

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY  
BOARD OF DIRECTORS MEETING  
March 18, 2004 – 7 p.m.  
Audubon School, 841 Gull Ave., Foster City, CA**

**MINUTES**

**1. Call to Order/Pledge of Allegiance/Roll Call --7:05 p.m.**

Vice-Chair Bern Beecham called the meeting to order and led the flag salute. Acting Secretary Art Jensen called the roll. Twenty-three (23) members were initially present, constituting a quorum. Additional members arrived after roll call. A list of directors present (26) and absent (2) is attached.

**2. Comments by Vice-Chair:** Mr. Beecham offered an apology for Ira Ruskin's absence, noting he is at a Transportation hearing and will join the meeting as soon as possible. He recognized John Fannon, newly appointed director from the Town of Hillsborough, who replaces Jean Auer. He stated that an appointment to fill Mrs. Auer's vacancy on the Start-up Advisory Committee is being considered and will be announced at a future date.

He also noted that an appointment to the San Francisco Bond Oversight Committee will be brought to the Board for consideration. Currently BAWSCA is represented by Patrick Sweetland of Daly City, who is Vice-Chair of the Committee. The Start-up Advisory Committee has recommended that BAWSCA's appointment to the committee be a director.

**3. SFPUC Report:** Because SFPUC General Manager Pat Martel had not yet arrived, the Vice-Chair stated that he would proceed to the next items, but would take up Ms. Martel's report as soon as she arrived.

**4. Public Comments:** None.

**5. Consent Calendar:** In addition to the Minutes of the February 19 meeting, the Consent Calendar included a recommended Government Claims Form developed by legal counsel's firm for compliance with the Tort Claims Act. The following corrections to the Minutes were noted: 1) Incorrect header date; 2) Correct typographical error in final paragraph of item B-4; 3) Insert questions by Randy Breault following presentation by Brown & Caldwell (Item 7-C).

**M/S/C (O'Mahony/Hershman) that the Minutes be approved subject to correction as noted.**

**6. Reports**

A. Start-Up Advisory Committee Report: Committee Chair Aldyth Parle reported that the Committee is making progress on schedule. They are planning to discuss the possibility of recommending a reduction in the number of BAWSCA board meeting

to every other month or some other less intensive schedule to allow the general manager and staff to spend more time working towards getting results.

- B. General Manager's Report: Referring to the Policy Calendar item on the SFPUC Report on how soon risk will be reduced, Mr. Jensen noted that this report had been promised to the BAWSCA Board this spring. The authorization to proceed on the contract for this work was signed on January 29 and delivered to the consultant this week, a delay of 7 weeks. The project schedule on the contract is 6 months, meaning that this work would not be completed until September. However, the SFPUC is expected to approve revised projects schedules for the projects in the CIP this coming July, so they would not have the benefit of the risk reduction study and clarification from Pat Martel.

With respect to spending and material progress projections, the PUC has been very open with information.

He also reported that the pending arbitration has been settled in BAWSCA's favor. The total settlement amount is \$3.2 million. The Board will receive an oral report at the next meeting.

The next meeting of the Bond Oversight Committee will be April 5. Patrick Sweetland will continue to serve as the BAWUA representative to that committee until the BAWSCA Board decides to appoint someone else. BAWSCA Board members are welcome to attend the Bond Oversight meetings as observers.

Mr. Jensen provided a brief report on BAWSCA's current year budget. Expenditures through February are slightly above \$1 million, and projected expenditures for year-end are \$1.63 million, or 10% less than the budget of \$1.821 million. Under current policy, the 10% surplus would go into the general reserve and would be available to fund future budgets or other activities at the Board's discretion. The projected surplus is primarily attributable to salary savings and small amounts over a variety of consultant and other expense categories.

An adjustment to the legal counsel budget will be requested in April, since expenditures are projected to exceed the budget by about \$45,000. Also in April, the board will be asked to authorize the expenditure of up to the full budget of \$90,000 for Bud Wendell. Mr. Wendell's contract requires board authorization to proceed beyond \$60,000, and expenses are about to hit that threshold.

Director Kinney asked whether the arbitration settlement could be utilized to offset the increased legal expenses. Mr. Jensen responded that the provisions of the Master Contract require that arbitration settlements be deposited into the "balancing account," which benefits ratepayers by reducing the wholesale cost of water. Reporting on the SFPUC Budget Status, Mr. Jensen said that the San Francisco Board of Supervisors is expected to approve the FY 2004-05 budget in June. BAWSCA will continue to track the budget for any changes that may be made prior to final approval. Mr. Jensen also announced that there will be a special SFPUC hearing on March 29 to discuss the SFPUC's organization-wide performance assessment,

strategic business plan, reorganization, and water supplies and storage. The meeting will be held at the Prescott Hotel on Post Street in San Francisco.

C. Results to be Achieved in FY 2004-05 and Preliminary Budget: As Mr. Jensen was about to begin his presentation, SFPUC General Manager Pat Martel arrived. Mr. Jensen yielded the floor to Ms. Martel to make her report.

3. **SFPUC Report (taken out of order):** SFPUC General Manager Pat Martel opened her remarks with an update on the proposal to increase San Francisco's Hetch Hetchy fees from \$30,000 to \$8 million per year. She said the fee is being characterized as a "rental payment," but no explanation has been provided for what the rent is for. There is no precedent for a fee of this magnitude, and the Federal Power Act exempts municipalities from such fees. Rep. Nancy Pelosi sent a letter protesting the fee to the House Budget Committee and both she and Diane Feinstein sent comments to the leadership in the House and Senate. Copies of that correspondence will be provided to BAWSCA. If the fee is approved, it will result in increases not only to water customers in San Francisco but also to the wholesale customers and to the Modesto and Turlock Irrigation Districts. Everyone has something at stake with this particular issue, and San Francisco is leading the effort on behalf of its customers, but in the end it may require everyone making calls and sending letters directly to Washington.

Regarding reporting on CIP progress, Ms. Martel said that the SFPUC is preparing monthly, quarterly and annual reports, and noted that BAWSCA staff attend monthly CIP progress meetings. These reports will specifically address actual versus planned progress, and dollar amounts allocated and expended. There will be a monthly report containing greater detail on specific projects and any kind of changes beyond just the schedule and the project amount and percentage value of completion. These reports are being shared with BAWSCA staff, and she offered that copies of any reports provided to the PUC could be provided to the BAWSCA board as well.

Asked about the timing for the Hetch Hetchy fee issue, Ms. Martel said that they are hoping to get the fee removed from the House budget within the next 30 to 45 days before the final version goes to the Senate. Asked whether the additional effort to overturn the proposed Hetch Hetchy fee would have any financial impact on BAWSCA, Ms. Martel indicated that most of the costs of were associated with the government affairs budget, which is paid by both San Francisco and its customers for having their water interests represented in Washington. Since staff are assigned to legislative responsibilities on an ongoing basis, she doesn't expect anything beyond the normal costs.

Asked why the Notice to Proceed for the Phase II Risk Study was not received until 7 weeks after the contract was signed, Ms. Martel apologized and said a delay of three weeks resulted from an internal communications error. The consultant says the project can get back on track without any problems.

6. **Reports, continued:** Vice-Chair Bern Beecham noted that Chair Ira Ruskin had joined the meeting and turned the meeting over to him. Mr. Ruskin requested that Mr. Jensen continue with item C.

- C. Results to be Achieved in FY 2004-05 and Preliminary Budget: Mr. Jensen requested the Board's input on results to be achieved next year and whether the proposed results are clear and are the things they think the organization should do. He also requested Board input on whether the preliminary budget estimate is in line with the value of those results. The budget is zero-based and was developed by staff, with input from legal counsel and strategic counsel.

Nine proposed results to be achieved next year include: 1) Manage present Master Contract; 2) Prepare for and begin negotiation of next contract with San Francisco; 3) Press San Francisco to meet its schedule and the requirements of AB 1823 to rebuild the regional system; 4) Maintain close relationships with allies; 5) Create a strong, positive water conservation identity for BAWSCA; 6) Share information with communities about and encourage their preparedness for possible consequences of long-term water outages of the Hetch Hetchy system; 7) maintaining dialogue with environmental groups; 8) supporting identification and implementation of water supply, and water saving alternatives; and 9) manage the activities of the Agency.

A breakdown of the proposed \$1.858 million budget for FY 2004-05 allocates \$427,000 to Reliable Supply, \$449,000 to Fair Pricing, and \$982,000 to administration. Exclusive of administration, 70% of staff time is allocated to managing the existing contract, developing a new contract, and implementation of the CIP; 20-25% is allocated to maintaining BAWSCA's power base and water conservation assistance; and less than 10% is allocated to the remaining issues. Among items the proposed budget does not include are costs for issuance of bonds, arbitration, contributions to regional desalination studies, legislation, or changes in the size or location of office space.

Mr. Jensen reviewed how the current year budget was funded, and noted that as a result of anticipated savings that would be deposited to the General Reserve, there would be approximately \$450,000 available in the General Reserve for funding the FY 04-05 budget or other purposes.

Director Nelson asked whether the \$300,000 for conservation programs in the FY 2003-04 budget would become a credit to the FY 2004-05 budget since participating agencies will pay an administrative fee to BAWSCA for their participation next year. Mr. Jensen explained that the FY 2003-04 budget does not include the cost of the various rebate programs because these costs are passed directly through to the participating member agencies. In FY 2003-04 there is no allocation of cost for BAWSCA staff time to those participating agencies. The FY 2004-05 budget, however, will contain a line item for conservation program administration because staff costs will be billed to the participating agencies.

Mr. Jensen cited 3 funding options for the FY 2004-05 budget, utilizing varying amounts of Reserve funds. One option is to use all of the Reserve, minimizing assessments. A second is to use none of the Reserve, requiring an increased level of assessments. A third option would be to use some of the Reserve. The option presented used the same value of total assessments as last year (\$1.64 million), plus

\$200,000 from the General Reserve, for a total of \$1.85 million. He noted that staff would be revising the budget as more precise numbers are developed and would continue to seek remedies for agencies that are unable to pass the increased cost of assessments on to their customers.

Chair Ruskin read comments that Director Wykoff had requested be shared in his absence. Director Wykoff expressed concern that a very small amount of the budget is associated with water supply reliability and said he believes the Board should consider what more could be done this coming year. He noted that BAWSCA has the legislative authority to work independently from or with San Francisco to identify and develop water supplies and demand management measures to insure adequate and reliable water supplies. This is a particularly opportune time, since San Francisco is about to determine how the regional system could meet our needs and will also be evaluating alternative ways to provide the same levels of service. BAWSCA could play a complementary role in evaluating what opportunities its agencies have if they were to work together. Once the system is improved, BAWSCA members should collectively consider alternative sources of water such as locally funded desalination and other projects. Mr. Wykoff suggested that staff be asked to identify what might be done in the area of water supply alternatives, what the costs might be, and how they might be funded. .

Director Livengood commended staff and SUAC for the budget presentation, noting that the 9 goals are results-oriented and there is a clear nexus between tasks and resources. He supported using Option 3 for funding the budget. Director Kasperzak also commended the budget approach and presentation and expressed support for Option 3.

There was brief discussion regarding reserves—what percentage of the budget should be maintained in reserves, the desire for information about how reserves had been used in the past—and general agreement that a policy on reserves should be developed. Chair Ruskin suggested that staff could develop the framework for the Board’s discussion. Director Piccolotti asked whether the requirement for restricted reserves he had mentioned at a prior meeting had been met. Mr. Jensen responded that legal counsel could not find a legal requirement for BAWSCA to have a restricted reserve for personnel costs, but would revisit the matter of required and prudent reserves.

Chair Ruskin summarized the budget discussion as reflecting general agreement with the direction, goals, and use of Option 3 for funding.

- D. Issues Affecting the Regional Water System Supplies: Mr. Jensen reviewed four pending issues that may require future BAWSCA action: 1) potential increased in-stream flow requirements on the Tuolumne River; 2) the proposal to remove O’Shaughnessy Dam (two reports on the proposal will be released this summer); 3) accommodating planned growth in the BAWSCA service area; 4) the SFPUC’s CIP Program Environmental Impact Report (PEIR). Mr. Ruskin noted that the Start-up Advisory Committee had discussed the potential need and a process for BAWSCA to take positions on issues such as these.

7. **Directors' Discussion:** Director Nelson suggested that the Start-up Advisory Committee consider whether BAWSCA should take a formal position on the Hetch Hetchy rental fee. Director Beecham said that the member agencies have the authority to make their own statements. Perhaps BAWSCA could coordinate member agency responses with the SFPUC response.
8. **Date, Time and Location of Next Meeting:** The next meeting will be at 7 p.m. on April 15 in the Wind Room of the Foster City Community Building, 1000 E. Hillsdale Blvd., Foster City.
9. **Adjournment:** There being no further business, the meeting was adjourned at 8:40 p.m.

Respectfully submitted,

Arthur R. Jensen  
Acting Secretary

ARJ/GE  
Attachment (Attendance Record)

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY  
Board of Directors Meeting  
March 18, 2004**

**Attendance Roster**

**Present:**

Bern Beecham	City of Palo Alto
Randy Breault	Guadalupe Valley Water District
Robert Craig	Westborough Water District
John Fannon	Town of Hillsborough
Stan Gage	Los Trancos County Water District
Mike Goff	Stanford University
Marc Hershman	City of Millbrae
Mike Kasperzak	City of Mountain View
Chuck Kinney	City of Menlo Park
Robert Livengood	City of Milpitas
Chris Mickelsen	Coastside County Water District
Peter Nelson	California Water Service Company
Irene O' Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Lee Panza	City of Brisbane
Aldyth Parle	City of Santa Clara
Tom Piccolotti	North Coast County Water District
Chuck Reed	City of San Jose
Chris Reynolds	Skyline County Water District
Tim Risch	City of Sunnyvale
Ira Ruskin	City of Redwood City
Dan Seidel	Purissima Hills Water District
Adrienne Tissier	City of Daly City
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District
David Woods	City of East Palo Alto

**Absent:**

Roberta Cooper	City of Hayward
Rick Wykoff	City of Foster City