticality in the negotiation. With the guidelines' expected release in Fall 2021, BAWSCA is planning to move forward with efforts in renegotiating the Tier 2 plan with the member agencies. The effort will take more than one year because of the significant level of involvement required of the member agencies through its appointed Water Management Representatives. Ms. Sandkulla noted that re-negotiation of Tier 2 has a high bar for completion because once negotiated, the new Tier 2 plan must be adopted by the governing body of each member agency. The negotiation will take time, and will require both technical and legal support because it will become an amendment to the WSA. The estimated cost for this effort is \$75K.

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

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

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

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

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

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

Ms. Sandkulla reminded the Committee that the internship program was held back from the FY 2020-21 work plan due to COVID-19. BAWSCA is now in the process of developing a Request for Qualifications (RFQ) that seeks a partner to provide BAWSCA support and other assistance with the program implementation. Additionally, the partnership will allow for a broader reach of qualified candidates efficiently. With the Board's continuing interest in the program, the RFQ will be released in the Spring to select a partner organization to begin work on July 1st. It is unclear if an intern can be hired by Fall or Winter 2021, but the work completed with the partner organization will support an intern for the subsequent fiscal year. An estimated cost of a for this effort is \$44K.

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

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

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

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

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

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

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

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

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

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

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

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

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

Ms. Sandkulla explained that the water quality items that appear in Table 2 are related to the SFPUC's responsibility to provide water supply that meets water quality standards and to plan for meeting that obligation. BAWSCA addresses water quality issues through its engagement in the Joint Water Quality Committee in which technical issues are discussed and addressed. Additionally, BAWSCA's

engagement in the 10-year CIP provides BAWSCA with the ability to engage in water quality conversations critical to the Regional Water System. Activities of this nature are how BAWSCA addresses water quality issues as opposed to hiring a technical expert to address these issues.

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

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

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

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

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

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

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

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

unfunded pension liability sooner than what CalPERS' minimum amortization policy requires.

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

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

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

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

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

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

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

Director Cormack advocated for BAWSCA's employees and their future benefits. Alternatives 2 and 3 pays off the obligation between 1 to 2 years, but the costs are high. Alternative #4 represents approximately 4% of BAWSCA's operating budget. Would the Board be willing to collectively spend 4% of the budget to save \$190K over this time period? Director Cormack believes it is worth the board's consideration of an alternative that is consistent and that enables BAWSCA to draw down the balance. She noted that the payments will likely change at some point, depending on CalPERS' UAL calculations, but BAWSCA can budget for the payments of a 5-year term, or cut the current 17-year schedule by half. She

expressed her concurrence with the Committee's preference to making ADP's versus setting up a trust fund. She believes it is appropriate for the Board to consider some form of mechanism. She appreciates the time staff has invested in the analysis.

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

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

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

Additionally, Director Larsson noted that it takes approximately 10-years to realize some savings for the upfront payment. He stated that if the goal is to accelerate the payments, he would look at what funding sources will be used and what other work plan opportunities will be set aside to have the funds for payments. He cautioned against taking actions that restricts BAWSCA from fulfilling its primary mission of representing the water interests of the member agencies, as opposed to making investment returns.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The estimated savings under the current market condition do not account for the potential for adverse market changes prior to the time of pricing. Ms. Tang presented a summary based on current market conditions plus 50 basis points. An

estimated net value savings for taxable refunding is reduced to \$17M; \$23.8M for a tax-exempt forward delivery refunding, and \$30M for a tax-exempt regular delivery refunding.

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

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

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

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

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

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

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

For clarification regarding the break-even point, Director Jordan asked if interest rates go up by more than 65 basis points, then is the tax-exempt forward delivery

method preferable? It seems to depend on when and by how much will the rates go up. Would the bond counsel have a sense of when in 2021 will we have a trajectory of the rates?

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

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

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

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

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

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

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

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

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

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

7. Reports:

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

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

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

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

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

This was the second workshop that the SFPUC has hosted in a series of water related planning issues. There is a plan for a 3rd workshop focusing on water

demand issues, which BAWSCA may be invited to present its water demand projections.

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

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

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

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

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

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

8. **Closed Session:** The Committee adjourned to Closed Session at 3:27pm.
9. **Reconvene to Open Session:** The Committee reconvened from Closed Session at 4:13 pm. Ms. Schutte reported that no action was taken during Closed Session.
10. **Action Item #2:**
 - A. **Amendment to Hanson Bridgett Contract Professional Services Contract:** Ms. Sandkulla presented a request to amend the Hanson Bridget contract to provide the resources needed to complete the work plan items associated with the Bay Delta Plan, FERC, and Minimum Purchase Transfer WSA amendment. In preparing the FY 2020-21 budget for legal counsel, Ms. Sandkulla planned for a high level of activity in 2 out of the 3 areas, but the level of activity on all 3 areas has increased significantly and legal expenses for these items went beyond what was expected this fiscal year.

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

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

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

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

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

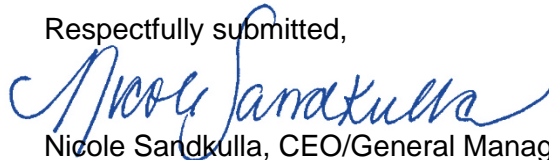
- 1. Amend the professional services contract with Hanson Bridgett by \$200,000 for a total not to exceed amount of \$806,500;**
- 2. To transfer \$142,500 from the General Reserve to the Operating Budget to fund a portion of this contract increase; and**
- 3. to use \$57,500 from the budgeted contingency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

The motion passed unanimously by roll call vote.

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

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

Respectfully submitted,



Nicole Sandkulla, CEO/General Manager

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Attachments: 1) Attendance Roster

Bay Area Water Supply and Conservation Agency

Board Policy Committee Meeting Attendance Roster

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

✓: present

☎: Teleconference

Feb. 10th, 2021 Meeting Attendance (Via Zoom in compliance with Gov. Order #29-20 due to COVID-19)

BAWSCA Staff:

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

Public Attendees:

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