

**MINUTES OF SILICON VALLEY CLEAN WATER
SPECIAL MEETING – JANUARY 12, 2017**

ITEM 1

CALL TO ORDER

The meeting was called to order at 8:02 a.m.

ITEM 2

ROLL CALL - Commissioners Duly Appointed By Each Agency

Mayor John Seybert, Redwood City – Chair

Council Member Warren Lieberman, PhD., Belmont– Vice Chair

Board President Edward Moritz, West Bay Sanitary District - Member

Mayor Robert Grassilli, San Carlos – Secretary

Staff, Consultants and Visitors Present

Christine C. Fitzgerald, SVCW Legal Counsel

Daniel T. Child, SVCW Manager

Teresa Herrera, SVCW Assistant Manager/Authority Engineer

Monte Hamamoto, SVCW Wastewater Superintendent

Matt Anderson, SVCW Chief Financial Officer

Linda Bruemmer, SVCW Administrative Services Director

Jennifer Flick, SVCW HR Manager

Kim Hackett, SVCW Engineering Director

Bill Bryan, SVCW Senior Engineer

Bruce Burnworth, SVCW Senior Engineer

Arvind Akela, SVCW Senior Engineer

Cindy Hui, SVCW Financial Analyst

Jeff Hubbard, SVCW CIP Manager

Ilana Schmidt, SVCW Administrative Assistant

Jay Walter, City of San Carlos

George Otte, West Bay Sanitary District

Bill Tanner, Tanner Pacific, Inc.

Charlie Joyce, Brown and Caldwell

Carolyn Kerans, City of Redwood City

Ken Kaufman, SVCW Retiree

Kathy Suter, SVCW Retiree

Fred Gerke, SVCW Retiree

Mike Fazio, SVCW Retiree

ITEM 3

PLEDGE OF ALLEGIANCE

Mr. Lieberman led those attending the meeting in the recital of the Pledge of Allegiance.

ITEM 4

PUBLIC COMMENT

Mr. Seybert began the meeting by stating that there were some members of the public who wished to address the Commission and reminded them they were allowed approximately 3 minutes for their individual statements.

Mr. Ken Kaufman began by stating that he has lived in the SVCW service area for 29 years. He was an employee of SVCW for over 30 years while holding several positions and was a management employee most of that time. He then gave a brief history of the Performance Pay Program for management employees explaining that Performance Pay was developed in 2002 to address the concerns of one or more Commissioners.

According to Mr. Kaufman, the Commission at the time was concerned that management employees would reach the top of their salary range, stop performing at a high level and collect the COLA increase each year. The Commission wanted a change in salary structure to provide monetary incentive to encourage management employees to perform at a high level. The former Authority Manager, with Commission approval, created the program called Performance Pay. Management employees were told that Performance Pay was CalPERS eligible and would count toward their pension calculations, and they have paid CalPERS contribution on it when they received it. It was understood that it was a plan to keep the management staff achieving goals and working at maximum levels.

The management staff felt that the Commission had always been fair and reasonable in their approach to the Management Group so the new salary structure was accepted. In 2003, the first Performance payment appeared in their paychecks. Payroll deducted seven percent (7%) of the Performance Pay to make the pension contribution to CalPERS. The Agency also contributed a percentage to CalPERS. These pension contributions have continued through the years.

Additionally, Mr. Kaufman stated that for the next ten (10) years, he made retirement decisions assuming his total salary was "PERSable." That was the term that was used. Therefore, he contributed less to Supplemental Retirement Plans such as IRA's and the Agency's 457 Plan. While his decision to retire was complex, his foremost concern was whether his pension was adequate to pay his expenses throughout his remaining lifetime. He didn't want to outlive his resources. At the end of 2012, he believed that his pension would be sufficient and he chose to retire.

Two weeks ago, he received a letter from CalPERS stating that Performance Plan income would be excluded from pension calculations. Twelve (12) other retirees received the same letter. While he is still sorting out the details, he can see that this will have significant impact in his life. This is a huge issue for him and the other retirees. Many of the retirees would have delayed retirement a few years and approached their financial planning differently.

Since the Commission will be addressing this topic later this morning in Closed Session. Mr. Kaufman hoped that the Commission would take time to view the situation from the

retirees' perspective and find a way to treat them with the same fair and reasonable approach they have in the past.

Mr. Seybert next recognized Mr. Fred Gerke.

Mr. Gerke stated he did not have a specific statement to make, but rather attended the meeting to show support for his fellow retirees. In addition, he thanked the Commission for making time to listen to the retirees and hopes the issue will be settled timely and in a fair manner.

Mrs. Kathy Suter commented that it was a shock to her to receive the letter from CalPERS, especially right before Christmas and that the tone of the letter was offensive to her. She has been retired for eight (8) years and is experiencing other strains on her financial resources. In addition, she wanted the Commission to know that she gave her all to her job and she really enjoyed her time working at SVCW.

Mr. Seybert then indicated that he wanted to make a couple of general comments about this subject. First, he apologized on behalf of CalPERS and indicated that he had dealt with CalPERS in the past. In addition, he stated that this situation has nothing to do with SVCW's gratefulness towards those who had worked for the Authority and thanked all the retirees for their service and stated that the Commission will do everything in their power to correct this situation.

Mr. Seybert asked Mrs. Bruemmer to act as the point person for communications between the Commission and the retirees concerning this issue.

Mr. Seybert wanted to know, in view of the letter, if the payments from CalPERS will be reduced immediately because of this letter or if there is a way to "stay" their actions. Ms. Fitzgerald told the Commissioners that she will research the question and provide them a legal opinion letter prior to the next Commission Meeting.

Mr. Mike Fazio, another retired SVCW employee in attendance, responded that payments have not gone down yet, but the intent of the letter was to do so and that there was also the possibility that CalPERS would want to be reimbursed for payments already made.

ITEM 5A SAFETY MOMENT

Mr. Child presented the Safety Moment on ATM card safety. He recommended using ATM's during daylight hours and when using one at night, make sure the area is well lit.

ITEM 5B MANAGER'S REPORT

Mr. Child began by stating that SVCW is holding its Annual Employee Recognition Event and extended an invitation to the Commissioners, including soon to be Commissioner George Otte, to attend the brunch event at 10:00 a.m. on February 1st.

Last month Mr. Child mentioned that the Commission might need a Closed Session to discuss the Bay Area Air Quality Management District concerning permit issues. During the last couple of weeks, SVCW has been negotiating with them and may be able to avoid a legal struggle.

The Commission also asked about the status of the CEQA comments. The CEQA period ends on January 13th at 5:00 p.m. To-date, SVCW received three (3) email comments and one (1) letter (from the Audubon Society).

Mr. Child continued his report by requesting that the October 12, 2017, Commission meeting be moved to October 5, 2017. The Commission agreed to change the meeting date to October 5, 2017.

The final item of the Manager's Report was a handout showing a recap of storm events for the last week. SVCW did extremely well. The day before yesterday, January 10, 2017, SVCW had the highest total daily flow ever recorded - 50.7 million gallons (MGD) of water was treated by the treatment plant, which is rated for 29 million gallons. Peak flow reached 89.3 MGD, plus just over 10 MGD was diverted to the FEF, totaling a peak recorded flow of approximately 100 MGD in the system. This confirms the anticipated volume being used for the CIP, as 107 Million gallons is the expected peak flow over the twenty (20) year study period. The fact that the Agency was able to document and manage 100 MGD in the system is not only a high achievement for the Operations and Maintenance staff, but also provides significant data for the Engineering Group to use in the design of the upcoming CIP work.

The recap also indicates SVCW's flow meters were maxed out. The meters literally hit their top and it is not only possible, but highly likely, that more water was actually in the system. Since the meters were topped out, there is no way to measure the exact amount. Mr. Child also pointed out that every member entity significantly exceeded their JPA flow limits at one time or the other during the storms, but SVCW staff did everything in their power to keep the system running and the water in the pipes!

These were very challenging days, but the good news is due to the automation work being done at the Plant, there was a decrease in the amount of staff needed. Rather than seven (7) or more people working during a storm event in the Operations Group, there were only two (2). Operators were able to sit at the Control Panel and open and close valves. In prior years, an Operator would have to send someone out to operate a valve or make a change. It was the same situation at the Pump Stations. Typically Redwood City Pump Station would hit a 150 inch wet well level. Due to a Redwood City pipe project crossing Highway 101, there is a need to keep the water level under 125 inches. During these storm events, the maximum measured level was only 77 inches.

The Plant experienced some challenges because of a power loss right in the middle of the storm and when the power came back on, it zapped one of the control units. This created a situation that if the power had gone out again, there would not of been access to back-up power. SVCW Electricians and instrumentation personnel responded immediately and within forty-five (45) minutes they had the situation corrected. Mr. Child stated that he wanted to publicly thank the entire SVCW staff for what was an incredible effort and show

of dedication to get through these storms, treat this amount of water and not violate any discharge requirements.

Mr. Child concluded his report by saying that the handout would be distributed to all the Technical Committee members as well.

Mr. Lieberman asked if when power is lost does that mean equipment had to be manually operated. Mr. Child responded that when power is lost, it takes a couple of minutes but everything is supposed to be automatic. When the power goes off, the standby emergency generators come on. It takes a couple of minutes for the generators to kick in and everything to transfer over. If for some reason, some equipment doesn't start back up, an Operator will physically go out and verify the situation and if appropriate, manually start the piece of equipment. This time, what caused an unusual situation is that when the PG&E power came back on, a control module on one of the standby generators decided to revert back to the factory settings rather than to the previously configured SVCW specific settings.

Mr. Lieberman asked if the power had gone out again before staff fixed that, what would have happened. Mr. Child stated that water from the Pump Stations would continue to come into the Plant and depending on the flow rate, all the tanks (before they hit the pumps) would fill up and eventually sewage would start spilling out of the top of the tanks.

Mr. Lieberman then asked if power was lost again and should this switch go out, would staff be able to make a quicker response. Mr. Child informed him that as of yesterday, 2 of the 3 stand-by emergency generators could be manually started. Unfortunately, when it comes to automation bugs, one doesn't know they exist until they happen and he could not honestly answer that question as until it happens, you just really do not know.

Mr. Lieberman commented that now, at least, staff has learned something from this situation. Mr. Child responded that with lessons learned, Wastewater Superintendent Monte Hamamoto, Consultants Chuck Fenton and Kip Edgley, along with SVCW's electrical and instrumentation staff are evaluating what happened, checking systems and putting in improvements to reduce the risk of it happening again.

Mr. Lieberman asked how Mr. Child would categorize this storm event. Would it be something like 1 out of a 10 year event, 1 out of 3 or 1 out of 50 year event and how intense was the amount of rainfall that was received? Mr. Child responded that the previous record was 48.5 million gallons and that occurred in 1996, so roughly twenty (20) years ago, with some other years pushing up closely against them. It was very intense and rainfall reports in the service area varied between 3 inches in San Carlos and Belmont to over 4.75 inches in Menlo Park.

Mr. Lieberman commented that he felt the main message, relative to past occurrences, was that the amount of rainfall that occurred on this occasion was probably as much as or more than occurred on other occasions.

Mr. Child concurred that it was definitely a big storm, but the real secret which he had to explain to some employees, was that with a big rainstorm at the beginning of the rainy season, it just runs off or starts to put moisture back in the ground, but right now the ground

is saturated, so when an inch of water falls on the top of the ground, it pushes an inch of water out the bottom and that water will find a place to go. There have been so many really "perfect" storms this year that have saturated the ground and when a big storm like this hits, it pushes all that water into the systems.

In summary, Mr. Lieberman stated that this storm pushed the system, maybe not to its absolute limits, and impressed SVCW got through it. Mr. Child concurred, and added pushing 89 million gallons through the Plant, is a truly incredible feat. The highest number known before was just over 70 million gallons and again praised the SVCW staff for their efforts.

Mr. Moritz asked about the battery packs (Uninterruptible Power Supplies) that support the automation system and networks computers. He noted they were still being worked on as part of an Emergency Declaration. Did the system work as needed?

Mr. Child responded that they actually worked well. There were a few glitches but for the most part because of the battery back-ups, the SCADA System stayed up the whole time. In addition SVCW has an Engineer on staff whose job is to basically focus on energy issues. SVCW is developing more energy alternatives to keep costs down and in addition, give even more dependable power.

ITEM 5C

FINANCIAL REPORTS

There were no questions on the Financial Reports.

ITEM 6

MATTERS OF COMMISSION MEMBER'S INTEREST

Commissioner Moritz announced that starting in February, Mr. George S. Otte will take his place on the Commission and Mr. Moritz will serve as Mr. Otte's alternate. Since Mr. Otte will be on vacation in Europe on October 5th, Mr. Moritz will be filling in for him at that meeting.

Mr. Moritz stated that he felt compelled to inform the Commission that West Bay has had a project going for the past two (2) years to build a recycled water treatment facility and the first user of that recycled water will be the Sharon Heights Golf Club.

In addition, West Bay has plans to commence a study to do a similar project at their old treatment plant site that is now being used as the Flow Equalization Facility by SVCW. The current project is their first effort and if successful, they are planning to do the second project in what West Bay calls the "Facebook Area". This will be in the area that is their industrial area and relates to high users.

He continued by stating that West Bay has had an environmental report out and they thought their closure date had past. LAFCO had reopened the environmental report and a letter was received from Silicon Valley Clean Water questioning a number of items on the report which was a concern for West Bay's Board.

He continued by pointing out the problem with using letters as opposed to phone calls. Rather than calling up and asking questions, West Bay had to respond to each one of those issues. The West Bay Board's consensus was that the questions were poorly thought out and could have easily been taken care of. In this situation a consultant was hired and money was spent to address the issues. On top of that, SVCW's letter was then sent, by LAFCO, to Portola Valley which is one of the sources of water that West Bay is going to use.

Because of the letter, the Portola Valley Manager wanted to know about their rights to the water. That resulted in their lawyer calling West Bay's lawyer and spending an hour of time on the phone. At the end of that conversation, the Portola Valley Manager, the lawyers and the city official in charge of facilities were all fine with the project. However, there are other items that will cost money. Mr. Moritz implored SVCW, that in the future, please pick up the phone. Member agencies are partners and other projects are going to come along. If questions arise or there is no response, Mr. Moritz asked that SVCW please let him or Mr. Otte know about it.

Mr. Child responded by saying that there was nothing in the letter not previously discussed with Mr. Scott, West Bay's District Manager. In addition, this all started because LAFCO contacted him and asked if SVCW was okay with the project. SVCW was not contacted as a "Responsible Agency" as part of West Bay's original CEQA process and didn't want to miss the opportunity a second time to note items that affected SVCW in the project. Mr. Child did not feel that this would have come as a surprise to Mr. Scott, however, looking back, Mr. Child now realizes Mr. Scott should have been "copied" on the letter and apologized for the omission.

When SVCW received a call from Portola Valley, staff advised them that they should have their attorney get with West Bay's attorney because SVCW should not be in the middle of this. Mr. Child didn't feel there was anything in the letter that would or should stop or hurt the project, but it is going to protect West Bay in the long run because those questions will now be answered, where they were not in the past. Mr. Child again apologized for not notifying Mr. Scott and indicated it would not happen again.

Mr. Seybert added that a response in an official CEQA process should always be documented in writing, not a phone call. If he found out that an official CEQA response had been given by means of a phone call, he would have been upset because fifteen years from now, an agency would want a written record of the CEQA questions and responses.

ITEM 7

CONSIDERATION OF MOTION APPROVING CONSENT CALENDAR

Commissioner Grassilli asked about the new format for approving Warrant Registers under the Consent Calendar.

Mr. Child pointed out that it has always bothered him that the Commission did not officially approve SVCW expenditures and this is a way the Commission would have the opportunity to review and approve the checks written for purchases made by SVCW.

After considerable discussion, the Commission agreed, that in the future, SVCW staff will email the Warrant Registers to the Commissioners for review when they are produced, and approval will be an item on the Consent Calendar of the following meeting agenda for Commission approval.

As an aside, Mr. Moritz stated he is delighted that SVCW is processing recycled water especially during California's current drought situation.

Motion/Second: Mr. Moritz / Mr. Grassilli

The motion carried by unanimous roll call vote.

ITEM 8A

CONSIDERATION OF RESOLUTION AWARDING CONTRACT DOCUMENTS AND AUTHORIZING PURCHASE OF VALVES AND EXPANSION JOINTS FOR THE PUMP STATION VALVE REPLACEMENT PROJECT – CAPITAL PROJECTS #262 AND #263

Ms. Herrera explained that this item was for procuring valves and expansion joints for two (2) pump stations – Menlo Park and Redwood City. She then showed pictures of what the valves and expansion joints look like.

The first picture was from the Menlo Park Pump Station showing where SVCW is replacing seventeen (17) valves and five (5) expansion joints. At the Redwood City Pump Station, twelve (12) valves and five (5) expansion joints are being replaced. Of the total cost of \$391,000.00, approximately sixty-five percent (65%) of the cost is for the equipment at Menlo Park. This is a revenue funded capital project (Fund 14) with a budget of \$927,000.00 for these two pump stations. The remaining budget will be used to cover the cost of the installation contract. The installation contract will be presented for approval at the April Commission meeting. Next Fiscal Year's budget will include funding for replacement of valves and expansion joints at both the San Carlos and Belmont Pump stations.

Mr. Grassilli asked if the valves would be replaced every twenty-five to thirty years.

Ms. Herrera responded that the valves typically have a twenty (20) year lifespan, though in this case, they will no longer be needed when the Pump Stations are replaced in about eight (8) years.

Motion/Second: Mr. Grassilli / Mr. Lieberman

Move adoption of RESOLUTION APPROVING CONTRACT DOCUMENTS AND PURCHASE OF VALVES AND EXPANSION JOINTS FOR THE PUMP STATION VALVE REPLACEMENT PROJECT (CAPITAL PROJECTS #262 AND #263), DECLARING AND ACCEPTING BID OF LOWEST RESPONSIBLE BIDDER FOR SAID MATERIALS, REJECTING ALL OTHER BIDS, AUTHORIZING AND DIRECTING EXECUTION OF CONTRACT FOR PURCHASE OF SAID MATERIALS AND DIRECTING RETURN OF BID SECURITY UPON EXECUTION OF CONTRACT BY LOWEST RESPONSIBLE BIDDER – (\$391,993.63) – ALL WEST EQUIPMENT, DBA FRANK OLSEN COMPANY

The resolution carried by unanimous roll call vote.

ITEM 8B

CONSIDERATION OF MOTIONS APPROVING TASK ORDER AMENDMENTS FOR THE CONVEYANCE SYSTEM PROGRAM

Ms. Herrera began the discussion by stating that an informational report on the Conveyance System was given at last month's meeting and the Commission provided direction to staff to begin the process of utilizing an alternative construction delivery method (such as Progressive Design/Build) for construction of appropriate projects related to the Capital Improvement Program. Since then, staff members have met with two consultants to negotiate the Scope of Work to develop Requests for Qualifications (RFQ) and Requests for Proposals (RFP) for firms capable of meeting the Authority's alternative construction delivery method goals. These two firms are anticipated to act as SVCW's Owner's Engineering Advisors (OEA) for various projects. The initial role of an OEA is to assist SVCW staff in the development and evaluation of the RFQ and RFP process.

The Task Order Motions before the Commission are for Kennedy/Jenks for the gravity pipeline related projects, including the shaft and tunnel, and for Brown and Caldwell for the Receiving Lift Station, headworks and influent connector pipeline related projects.

In the next month or two, SVCW staff anticipates bringing Task Orders to the Commission for Freyer & Laureta for other projects related to the construction of the conveyance system. In the past CDM Smith did planning work for SVCW on the headworks and the influent connector pipeline, but they have chosen to propose as a design/build entity and, therefore, their work on these projects as a design firm or as an OEA has stopped to avoid any potential conflict of interest related to the work. CDM Smith has both an engineering arm and a construction arm that have considerable experience in design/build projects and because of this they have chosen to participate as a potential design/build firm in the future.

For the record, Mr. Grassilli stated that the reason this is being done, using the OEA firms, is because the program is so large. It is not done for every project. Though it seems like an additional cost, the support and extra money is needed because of the size and scope of the conveyance system program in whole.

Mr. Child agreed and added that the reason for these Task Orders is because SVCW is embarking on its first, and also extremely large and complicated, alternative construction delivery method program. Several SVCW staff members have various experiences with design/build from both the owner and design/build firm side of the project. SVCW as an organization, however, has not done design/build previously and staff needs assistance to insure it is done properly.

Mr. Seybert questioned what is the role, if any, of Staff Engineers with regard to these projects?

Mr. Child responded that SVCW's Staff Engineers remain the Project Managers and these firms are there solely to advise and help them work through the process and, in fact, years

ago the Commission directed that all Project Managers must be SVCW employees and that the role would not be turned over to consultants.

In summary, Mr. Seybert said that these firms are going to influence as well as take direction from SVCW staff to which Mr. Child and Ms. Herrera both concurred that is the case.

Mr. Seybert further commented that typically if he worked for the owner that is doing the building, he's the owner representative and going to make sure their interests are being carried out by the Consultants who actually consult back and forth and who would eventually manage the design/build process.

Ms. Herrera replied that in SVCW's case, the owner is the Commission, Mr. Child and herself and then the Project Managers. These firms will work directly for the Project Managers. In addition, there will be legal staff under Ms. Fitzgerald working as part of the team, as well as some acquisition staff.

Mr. Seybert asked how many people will be working on this for Kennedy/Jenks for the \$314,000.00 and was he correct in assuming that if these people were brought on staff, this number would increase.

Mr. Minkowski, from Kennedy Jenks Consultants responded that approximately ten (10) people would be working on this project with various levels of time commitments. Mr. Child confirmed that SVCW could not hire the personnel to do this work for less money and in the timeframe needed as compared to the budget for the proposed work with the named consultants.

Motion/Second: Mr. Grassilli / Mr. Moritz

- i. Move approval of AMENDMENT 1 TO TASK ORDER 2016-11 SCOPE AND BUDGET FOR OWNER'S ADVISOR SERVICES FOR THE GRAVITY PIPELINE PROJECT (CIP #6008 AND 6004) IN AN AMOUNT NOT TO EXCEED \$314,092 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – KENNEDY/JENKS
- ii. Move approval of AMENDMENT 1 TO TASK ORDER 2016-11 SCOPE AND BUDGET FOR OWNER'S ADVISOR SERVICES FOR THE RECEIVING LIFT STATION, HEADWORKS, AND INFLUENT CONNECTOR PIPELINE PROJECTS (CIP #6013, 6014, and 9160) IN AN AMOUNT NOT TO EXCEED \$451,435 AND AUTHORIZE MANAGER TO APPROVE UP TO TEN PERCENT CONTINGENCY FOR ADDITIONAL WORK ON AN AS-NEEDED BASIS – BROWN AND CALDWELL

The motions carried by unanimous roll call vote.

ITEM 8C

CONSIDERATION OF MOTION TO RECEIVE AND ACCEPT SILICON VALLEY CLEAN WATER'S LONG RANGE FINANCIAL PLAN UPDATE

Mr. Anderson reported it has been a year since the last update of SVCW's Long Range Financial Plan (The Plan). The Plan informs the Commission of what the cash flow requirements are anticipated to be for the next decade. This planning document provides critical information for the rate setting process. Mr. Anderson added the report is customized to incorporate basic foundations of budgets, the Joint Powers Agreement and the Capital Improvement Program's (CIP) key pieces of information. This information was also used to build the financial model built and presented to the Commission.

Mr. Anderson said there were three key changes this year identified in the Staff Report. First, is the timing of the CIP. Over the last year, there has been a shift in the original plan since the last update in 2015. In addition, the Agency is now looking at nearly \$400 million dollars that will be deferred from years one and two to years three and four of the program. That is a major change in this plan. The second point of change is the availability of SRF loans. As previously discussed, SRF is now over-subscribed. Last year's plan did not recognize this and anticipated receiving about 80% of funding from SRF low cost loan money. The last key change and factor is inflation. Inflation is projected at 3.7% in construction and 4% on operations and maintenance. As a baseline, today the Agency spends approximately \$39 million dollars annually, mostly for Operations and Maintenance of facilities and the other large part is debt service payments.

Mr. Anderson displayed a graph of the remaining capital spending forecast for the next nine years, broken down by the each SVCW Member Agency totaling \$590 million dollars.

Mr. Anderson proceeded to display a chart indicating what SVCW anticipated at this time last year. There is a significant change in the next two fiscal years. Whereas the Agency thought they would spend upwards of \$140 million in the fiscal year 2018, the expected spend is now considerably less due to still being in the planning mode. Expenditures will of course rise over the next two years as the program progresses. Looking at it on the project level, the planning for treatment facilities, gravity pipeline and front of the plant is starting now and will take SVCW into year 2021. The program is expected to finish with the construction of replacement pump stations by 2024. Finally, nutrient removal is still out there and would add another \$104 million by the end of the planning window.

By applying the JPA Stage 1 Ownership and Stage 2 Capacity Rights, the breakdown for funding is as follows: Belmont - \$56 million dollars, Redwood City - \$287 million dollars, San Carlos - \$89 million dollars and West Bay Sanitary District - \$158 million dollars. Ultimately the question is how to finance these large sums of required money. Mr. Anderson ran through three different scenarios using bonds, government loans and a hybrid approach of both. Last year, the agency relied on availability of funding though SRF and moving away from that assumption is a big change in the plan.

Mr. Anderson said SVCW will continue to pursue funding and he is going to Sacramento in a few weeks with Ms. Herrera to discuss the two active applications submitted (Conveyance System and Wastewater Treatment Plant Improvements) with SRF staff. In the meantime, Mr. Anderson has suggested using the hybrid approach for planning future rate needs.

Mr. Seybert suggested the letter in support of SRF Funding to be signed by the Commission go out before Mr. Anderson goes to Sacramento. Mr. Child will arrange for the letter to be circulated and mailed out as soon as possible, but definitely within the next week.

Mr. Grassilli and Mr. Lieberman asked for clarification of the \$48 million highlighted for debt service repayment and Mr. Anderson replied that this represents the maximum level of annual payments needed to amortize the debt over a 30-35 year period. It is shown broken down into each Member Agency's own needs over the 35 year span. The document given to the Commission is based on a 10-year projection.

Mr. Anderson proceeded to show a graph with a dotted line representing last year's finance plan. Debt service last year was planned to be around \$40 million dollars per year. Due to inflation and the unavailability of less expensive government loan programs, there's been a rise of between \$4 million and \$5 million versus last year's plan for the hybrid approach of financing the program. At this point, the Plan is intended to be used for planning and for rate setting and to also prepare for worst-case scenarios. Mr. Anderson believes this is the prudent thing to do.

On an entity level, the dotted line represented last year's long range finance plan and shows that with this update, the first few years of debt payments are below last year's plan. This is caused by shifting of expenses out to future years, which lowers debt service payments in the early years and increases payments in the later years. The good news is this gives the Member Agencies time to get rates in place to prepare for the surge in debt service payments beginning the ninth year. The bad news is that there will be that surge in year nine.

SVCW is hoping to take advantage of the new WIFIA (Federal Water Infrastructure Financing Reform Act) program to offset some of the increased cost anticipated from the lack of SRF funding, WIFIA is also a low interest loan program (not as low as SRF) and allows delay of payments for up to five years after project completion. SRF has better loan rates and SVCW will continue to pursue them in hopes of obtaining the best possible financing package. Upon Commission approval of the 2017 Long-Term Financial Plan, Mr. Anderson stated he will commence the 2017-18 Budget process.

Mr. Grassilli made the comment that by the time the debt service and government loans are paid off in 30 years for the current work, there will be a need for a new plant or other capital improvements, maybe even before the loans are paid off. Mr. Child added it is very likely the current work will have reached the end of its useful life and new improvements will be needed. Mr. Grassilli wants to make sure it is understood that there is a possibility of the debt not being fully paid off before there is need for more improvements. Mr. Child stated this is definitely possible, but pointed out that the current SVCW Commission has put in place a Capital Reserve Plan that requires setting aside money to build the annual reserve contribution up to an amount equal to the annual depreciation beginning in a couple of years. The purpose of that policy is to save a substantial amount of money to, hopefully, meet the needs or at least soften the blow of future capital project costs.

Mr. Seybert said this is the result of the fact that improvements weren't done when needed in the past and nothing was set aside to pay for the future, now current, needs to replace the worn out facilities. Mr. Grassilli responded that it's unfortunate the future will have debt and also understands that at this point there is no way to get around the situation. Mr. Child again noted the foresight of the current Commission in adopting the Capital Reserve Policy to put aside money for these needs in the future.

Mr. Moritz said going through all the numbers, he found a couple things that may be in the report that he missed, but wanted to be sure discussion about the equity of using debt as a social issue is included. Mr. Moritz added he understands the position members are in due to previous years and he'd like to make a modification/correction in the report itself because it becomes a public document and historically, people will look back at this and it's worth stating why the agency is in this situation financially. Pay as you go would've been the perfect generational way of paying for this. The thing that might be worth inserting for additional information would be the cost per year of debt, both the placement costs as well as the interest costs so it's recognized that the increase in cost is because no money was put aside for a sinking fund. That should set the tone for future Commission's when approaching this and shows pay-as-you-go may be the way to go, versus debt.

Mr. Moritz then noted when looking at the percentage of overall increases each year that there are some years with large increases (15% and 21% are coming in two years) due to debt service needs. This relates to the rate setting requirements and having to face the people who have to pay this. West Bay is starting their annual rate evaluation and had a preliminary discussion at their Board meeting. The preliminary look shows a 5% increase next year. Any time a large percentage amount is dropped on the ratepayers, they get excited and for good reason. Mr. Moritz is thinking that if they adjust numbers this and next year, they may want to be conservative and go to 6% in order save some money to cushion the projected 21% and 15% increases.

Mr. Anderson said he has looked at each member agency's financial state and believes the current revenue at the Member Agencies is doing exactly what Mr. Moritz stated. They have been increasing rates due to the upcoming SVCW CIP needs and have accumulated cash balances that allow them to either pay cash now rather than borrowing (as Redwood City and Belmont did on the last bond sale) or being able to use the cash on hand to soften increases in the future by paying debt service with it. This allows the Member Agencies to take a moderate approach to rate-setting over the coming years and still have adequate revenue to make debt service payments when they increase in the future. Mr. Moritz replied West Bay has been working on a rate-modification model for this very purpose.

Mr. Seybert added this is why Redwood City was able to build up cash and make a big one-time payment by looking to future needs rather than year to year. Mr. Anderson said members have the option to reduce debt requirements by accruing and deploying cash on hand. Mr. Moritz asked Mr. Anderson if he has a calendar of when he expects to go to market for debt and how far will the \$30 Million Line of Credit support this. Mr. Anderson replied the agency currently has approximately \$8 million cash on hand and will probably spend around \$25 Million this year. Mr. Anderson doesn't think the Agency will reach a \$40 to \$50 Million spend rate this coming year based on engineering estimates. He added the Line of Credit could be used, but with the rise in interest rates (currently up 40 basis points)

it may not be the best route. Mr. Anderson is keeping an eye on rates, raising the question of whether SVCW should continue to use the Line of Credit or issue more fixed-rate bonds to meet the Agency's needs for the next year or two. Mr. Anderson will return in late Spring 2017 with a recommendation of next steps.

Mr. Lieberman stated that he supports Commissioner Moritz's comments about trying to make sure the report is written as clearly as possible regarding the impact of not having any kind of reserves on hand when commencing the CIP. He added that having reserves while still ten to twenty years away from needing the money is the best practice for future generations. He emphasized the importance of not using debt and wants future Commissioners informed of what the ultimate goal is of having the money saved.

Mr. Child said the current Reserve Policy has another year or two of a fixed dollar contributions and after that, the policy requires contributions increase over a period of years until they are equal to annual depreciation. This is how the Commission addressed the concerns being voiced today and it was seen as the best way to build the fund into the future. The challenge is to keep future Commissions from seeing what they perceive as a large pot of money and either using it for other purposes or deciding to stop funding it to keep rates low.

Mr. Seybert concluded the presentation by thanking Mr. Anderson and reiterating the importance of having a long-term plan in place by working with the SVCW Member Agencies. He added he agrees fully with the move towards pay-as-you-go and also realizes nutrient removal was not originally forecasted and it is not possible to capture all foreseeable events. Also, in this world, inflation in construction often far outpaces what one can expect in planning for the future. Every little bit helps and if nothing else, it leaves the Commission with many less debt service decisions to face. Mr. Seybert reinforced that the current SVCW Commission is in this position because capital improvements and aging infrastructure weren't addressed since the plant's inception. As a final comment, Mr. Seybert stated that when making decisions one shouldn't shortcut things and at some point, some group has to bite the bullet and quit kicking the can down the road.

Motion/Second: Mr. Grassilli / Mr. Lieberman

Move approval of RECEIPT AND ACCEPTANCE OF SILICON VALLEY CLEAN WATER LONG RANGE FINANCIAL PLAN 2017 UPDATE

The motion carried by unanimous roll call vote.

ITEM 9
CLOSED SESSION

Closed Session was called to order at 9:11 a.m.

A. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
Pursuant to Government Code §54956.9(d)(1)

Case Name: *In the Matter of the Calculation of Final Compensation of David A. Hall, Respondent, and Silicon Valley Clean Water, Respondent* (Board of Administration, California Public Employees' Retirement System, Agency Case No. 2015-1236 OAH NO. 2016030664)

B. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION

Significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of Government Code §54956.9 (12 potential cases): CalPERS' Determination to Exclude Performance Pay from Retirement Benefit Calculations and Opportunity to Appeal Determination

ITEM 10

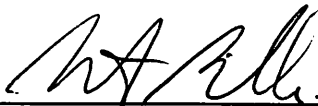
RECONVENE IN OPEN SESSION

Open Session reconvened at 9:27 a.m. Legal Counsel reported that discussion was held, instruction was given to Staff and Counsel by the Commission and no action was taken.

ITEM 11

ADJOURN

There being no further business, the meeting adjourned at 9:29 a.m.



Robert Grassilli, Secretary

By: Daniel T. Child, Manager