

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
September 15, 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. Fifteen (15) members of the Board were present, constituting a quorum. A list of directors present (15) and absent (11) is attached.

2. Comments by the Chair: Chair Pierce noted the continued emphasis on the critical issues BAWSCA must address; ensuring the region's access to adequate and reliable water supplies, water conservation, monitoring the huge expenditures for the WSIP and its completion on scope, schedule and budget, and finally, protecting the health and safety and economic well-being of our water users in the face of Restore Hetch Hetchy's plan to offer a charter amendment for San Francisco voters to drain the reservoir.

It is critical that the board supports the CEO and his staff in their efforts to address these challenges as efficiently as possible for the member agencies and their customers.

BAWSCA's position on the efforts to restore Hetch Hetchy remains the same. BAWSCA is opposed to draining the reservoir or changing the operation of the system unless and until an acceptable alternative has been provided, the costs paid for outside of the BAWSCA constituency, legal agreements are in place, and water of the same quality is coming out of the taps.

3. Board Policy Committee Report: Committee Chair Larry Klein reported that the committee had a rigorous and creative discussion about what to do with a reserve balance that is currently in excess of the agency's guidelines, and what budgeting process is appropriate to avoid a continuing growth in the general reserve. The two financial issues are rare, but reassuring to have in the current economic conditions. The discussions are reflected in the meeting's summary report.

4. Public Comments: Public comments were received from Wynn Grcich, resident of Hayward.

5. Consent Calendar:

Director O'Mahony made a motion, seconded by Director Vella, to approve the Minutes of the July 21, 2011 meeting, and receive and file the Pre-Audit Budget Status Report and Investment Report for period ending June 30, 2011. The motion carried unanimously.

6. SFPUC Report: SFPUC General Manager, Ed Harrington reported the progress of the Water System Improvement Program (WSIP). He was pleased to report that construction

of the Calaveras Dam Project, the last mega project, will kick off on September 19th. It will be completed in 2015. The completion of the entire WSIP will occur in 2016.

One of the more difficult projects in the program is Bay Division Pipeline #5. It will be a combination of tunnels and high pipelines going under the Bay and through neighborhoods and other constricted right-of-ways. It has had a variety of issues such as encountering archeological findings during construction, being too close to a Union Pacific railroad track support, and a community interests in an old tree planted in the right-of-way..

In addition, some areas have the potential to experience considerable liquefaction, and the need to conduct a meticulous check of every weld to ensure the integrity of the high pressure water system. In some construction areas the ground has stayed open much longer than expected and the SFPUC is beginning to receive complaints from people in the area. Mr. Harrington said that complaints member agencies may receive can be forwarded to the SFPUC. Further reports on the project will be provided as the project moves along.

Mr. Harrington reported that last Spring's wholesale water rate increase was based on an estimated 140 mgd wholesale delivery through September 2011. While the increase was expected due to borrowing related to the WSIP, it was also affected by the reduced water usage in the system. The Commission had discussed that if water usage decreased below 135 mgd, the rates would have to raised further.

Mr. Harrington reported that water usage will have dropped to 141 mgd, and therefore the rates would not change. However, if water usage drops to below 140 mgd for the next year, the SFPUC will have to consider additional ways to make up the difference between the cost to operate the system and the revenue earned based on usage.

The SFPUC will be doing a study on what factors might be causing the decrease in water use.

Director Kasten asked if there has been consideration of developing a formula for water rates that takes into account the fixed costs and the variable costs. He noted that the more customers conserve, the more they are punished with higher rates and therefore, it becomes more difficult to justify rate increases.

Mr. Harrington acknowledged that it was a difficult issue because for retail customers, passing along the fixed cost as a large component of the water rate diminishes conservation encouragement.

For wholesale customers, several considerations have been previously discussed including rates based on a multiyear average of use, the previous year's usage, or looking at other variables. However, they have not been seen as universally fair for everyone.

David Briggs, SFPUC Division Manager for Water Supply and Treatment reported that a shutdown of the San Joaquin pipelines for thirty days will take place in December. What makes this shutdown different from the others is the thirty-day duration which requires additional planning. Local filter plants and resources will supply the system during the shutdown of San Joaquin pipeline. No major issues are anticipated. The SFPUC will be working closely with the wholesale customers and will meet on November 18th, as well as one-one-one, where needed, to discuss the plan to minimize the risk of service disruptions.

Mr. Briggs reported that following work with PG&E, the SFPUC has confirmed the locations of PG&E's pipelines relative to SFPUC pipelines and facilities. There are approximately sixty places where PG&E pipelines cross the SFPUC's water system. Of the sixty, fifteen are large diameter pipelines of twenty inches or more in diameter. The SFPUC will focus on assessing the risks on those fifteen locations and expects that two or three of the fifteen will require close inspection and verification. The SFPUC is currently in the initial assessment phase, and will be moving into a risk and engineering phase.

Director O'Connell asked if the SFPUC will be making recommendations to PG&E and whether the SFPUC will need help from the jurisdictions that the pipes are in to help encourage PG&E to take action sooner than later.

Mr. Briggs explained that the SFPUC will have a lot of leverage with PG&E according to the terms of pipeline easements, if they are jeopardizing the SFPUC's ability to deliver water. The SFPUC can apply pressure if the PG&E pipeline is not to standard.

In response to a question from Director Pierce, Mr. Briggs stated that the SFPUC will determine the pipes' vulnerability by looking at the geometry, reviewing PG&E's construction and maintenance records.

Director O'Connell encouraged the SFPUC to be diligent in their review.

7. Action Calendar:

- A. Management of the General Reserve Balance: Mr. Jensen reported that in July, the Board increased the maximum guideline for the General Reserve and asked for a report on what beneficial use might be made of a portion of the reserve for a study or a project that would add value to the water customers. The Board also asked that alternatives for managing the general reserve balance be presented at mid-year.

One of the recommendations that resulted from discussion with the Board Policy Committee in August is to refund a portion of the balance to the agencies this Fall.

Mr. Jensen explained that unspent budget varies each year but is typically about 14% percent of the Operating Budget. The unspent funds are deposited in the general Reserve after the books are closed each fiscal year.

A good portion of the savings occur in budget for as-needed consultant services. The amount of unspent money at the end of each year can be reduced through modified budget planning. Mr. Jensen explained that the budget allocation for the as-needed consultants can be reduced to decrease the 14 percent under spending to approximately 5 percent. A contingency pool can be created for the professional services portion of the budget that the CEO can be given the latitude to use if and when needed.

Other options include reducing assessments, investing in a one-time service that provide value to the customers, refunding agencies the excess reserve amount, or allowing the balance to exceed the guideline temporarily, provided there is a compelling reason to do so and that there is a plan to reduce the balance on a specified schedule.

Mr. Jensen stated that reducing assessments can create year-to-year fluctuations. An investment on a one-time project should only be done for the true added value brought

to the water customers and not for the sake of spending the money. Refunding agencies the excess in the reserve balance should not be done as a yearly practice, but applied if proven to be the right choice.

The current estimate of last year's unspent budget will bring the General Reserve to at least \$117,000 above the maximum General Reserve guideline of 35 percent of the Operating Budget. The Committee felt that refunding the agencies the excess amount was the right thing to do.

Mr. Jensen presented the recommendation with slight modifications, but with the same intent and content that the Committee recommends.

In response to Director Weed's question about the consideration of a multi-year workplan, Mr. Jensen explained that BAWSCA does not have the large operating expenditures of a typical water agency. As a result, the variations in the levels of legal and technical work the agency does make it difficult to develop a reliable multi-year budget estimate.

Director Klein made a motion, seconded by Director Gomez, to:

- 1) Authorize the CEO to refund to the agencies the excess General Reserve balance above the 35 percent guideline of the Operating Budget in November 2011, based on the balance determined using the results for the FY 2010-11 Audit to be finalized in November;**
- 2) Receive an updated report from the CEO at mid-year that includes information on projected FY 2011-12 spending levels, the projected year-end General Reserve balance, the emergence of issues that would require modifications of the existing Work Plan and Operating Budget, as well as factors that should be considered during preparation of the FY 2012-13 Work Plan, Operating Budget and funding plan;**
- 3) Receive, as part of developing and presenting the preliminary Operating Budget for FY 2012-13, a list of results needing to be achieved during FY 2012-13, a preliminary Work Plan, an estimate of the cost of resources needed to achieve those results, a plan for managing the General Reserve balance and a preliminary funding plan. The Board Policy Committee suggests considering a target of reducing assessments by eight percent.**

The motion carried unanimously.

- 8. Reports and Discussions:** Mr. Jensen addressed a statement that was made during public comment about t BAWSCA giving \$140,000 for a study on chloramines. He clarified that no such transaction has ever been made. Mr. Jensen also responded to Director O'Connell's comment to Mr. Briggs about PG&E. He noted that if political pressure is needed to push PG&E to do what is right for the service area of the regional water system, BAWSCA and the SFPUC will work together to achieve the desired results.
 - A. Development of a Statistical Tool to Examine Causes of Decreased Water Use: Mr. Jensen reported that in response to the Board's interest on what investment might be made of a portion of the General Reserve that would offer added value to the water

customers, BAWSCA looked into a study of why water demand has decreased throughout California and the Bay Area.

One potential value of the study would include additional insight into why demand had fallen and avoiding over- or under- investing in new water supplies. The results of the study might also be useful to agencies when looking at long-term rate plans, resulting in stabilizing.

BAWSCA reviewed studies done for San Diego and Los Angeles and presented the findings at the August Board Policy Committee meeting. While the study may provide insights at a regional level, members of the Committee questioned whether the study would provide useful information to local agencies. The Committee found no compelling reasons to move forward with a study. No action is recommended to the Board.

Mr. Jensen reported that the SFPUC is considering conducting a similar study. If SFPUC's study includes the entire service area, a recommendation would be for BAWSCA to work closely with the SFPUC to coordinate data collection and so that the conclusions drawn from the results would be appropriate to the wholesale customers. Mr. Jensen also noted that if SFPUC's study moves forward to include the entire service area, the wholesale customers would be paying a portion of the study.

In response to Director O'Mahony's question, Mr. Jensen reported that EBMUD or other Bay Area agencies have not done such a study.

Director Weed commented that the decrease in water consumption is a statewide phenomenon and is being evaluated in a number of levels because it has had a dramatic impact on the revenues of many districts. The Association of California Water Agencies will have this on its agenda for its December meeting.

- B. Water System Improvement Program - Report: Ms. Sandkulla reported that BAWSCA is reviewing four reports from the SFPUC on the WSIP. They include the Quarterly Report for 4th Quarter of FY 2010-11, two reports required by AB 1823, and an SFPUC report on the maintenance of water Supply Level of Service Goals and the 2018 SFPUC Decision.

BAWSCA will be commenting on the reports in the forms of a letter to the SFPUC or the State, or interactions with SFPUC staff to resolve any issues found. Written comments will be provided to the Board and member agencies.

Ms. Sandkulla stated that the Quarterly Report shows progress against the revised WSIP that was adopted by the Commission in July 2011 while the report is for the period of April through June 2011. The timing results in some inconsistencies that BAWSCA is clarifying with the SFPUC. One of BAWSCA's recommendations would be to align the report with the timing of program modifications to avoid confusion. Ms. Sandkulla noted that the integrity of the reports is important for building and maintaining confidence that the SFPUC is doing its job correctly and reporting progress transparently.

Two reports required by AB1823 are the Notice of Changes to the WSIP submitted to the State on September 1st, and the FY 2010-11 Annual Report to the State due each September 1st.

The Notice of Changes report includes the comments BAWSCA presented to the Commission at its public hearing in July. The SFPUC submitted the report to the California Seismic Safety Commission (CSSC) and Department of Public Health (DPH) which are both tasked with determining whether the changes have increased risks to public health and safety. Their review and comments are due to the Joint Legislative Audit Committee within 90 days of their receipt.

In the past, both CSSC and DPH have asked questions and requested comments from BAWSCA.

The Annual Progress Report on the WSIP is due to the State by September 1st regardless of whether or not there are changes to the program. It is a key document submitted to the State and is a report that BAWSCA reviews very closely. Ms. Sandkulla noted that the report has improved over the last few years.

Like the Quarterly Report, an oddity in the Annual Report is that it presents progress made during FY 2010-11 but compares that progress against the schedule that was adopted by the Commission in July. BAWSCA has made suggestions to the SFPUC on the report content and format, and for this report, BAWSCA recommended they include a comparison with the schedule that existed before the new schedule was adopted. The SFPUC did not incorporate that recommendation.

The fourth report is a staff memo addressed to the Commission on the issue of how the SFPUC will meet the Level of Service (LOS) Goals for water supply and drought reliability by the completion of the WSIP. Ms. Sandkulla explained that there were increased fishery flow requirements for the creeks downstream of the Calaveras and Crystal Springs dams. The report provides a status report on SFPUC's investigation of how it will meet the LOS goals. SFPUC staff will report back to the Commission at the end of January 2012 with a recommended action plan and a schedule. BAWSCA will closely review the upcoming report and provide written comments which will be shared with the Board and member agency representatives.

- C. Water Supply Agreement: The Water Supply Agreement has completed its 2nd year of implementation with all deadlines and milestones being met. BAWSCA will begin working with the SFPUC in advance of the next wholesale water rate setting to address potential issues.

Mr. Jensen noted that the CEO letter reports the progress on the annual review of accounting and cost allocation for FY 2008-09 and FY 2009-10.

- D. BAWSCA Communication with Agencies Regarding Technical Matters: Mr. Jensen described how BAWSCA coordinates technical work with the staff of member agencies. Currently, BAWSCA has three active committees, including one policy

committee and two technical committees. The Board Policy Committee deals with policy issues that are brought before the Board and comprises Board Members.

The Water Supply Management Committee comprises agency-appointed technical staff from each agency and addresses technical matters. Those representatives also provide input on BAWSCA activities that result in decisions made by the governing bodies of the individual agencies. An example is the Drought Allocation Plan.

The Water Quality Committee, established by the Water Supply Agreement, is a joint committee comprising staff of the BAWSCA member agencies and the SFPUC. It is chaired alternately by a BAWSCA member agency staff person and a SFPUC's staff person. The committee is not BAWSCA's committee, but Mr. Jensen noted that he works closely with the member agency persons serving as committee chair or vice chair.

- E. Process and Schedule for CEO Evaluation: Chair Pierce reported that a packet for the CEO's Performance Evaluation will be distributed to the Board by the end of September. Unlike past evaluations, Chair Pierce noted that the entire Board will be involved in the process. The CEO has been asked to provide a summary of his work in relation to the agreed upon goals of his job and criteria for measuring his performance. This report will be included in the packet that will be distributed to the Board along with the Evaluation Form and Evaluation Procedure.

Chair Pierce urged members of the Board to respond promptly. The formal evaluation will be conducted in Closed Session as part of the November meeting.

Director O'Connell suggested adding an opportunity for Directors to comment on things they would like to change in how things are done, what works and what doesn't. She thought the evaluation form would be an appropriate place to put this as the Directors think about how the CEO interacts with the Board.

- 9. Directors' Discussion:** Director Weed noted his amazement with the evolution of the issues that wholesale customers have been concerned with and commended Mr. Harrington and his staff for the extraordinary achievement with the WSIP. He noted that there was a time when he didn't believe it was possible, but the SFPUC is excelling with the schedule and completion of the program.

He also noted the clear and present danger of the efforts to restore or drain Hetch Hetchy Valley. He encourages the Board Policy Committee to examine ways to work with the SFPUC to show how extraordinary the regional water system is and what a loss it would be if it were to be seriously damaged. He said part of effort could include tours of the system so the public can appreciate the system, realize its regional importance and the threat this effort represents. It would be to everyone's interest if BAWSCA, as an organization, worked with SFPUC in promoting this public information.

10. Date, Time and Location of Next Meeting: The next meeting is scheduled on November 17, 2011, in the Wind Room, Foster City Community Center.

11. Adjournment:

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer

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Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
September 15, 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
Ken Coverdell	Coastside County Water District
Armando Gomez	City of Milpitas
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
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
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District
Rick Wykoff	City of Foster City

Absent:

Tom Chambers	Westborough Water District
Kelly Fergusson	City of Menlo Park
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Mike Kasperzak	City of Mountain View
Marty Laporte	Stanford
Jamie McLeod	City of Santa Clara
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Chuck Reed	City of San Jose
Vacant	City of Sunnyvale