

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING**

July 21, 2011 – 7 p.m.

Foster City Community Building, Foster City CA

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:00 pm

BAWSCA Chair, Barbara Pierce, called the meeting to order. Art Jensen, called the roll. Eighteen (18) members of the Board were present, constituting a quorum. A list of directors present (18) and absent (8) is attached.

- 2. Comments by the Chair:** Chair Pierce noted that because Director Quirk is participating in the meeting by teleconference, all votes will be done by roll call vote. She reported that she attended the SFPUC meeting on July 12th and was pleased with the Commission's action on the Water System Improvement program. The Commission accepted all but one of BAWSCA's recommendations addressing issues associated with proposed revisions to project scopes, schedules and budgets. She noted the improved relationship between the SFPUC and BAWSCA, which can be credited to the work of Art Jensen and Ed Harrington and their staffs. Chair Pierce cited how well the WSIP has been managed and controlled as a result of the efforts by the SFPUC, its leadership and its staff, as well as Mr. Jensen and his staff. There is still much work to be done, and the continued diligence of BAWSCA is going to be important.

Chair Pierce reported that the Restore Hetch Hetchy group has demonstrated that they are serious about their goal to restore the valley. BAWSCA takes this issue very seriously and is considering a strategy intensively. BAWSCA's position remains opposed to taking down the dam unless and until an equivalent alternative water supply is in place and the costs have been paid by others.

3. Adjournment to the meeting of the San Francisco Bay Area Regional Water System Financing Authority (RFA)

4. Call to Order following the adjournment of the RFA meeting

- 5. Board Policy Committee Report:** Director Guzzetta addressed the Board on behalf of Committee Chair Larry Klein. The Board Policy Committee discussed four items included in the Board Agenda and voted unanimously to recommend Board approval. He noted that the Committee's unanimous decisions typically result from lengthy debates and discussions that take place during the meeting, and which ultimately result in consensus on how to move forward.

At the June 8th meeting, the Committee discussed the revisions to the Statement of Investment Policy and Rules of the Board, approval of three professional services contracts, and the agency's General Reserve policy.

6. **Public Comments:** Public comments were received from Wynn Greich, resident of Hayward.

7. **Consent Calendar:**

Director Chambers made a motion, seconded by Director Quigg, that recommended Board actions for items A through H under the Consent Calendar be approved by the Board. The motion passed unanimously by roll call vote.

8. **Action Calendar:**

A. Review and Consideration of Changes to the General Reserve Policy: Mr. Jensen reported that the General Reserve Policy was an item of considerable discussion at the Board Policy Committee in June.

Mr. Jensen reported that he consulted a variety of sources in reviewing BAWSCA's existing General Reserve Policy, and stated that the basis of BAWSCA's existing policy is sound and demonstrates responsible management of the agency's reserves.

BAWSCA's General Reserve enables the agency to respond to urgent, unforeseen needs without imposing special assessments on its members or disrupting budget process during the fiscal year. It can also allow the agency to fund one-time expenses and moderate fluctuations in assessments from one year to the next. Mr. Jensen noted that when and if an unexpected need arises, redirecting funds in the current budget is always considered before recommending the use of the reserve to fund all or a portion of the necessary effort.

BAWSCA's unanticipated expenses can potentially come from arbitration in the administration of the Water Sales Agreement, initiation of special studies or audits, engagement in legislative matters, and initiation of, or defense against legal actions.

For a typical water agency, reserves are sized to cover the types of emergency operating conditions that water departments, districts or utilities might encounter. By comparison, BAWSCA has no operating functions, staff or equipment. Because BAWSCA's revenues are based on agency assessments, they are stable and unaffected by emergency situations.

BAWSCA's existing General Reserve Policy has guidelines for maximum and minimum balances. For budgetary purposes, the guideline for the maximum balance in the General Reserve is twenty-five percent (25%) of the current year's Operating Budget, and the guideline for the minimum balance is twenty percent (20%) of the current year's Operating Budget. The minimum serves as a trigger for to rebuild the reserve.

The Committee discussed that the maximum balance may be too low, and that the 5% gap between the maximum and the minimum is too small.

Mr. Jensen reported that the largest single expenditure in a given year was in 1996 by its predecessor organization, the Bay Area Water Users Association. It was to support arbitration that cost \$570,000 for legal and technical work.

Using the upper guideline, 25% of the current Operating Budget for FY2011-12 is \$650,000. The projected Reserve balance at the end of FY 2010-11 is \$900,000 or 34% of the current Operating Budget.

The Committee recommended increasing the maximum guideline to 35%, not to accommodate the number, but with the consideration that a larger amount and a larger gap would be prudent for the agency. The Committee also recommended looking at alternatives the CEO presented for managing a large balance, such as; 1) reducing the size of assessments; 2) refunding a portion of the balance to member agencies; and, 3) investing in a one-time services that add value for the water customers.

Mr. Jensen reported that: (1) in September, he will present to the Board for its consideration, a one-time, value added work product that could be added to the budget and performed in FY 2011-12, and (2) at Mid-year, he will present the Board with the projected General Reserve balance at year-end and alternatives for managing it.

Mr. Jensen emphasized that the Committee discussed the importance of avoiding any appearance that the public's money might be spent merely because it was available.

Director O'Mahony shared that concern and expressed that one of BAWSCA's greatest priorities is protecting Hetch Hetchy and making sure that the dam is not taken down.

Director Pierce stated that addressing the efforts to Restore Hetch Hetchy can be an additional item that can be taken into consideration as the Board looks into what might be valuable and important to the agencies and their customers.

Director McLeod stated that she concurs with those sensitivities and while there is no harm in looking at what efforts would be valuable to the member agencies and their customers, she asked confirmation that no expenses will be made prior to the Board's review of additional expenditures. Mr. Jensen confirmed that the authority to spend any funds on reserve rests with the Board.

Director O'Mahony made a motion, seconded by Director Chambers, that the Board:

- 1. Adopt a resolution to amend the General Reserve Policy so that the guideline for the range in the General Reserve is changed from 20%-25% to 20%-35%;**
- 2. Advise the CEO to present the options for potential uses of the reserve funds to conduct work not budgeted for FY 2011-12, including why current water use is low and additional concerns in drought years, as well as addressing the efforts of restoring Hetch Hetchy, for the Committee's discussion in August, and for possible Board action in September; and,**
- 3. Review the projected state of the reserve and alternatives of managing the reserve balance at mid-year prior to developing the FY 2012-13 budget.**

The motion passed by roll call vote.

- B. Review and Consideration of Changes to the Rules of the Board: Mr. Jensen reported that Hanson Bridgett reviewed the Rules of the Board and recommended changes that

were discussed by the Board Policy Committee in June. The Committee's discussion is summarized in the BPC Summary Report and the four changes are described in the staff memo included in the agenda packet.

Mr. Jensen noted that an additional suggestion by Director Quirk was to authorize the Board to allow the authority of the Chair or Vice-Chair of the Committee to conduct a meeting as limited to the meeting itself, and for the Board to provide more authority to the Chair and Vice-Chair, if it were appropriate. Legal counsel advised that the Board already has a broad authority and that citing specifics could make it appear that the Board only had authorities that were specified in the Rules.

Director Abrica made a motion, seconded by Director Quigg, that the Rules of the Board be amended to:

- 1. Add a process for filling vacancies of the Vice Chair;**
- 2. Authorize the Chair or Vice-Chair of the Board Policy Committee to conduct a Board meeting in the absence of the Chair and Vice-Chair of the Board;**
- 3. Cite the Board Policy Committee as a standing Committee;**
- 4. Adjust weighted voting to reflect acquisition of two agencies by a third.**

The motion passed by roll call vote.

- 9. SFPUC Report:** Deputy SFPUC General Manager, Michael Carlin, addressed the Board on behalf of Ed Harrington. The SFPUC water supply operations are managing Summer runoff into the Sierra reservoirs. The current level of runoff has been challenging for the Operations Staff and has caused minor variations in water quality.

Mr. Carlin reported that the SFPUC recently dedicated its new ultraviolet disinfection station in Tesla, at the western side of the Central Valley. The new facilities provide a second, non-chemical form of disinfection. The new disinfection process will treat all of the water that comes from Hetch Hetchy Reservoir.

On Monday, July 25th the SFPUC will launch the tunnel boring machine that will dig a 5-mile tunnel under the San Francisco Bay. The SFPUC looks forward to seeing BAWSCA staff and Board members at the event.

Mr. Carlin reported that \$602 million of bonds were sold for the WSIP at a favorable 4.48% interest rate. The interest rate will be as low as 3.7% on some shorter-term borrowing. This low cost financing translates to about \$18 million in savings for water customers.

In response to a question from Director Guzzetta, Mr. Carlin reported that the duration of the 4.48% bonds is an average of 22 years. The 3.7% is on the "D-bond series."

Mr. Carlin noted that moving forward and completing the re-build of the system to ensure a reliable source of supply is important to the SFPUC. Talk about alternative supplies to the regional system is taken very seriously and closely monitored by the SFPUC. Recently, the

SFPUC countered language included in a bill put before Congress that talked about the Hetch Hetchy system supplying more water to the Delta. Mr. Carlin urged BAWSCA and its member agencies to protect Hetch Hetchy and the regional water supply.

In response to Director Fergusson's question, Mr. Carlin reported that the so-called "Granny" tree in Menlo Park currently remains unsolved. The SFPUC is looking at micro-burrowing under the tree with a pipe, and has asked neighbors to form a non-profit association to maintain the tree.

In closing, Mr. Carlin expressed his condolences for the loss of BAWSCA Director Ron Swegles.

10. Reports and Discussions:

- A. SFPUC Water Supply Improvement Program (WSIP) - Update: Mr. Jensen reported that at its meeting on July 12th, the Commission adopted changes to the WSIP project scopes, schedules and budgets. The Commission amended the proposed resolution to include 9 of BAWSCA's 10 recommendations, which addressed project scopes and clarification of specific items.

Mr. Jensen reported that the program completion date is delayed by eight months, moving the date from December 2015 to July 2016. The eight-month delay is significant for several reasons. First, it is important because it exposes customers to potential water outages by an additional six months.

Secondly, the 2009 Water Supply Agreement states that the SFPUC will complete the WSIP by December 31, 2015. The delay approved by the Commission is inconsistent with this provision in the Agreement. Mr. Jensen reported that the Commission acknowledged the concern and directed staff to work with BAWSCA and its wholesale customers to address the contractual matter. BAWSCA served as an agent for all wholesale customers in the negotiation of the Agreement, and will continue to work with the agencies and the necessary policy actions they need to take. Any action to modify the Agreement would not be an action by the BAWSCA Board, but of the individual agencies. The BAWSCA Board's policy action would be to authorize resources needed to negotiate on behalf of the member agencies with San Francisco.

The SFPUC's revised budget for the WSIP is now below the budget adopted in 2009 due to favorable bond interest rates and savings achieved in a favorable bidding environment. One of BAWSCA's recommendations was for the SFPUC to clarify how water customers would realize those savings. The SFPUC clarified that if money is not needed it will not be spent, and water rates for customers outside and inside of San Francisco would not need to be raised as high as originally estimated..

Mr. Jensen reported that the Commission did not incorporate BAWSCA's recommendation to have the SFPUC staff provide information on the significance of the schedule extension to public health and safety. BAWSCA is not concerned because the State must make such an assessment during its review.

Senior Administrative Analyst, John Ummel and BAWSCA's technical consultants regularly review the SFPUC's construction contract awards. Mr. Ummel completed a report that updates the engineer estimates and contract award data for the previous 18 months and presents final cost information and construction duration times for completed projects to date.

Mr. Jensen reported that the analysis of SFPUC's contract awards is positive. Contracts awarded since 2005 average 18% less than the engineers' estimates, and contracts awarded since January 2010 remain an average of 18% below the engineers' estimates. Other water utilities and waste water utilities in California are experiencing comparable savings.

Because competition between contractors can result in lower construction costs, BAWSCA also tracks how many bids the SFPUC receives on each project. The SFPUC received an average of 6 bids per project, which is good.

To determine whether contractors are bidding low and requesting additional costs later, BAWSCA tracks whether the total cost of each project is significantly higher than the contractors' bids. The analysis shows that completed projects averaged only 4% higher than the bids, and 12% below the original construction budget, which is good.

Seven out of 15 projects were completed on or ahead of schedule. Eight projects were completed later at an average delay of 15 weeks for a variety of reasons.

Mr. Jensen stated that the overall program is 40% complete in terms of construction, but some of the major projects are yet to begin or be completed. This includes the Bay Tunnel, Irvington Tunnel, Harry Tracy Treatment Plant, Crystal Springs Dam, and the Peninsula Pipeline. BAWSCA and SFPUC will continue to watch costs and schedules diligently. Mr. Jensen emphasized that the size and complexity of the projects that have yet to be completed deserve particular attention during the coming years.

Several photos taken at the June 23rd SFPUC Tour of the WSIP project sites for BAWSCA Board of Directors were shared with the Board. Mr. Jensen stated that the projects and overall progress is very impressive. The people working on the projects are enthusiastic and are excited to be building facilities that will give them greater confidence that water will continue to be delivered reliably after an earthquake. Mr. Jensen complimented San Francisco for the change in the culture of the SFPUC.

In response to Director Quigg's comment about the cost of the tunnel boring machine, Mr. Jensen stated that the parts for the machine will be scavenged after its one-time use.

Mr. Jensen encouraged members of the Board to visit project sites when they can, as it is fascinating to watch the progress of the program.

- B. Long-Term Reliable Water Supply Strategy – Schedule for Policy Decisions: Mr. Jensen reported that the schedule for the Strategy has been slowed down so that staff and consultants can reassess long-term water supply needs based on the agencies' recent

Urban Water Management Plans (UWMP) and the current decrease in water use. This schedule change was anticipated and reported to the Board last Spring.

Total water demand in recent years is significantly lower than prior projections, and it is prudent to examine each agencies' updated UWMP's for internal consistency. It is critical that the projections used by BAWSCA be suitable for regional planning. This review and assessment will be completed and reported to the Board this Fall.

Revisions needed to the scope and schedule of the Strategy will be examined in the Fall/Winter 2011.

Director O'Connell emphasized that the total water demand Mr. Jensen presented in his graph is just total demand and not per capita water use. Even though the population has increased, the demand has gone down significantly. Mr. Jensen clarified that the 220 mgd also represents BAWSCA's total demand, and not just the amount of water purchased from San Francisco.

In response to a question from Director Abrica, Mr. Jensen explained that agency-identified potential regional water supply projects are projects that individual agencies said they may want to undertake independently or may want BAWSCA to consider as the regional plan is developed, and that could benefit one or more agencies. In contrast, regional projects are ones BAWSCA has identified and that could be implemented to serve multiple agencies.

Phase IIA of the Strategy will compile information on the projects agencies want BAWSCA to consider and review for their feasibility.

Director Weed commented that some local development projects are being challenged on the basis of water supply availability. He would be interested in the Board Policy Committee discussing what role, if any, BAWSCA would have in local arguments about growth or perhaps remove water as a limitation on future development and growth in an area.

Mr. Jensen stated that the Committee could discuss these issues, but that BAWSCA has not engaged in local land use decision making because that is not within BAWSCA's area of authority or expertise. He added that whether a local agency has sufficient or insufficient water resources depends on which jurisdiction is examined. There some agencies that are at or near their contractual limits, and others which are not.

Director Weed noted that there may some agencies that have water to sell.

Director Fergusson commented that an analysis of why water consumption is low is important in answering the policy question of whether water should be a limiting factor.

Director McLeod noted that many cities have alternative supply sources that might be more economical to tap. She cautioned against drawing firm conclusions based on the initial and obvious trends.

Mr. Jensen concurred, and added that the trend is not unique to the service area, but is also happening throughout the State.

Director Coverdell suggested adding a line to the graph that shows the use of SFPUC water.

Director Pierce commented that ABAG has become aware that water is an issue for some cities, and that BAWSCA and the SFPUC will be providing them information for their understanding. Mr. Jensen stated that the objective is to inform and clarify.

Director Weed added that it is important to look at the regional water supply. Water has increasing marketability and if the disparities and availability of water are merely economic issues, and not of physical water supply restrictions, then apparent shortages could be overcome. He said water should not be used as an excuse to deny development in California.

Mr. Jensen stated that the Water Supply Agreement with San Francisco does permit agencies to transfer a portion of their contractual water entitlements. He said whether such transfers take place is both an economic issue and political issue.

- C. Water Conservation: Mr. Jensen reported that the Bay Area's regional grant application for Prop 84 funds was successful and a formal notification from the Department of Water Resources is expected. Following formal notification is the negotiation of an agreement with the State of California for the use of the funds. This is expected to be finalized in Spring 2012. The grant will directly benefit up to 24,000 water customers in the BAWSCA service area through the Washing Machine Rebate Program, the High Efficiency Toilet Replacement Program, and the Lawn Replacement Program. Activities since July 2011 should be eligible for reimbursement.

Grant funds totaling \$863,000 for BAWSCA are expected to be available in July 2012. Mr. Jensen presented a graph that shows the dollar allocation for each program. He noted that the grant dollars are in addition to the agencies' budgets and BAWSCA's subscription program budget for conservation.

The Landscape Education Program is being modified to include hands-on workshops in response to requests from agencies and water customers in the service area. BAWSCA is working on partnerships to increase effectiveness in community outreach and implementation, and to reduce overall costs.

- 11. Directors' Discussion:** Director Wykoff encouraged a visit to Yosemite to see the Tuolumne River flow, the falls and the water.

12. Date, Time and Location of Next Meeting: The next meeting is scheduled on September 15, 2011, in the Wind Room, Foster City Community Center.

13. Adjournment: Chair Pierce moved to adjourn the meeting in memory of the late Director Ron Swegles. She had the privilege to work with Director Swegles on the Peninsula Division of the League of California Cities, and praised his commitment to community service, his fine spirit and constructive attitude. Director McLeod seconded the motion. The motion passed unanimously. The meeting was adjourned at 8:30 pm in memory of the late Director Swegles.

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
July 21, 2011**

Attendance Roster

Present:

Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Cyril Bologoff	City of Brisbane
Randy Breault	Guadalupe Valley Water District
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
Kelly Fergusson	City of Menlo Park
Rob Guzzetta	California Water Service Company
Jamie McLeod	City of Santa Clara
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District
Rick Wykoff	City of Foster City

Absent:

Armando Gomez	City of Milpitas
Michael Guingona	City of Daly City
Mike Kasperzak	City of Mountain View
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
Chuck Reed	City of San Jose
Vacant	Stanford
Vacant	City of Sunnyvale