

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
September 21, 2006 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

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

BAWSCA Chair, Bern Beecham, called the meeting to order and led the flag salute. The General Manager and Secretary, Art Jensen, called the roll. Twenty-two (22) members were present, constituting a quorum. A list of directors present (22) and absent (6) is attached.

2. Comments by the Chair – There were no comments.

3. Board Policy Committee Report: Committee Chair Rosalie O’Mahony reported that the committee was informed of the one-time adjustment made to the employee administrative and vacation leave balances to correct clerical errors made by the payroll consultants, PrimePay. A review of administrative and vacation leaves in May revealed that administrative and vacation leave accruals were being done on a fiscal year instead of calendar year basis. The correct leave balances were calculated and the adjustments were made for each employee with legal counsel’s concurrence of the one-time adjustment to correct the errors. To avoid any appearance of self-dealing or impropriety, no credit to vacation leave for the general manager was made prior to reviewing the item with the Board Policy Committee.

Director O’Mahony reported the committee’s discussions on the issues under the general manager’s report in the board’s agenda. The committee voted unanimously to recommend the board’s authorization for adjustments to the general manager’s compensation.

4. General Manager’s Report:

A) Water System Improvement Program:

1. SFPUC June 2006 Quarterly Report and Annual Progress Report to the State on the WSIP for FY 2005-06: Mr. Jensen reported his cautious optimism on the current progress of the WSIP. To date, seven of the thirty-eight projects listed in the report are under construction. Thirty-four projects are estimated to be completed on or ahead of schedule, and four are projected to be delayed by 2-15 months. Mr. Jensen explained the factors behind the delayed projects, and reported that he is working with SFPUC Deputy General Manager, Tony Irons, in identifying what is being done about the delay in the Crystal Springs Bypass Tunnel, and in gathering more information on the potential significance of the delay with the Pipeline Repair and Readiness project.

Mr. Jensen pointed out the issues SFPUC is currently addressing. The combination of weather and internal setbacks between San Francisco Planning Department and the SFPUC has caused delays in the environmental work, and SFPUC is working with the

Planning Department to coordinate goals and obtain the resources needed to complete environmental and engineering work.

Right-of-way acquisition and encroachments on existing rights-of-ways require additional work with property owners, and the SFPUC is developing a plan to effectively address the extra steps. At the meeting of BAWSCA's Technical Advisory Committee held in August, the SFPUC talked about its outreach program that not only reaches out to the community, but also to the public officials and city staff in those communities affected by the SFPUC's projects. This kind of effort can assure coordination between the SFPUC and local public works activities.

Additionally, the SFPUC contracting procedures are being refined, and seismic design standards are being developed.

Mr. Jensen noted that in tracking the program's progress against the schedule and budget, the dollar value of the work completed, or "earned value," is compared to the actual costs paid to date. In several geographic regions, progress appears to be falling behind schedule and spending to date exceeds earned value. Mr. Irons concurs with BAWSCA's interpretations of the graphs, and both Mr. Jensen and Mr. Irons have carefully reviewed the graphs to identify reasons for the deviations. The reasons remain unclear. Mr. Jensen pointed out that the graph shows only the first portion of the schedule and said there may be time to take corrective action. He also noted that the graph shows annual rather than monthly or quarterly data, making the rate of spending unclear. Nonetheless, the spending over the last year exceeds the earned value received.

Recommendations Mr. Jensen has discussed with Mr. Irons include: providing an accurate portrayal of how earned value compares with planned spending, showing projected progress through the next reporting period, addressing apparent variations in the text of the report and indicating what corrective actions are being taken to maintain or restore schedules.

Chair Beecham commented that SFPUC should examine such trends as potential indicators of issues that need to be addressed sooner than later.

- 2. Tracking the Total Costs to Rebuilding, Improving and Maintaining the Regional Water System:** Rebuilding the regional water system, improving the system, and maintaining existing and new facilities are three areas of effort by the SFPUC. Projects and budgets can be confusing, and all three areas need to be tracked consistently. Mr. Jensen presented a summary of the current costs for both regional projects and projects inside San Francisco. In addition to the \$4.3 billion cost of the WSIP, the summary shows a cost of \$300 million in new improvement projects and \$220 million in maintenance work over a 10-year period. The portion of the costs that will be paid for by the customers outside San Francisco is estimated to be \$2.7 billion. Mr. Jensen noted that WSIP projects need to be tracked separately from additional capital projects, improvements, and repairs that will be identified between now and the WSIP's completion date in 2014. It is important to be able to clearly understand and explain to rate payers where the money is being spent, and what benefits are being obtained. Mr.

Irons has agreed with Mr. Jensen's recommendation to clearly track costs of rebuilding, improving and maintaining the regional water system.

3. **Economic Impact Analysis of Drought Shortages - Phase 2 Status:** The study will examine the economic impacts of both 20% and 10% average system-wide cut-backs during drought. The consultants are in the process of surveying the San Francisco and BAWSCA service areas. The study is expected to be completed before the Program Environmental Impact Report (PEIR) is published in December of 2006.
4. **Revenue Bond Oversight Committee: Audit of SFPUC Commercial paper program:** The SFPUC began to use Commercial Paper in early 2003, in lieu of issuing bonds for short-term financing of its Water System Improvement Program (WSIP). Last year, the San Francisco Revenue Bond Oversight Committee (RBOC) hired financial experts to review the performance of the WSIP's expenditures under the SFPUC's Commercial Paper Program.

Patrick Sweetland sits on the RBOC as a representative for the water customers outside San Francisco. Mr. Sweetland is Director of Water & Wastewater Department for the City of Daly City.

Mr. Sweetland provided the board a summary of the audit report prepared by Robert Kuo Consulting, LLP and Lawrence Doyle. The report is both complimentary and cautionary in its intensive review of four major WSIP projects; the Irvington Tunnel, San Joaquin Pipeline, Calaveras Dam, and Bay Division Pipelines.

The report confirms that funds spent to date have been properly spent, and states that San Francisco's records provide a transparent view of the use of funds.

Because the WSIP has only just begun, the report includes several cautionary statements: There are project uncertainties that could result in scope changes, environmental mitigation and right-of-way acquisitions which may require additional funding, and the question of whether there is adequate contingency funding. Uncertainties with both project costs and schedules require procedures that control scope and cost changes, and effective communication to avoid the unexpected. The continued level of effort by the SFPUC finance staff is necessary and is a significant investment of time and effort throughout the life of the program.

The RBOC is responsible for reporting publicly to the Mayor, the PUC and the Board of Supervisors regarding PUC's expenditure of revenue bond proceeds. Mr. Sweetland explained that under the Charter, there is a provision that allows the committee, with a requirement of an audit and the opinion of the City Attorneys' Office, to prohibit future sales of revenue bonds, should it find any illegal and wasteful expenditure.

The seven-member committee includes a representative appointed by the governing body of the Bay Area Water Users Association (BAWUA), BAWSCA's predecessor organization. Two members are appointed by the Mayor; two members are appointed by the Board of Supervisors; one member by the Controller, and the seventh member is the Budget Analyst for the Board or his/her representative.

5. California Seismic Safety Commission Recommendations Related to BAWSCA

Agencies: The California Seismic Safety Commission's (CSSC) review of the changes to SFPUC's WSIP included recommendations that relate to the SFPUC and recommendations that relate to the BAWSCA agencies. The commission noted that 30% of the regional system's turnouts could potentially be without water for up to 30 days following a seismic event, even after the completion of the WSIP. The CSSC recommends the public be notified of these risks of water outages, and that adequate measure be taken to address reliability of local water distribution systems, both inside and outside San Francisco. Mr. Jensen stated that the commission's recommendations require thoughtful responses.

Since the release of a vulnerability study on the San Francisco system in 2001, BAWSCA member agencies have individually done reliability assessments on their local systems, and projects have been planned and implemented. The General Manager's Technical Advisory Committee has discussed how member agencies can collectively demonstrate what responsible actions have been and are being taken, how ongoing risks to public health and safety are being addressed, and how progress can be assessed and reported with integrity. An ad hoc subcommittee of TAC members has been formed to responsibly address CSSC's recommendations, and identify exactly what is expected of each agency, what coordinative actions are needed, how progress will be reported, and how what resources are needed to complete the effort. A meeting of the subcommittee is scheduled for September 25th. Mr. Irons has agreed to make SFPUC's seismic standards report available to BAWSCA when it is completed. Progress will be reported to the Board Policy Committee at its October meeting.

B) Water Management:

- 1) Potential Significance of Climate Change to Water Supplies:** Mr. Jensen announced the hearing scheduled by Assemblymember Lois Wolk on the proposal to drain Hetch Hetchy Reservoir on October 10th in Sacramento. Mr. Jensen will be participating as a member of the panel with SFPUC, staff from the irrigation districts and other stakeholders.

The Department of Water Resources has done a report on the climate change and its potential significance to water supplies. Key findings include: loss of Sierra snow pack will effectively decrease system storage; increased rain and decreased snow will impact water supply reliability and hydropower generation; more variable precipitation and extreme weather conditions will change drought and flood periods; rising sea levels will impact low-lying facilities; higher water temperatures can affect fish species; and all will impact State Water Project and Central Valley Project south-of-Delta water deliveries.

Relevant questions for BAWSCA members are: how will climate change may affect water use patterns for landscaping and other applications; how will water supply and drought protection be affected by the loss of snow pack and increased hydrologic variability; and how will the San Francisco water supply system and other water sources

be affected? These questions will need to be addressed sooner than later, and President Sklar will be making some comments about climate change during the SFPUC's report.

- 2) **Execution of Water Conservation Contracts:** Mr. Jensen provided updates on the progress of conservation programs recently approved by the board. Contracts are in place for the High Efficiency Toilet (HET) and High Efficiency Urinal (HEU) Replacement Program, as well as the Water Wise School Education Program.
- 3) **CD on conservation – Status Report:** The work on the Water Wise Gardening CD continues, and completion is expected in the winter 2006-07. The regional training program for landscape professionals will be taking place in the winter, and residential landscaping classes will be offered in the spring of 2007.
- 4) **Integrated Regional Water Management Plan:** The Bay Area Integrated Regional Water Management Plan (IRWMP) is a nine-county effort to coordinate a strategic approach to regional water resources management. It builds on water resources needs and planning strategies identified in the individual agency's Urban Water Management Plans Master Plans. The areas of focus include water supply and quality, flood protection and stormwater management, wastewater and recycled water, watershed management, and habitat protection and restoration.

Inclusion in an IRWMP is required to access state grant funds that will be administered for water purposes. BAWSCA agencies have viable local projects that can utilize such funds, and for that reason, BAWSCA is a co-applicant of projects submitted for grant funding through the Bay Area IRWMP

BAWSCA has been involved in the effort since 2003, and contributed to drafting the plan that will be released October 2006, and finalized in November 2006. Participating agencies, including BAWSCA, must adopt the IRWMP by January 7, 2007 to receive available grant funds. The IRWMP will be presented to the board in November for consideration.

- 5) **Retail Water Rate Structure for Regulated Utilities:** Mr. Jensen introduced Tom Smegal, Manager of Rates for California Water Services Company to talk about conservation rate design. Rates of privately-owned utilities such as Cal Water are regulated by the California State PUC. Historically, regulated utilities have been unable to recover the costs of water conservation programs, unlike municipal water systems. Cal Water, in collaboration with environmental groups, has developed two innovative ways for the State regulatory process to help private utilities implement rate structures that provide incentives for conserving water.

A Water Action Plan was unanimously adopted by CPUC in December 2005. That plan includes maintaining the highest standard of water quality, strengthening water conservation program, promoting water infrastructure investment, assisting low-income ratepayers, and setting rates that balance investment, conservation and affordability. It is up to the utilities to propose measures. As a response, Cal Water collaborated with several environmental groups to make a joint recommendation to CPUC that proposes assistance to low-income rate payers, increased budget for conservation, sales decoupling, and a request for conservation rate design. The conservation rate design involves retaining the service charge at the current levels and implementing increasing

block rates by each customer class. The current proposal is recommending residential block rates which have three tiers: Winter/Indoor use, less than average summer use, and remainder of use. The idea behind the rate design is to be revenue neutral for an average customer. It would lower total bills for water conserving customers, provide a summer incentive when water use is most controllable, and provide an incentive to those with higher-than-average use.

Director Gage commented that block rates offer zero elasticity, and suggested that investments water-use efficiency be made mandatory rather than optional.

C) Bay Area Water Stewards Symposium: Art announced the Bay Area Water Stewards (BAWS) Symposium scheduled for September 28th. A panel of water use efficiency experts identified by BAWS will review the wholesale customers' and SFPUC's water demand projections and the conservation and alternative supply analyses performed to support the WSIP PEIR. The experts will offer recommendations, and provide ideas on implementation strategies appropriate for the service area. The integrity of the information being used for the PEIR is important. The agencies' water use, water use projections, and projected water conservation are expected to be questioned and challenged. BAWSCA will attend the symposium and recommends that representatives from each agency attend.

5. SFPUC Report:

SFPUC President, Richard Sklar, address the board on the issue of global warming. He summarized global warming's potential impacts to San Francisco's water supply. The snow pack comprises 60% of Hetch Hetchy's storage capability. It is estimated that 30% - 90% of the Sierra snow pack may disappear over the next 50 years.

Mr. Sklar offered his thoughts that conservation, desalination and recycling are what SFPUC and the wholesale customers can do together to protect their customers. Finding storage for the water that the snow pack would otherwise store should be considered and discussed. He said additional storage in the Peninsula reservoirs is not possible because there is no more room. He also stated that Calaveras Dam does not get water inflow from the Sierra snowmelt, and Don Pedro Dam must be kept less than full to catch the winter floods that may increase because of global warming. Mr. Sklar stated his thoughts that the O'Shaughnessy Dam is a potential source for the additional storage needed.

Mr. Sklar suggested people look for alternative ways to cool buildings and alternative ways to landscape. Mr. Sklar said the SFPUC will discuss with the wholesale customers differential charges for water use during winter and summer when negotiating the new water contract. He associated winter water use levels with commercial production, drinking, flushing. He associated summer water usage as including landscape irrigation and air conditioning.

Mr. Sklar discussed SFPUC's current progress with the WSIP and stated that "we're doing what we're supposed to when we said we would." There are no longer discussions about what is going to be done, when and how much, because the SFPUC is in the "Do" phase. He said the earned value will have greater meaning when the projects get into the construction phase. SFPUC's biggest challenge is getting the environmental review process completed. The

SFPUC is completing the design phase of projects before the environmental review process is finished to allow for construction to begin immediately, and it is working to stay certain that the design adheres with the environmental review.

The SFPUC builds maintenance costs into the budget to bring the system into a state of good repair. Mr. Sklar cited that 2% of the replacement cost for pipes in the system, which should last 50 years, should be budgeted every year to keep up with the maintenance costs. Mr. Sklar said, “we’re years behind, so maintenance costs will actually rise.”

In response to comments and questions from members of the board, Mr. Sklar explained SFPUC’s efforts in addressing the delays with the Planning Department, and stated the planning department is cautious to avoid lawsuits. The SFPUC is working on developing innovative contracting processes and to address the rising prices of construction materials.

Chair Beecham asked about the possible system outage of 30% of the turnouts for up to 30 days after a seismic event. Mr. Sklar stated that the most critical areas are the Southeast Bay, and SFPUC is looking at a technology that places pipes on rollers so they can cross a fault. Mr. Sklar pointed out the need for local agencies to develop emergency plans.

Director Seidel noted Mr. Sklar had been involved in San Francisco’s Clean Water Program many years ago, and that there was an agreement at that time to set money aside for the maintenance and upkeep of the system. Mr. Sklar said, “San Francisco did that for the first nine years because it was written into the bond covenant. Then the political establishment took over, went into rate freezes, punished mayors politically and we had a problem.” He said, “We can only maintain that so long as it’s either in a bond covenant or we, as the management, chose to do it and have the political support to do it. But we’re heading into the bond world now. Any new bond covenant that’s going to come out is going to have such a provision in it. One of the things that we’ve made clear is we voted rate increases last year in The City for our water to ensure that level of maintenance we wanted in The City, and we challenged the Board of Supervisors to knock it down and Susan’s people went out and did a major job of selling it so we even had support for it. And we’re going to keep doing it, we’re going to keep plugging rates in to enable Michael [Carlin] and his two counterparts to reach a state of good repair, but it can only be there as long as the political will is there.”

Chairman Beecham referred to Mr. Sklar’s statement that we’ve talked about, agreed on water supply reliability. Beecham said significant differences have been expressed about the level of supply and drought reliability, and it’s not something on which we necessarily agree. Mr. Sklar responded that conservation, recycling and maybe even desalination may be part of a supply scenario, but that it won’t all be fresh water out of Hetch Hetchy. The thing we most disagreed on is the level of drought protection. He said, “One of the things we’re looking at in this economic study is how we can meet that core 200 million gallon-a-day keep people alive and businesses operating level. . . . We agreed to a – most critical thing, that’s after six years of drought and the seventh and eighth year hitting 20% reduction, much less than the earlier years, we did not get your agreement on that. It wasn’t even within our commission agreement, it was one of the non-unanimous votes, it was a dispute within the Commission – we’re doing this economics and management of water study and we’re open on that. But that was the one point we disagreed on and normal water usage, conservation levels. Our City (San Francisco) has maintained, with a population growth of about 8%, a lower water level use today than we had ten and fifteen years ago. And I want to move to the day we have waterless toilets like they

have in Colorado Springs Airport. We have a most aggressive internal conservation program, both ones where we subsidize people to get rid of washing machines, following toilets – we’re going to be fierce about new construction and putting in not only low-flow but mini low-flow toilets; and as I said if I can get through my Building Department, waterless urinals, chemical urinals as we have to. All of us have to do the most aggressive things we can to do it. Conservation is part of the supply equation.”

Chairman Beecham said, “Many of us have been working on conservation for many years. Palo Alto has a recycling program and we have those issues that we need to work out, I just want to ensure that there’s not a misunderstanding about that agreement.”

Mr. Sklar reported that the commission received public comments regarding chloramines. The commission took the comments very seriously, and is doing an analysis of information available. Staff will report its findings to the commission at its meeting scheduled for October 24th.

Public Comments: Ten member of the public spoke during the public comment period. They spoke against chloramine, and the health effects of chemicals used to disinfect water. Some members of the public expressed their disappointment with SFPUC staff’s departure before public comments.

6. Consent Calendar:

M/S/C (Kasperzak /Breault / Unanimous with exception of 1 non-participation on the approval of the minutes) that the Minutes of the July 20, 2006 BAWSCA Board meeting be approved, the Monthly Budget Status Report as of June 30th, the Quarterly Investment Report – Period ending June 2006, the Quarterly Directors Expenses report be received and filed; and the adjustment to the General Manager’s compensation be authorized.

7. Directors’ Discussion: Comments, Questions and Agenda Requests: None.

8. Adjournment. The meeting was adjourned at 9:40pm

9. Date, Time and Location of Next Meeting: The next meeting is scheduled for November 16, 2006 at 7:00 p.m. in the Wind Room, Foster City Community Center.

Respectfully submitted,

Arthur R. Jensen, General Manager and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
September 21, 2006**

Attendance Roster

Present:

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| Bern Beecham | City of Palo Alto |
| Randy Breault | Guadalupe Valley Water District |
| Cyril Bologoff | City of Brisbane |
| Richard Claire | City of Redwood City |
| Robert Craig | Westborough Water District |
| John Fannon | Town of Hillsborough |
| Kelly Fergusson | City of Menlo Park |
| Stan Gage | Los Trancos County Water District |
| Mike Goff | Stanford University |
| Rob Guzzetta | California Water Service Company |
| Marc Hershman | City of Millbrae |
| Mike Kasperzak | City of Mountain View |
| Patrick Kolstad | City of Santa Clara |
| Chris Mickelsen | Coastside County Water District |
| Irene O'Connell | City of San Bruno |
| Rosalie O'Mahony | City of Burlingame |
| Tom Piccolotti | North Coast County Water District |
| Tim Risch | City of Sunnyvale |
| Dan Seidel | Purissima Hills Water District |
| Adrienne Tissier | City of Daly City |
| Louis Vella | Mid-Peninsula Water District |
| Rick Wykoff | City of Foster City |

Absent:

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| Robert Livengood | City of Milpitas |
| Chuck Reed | City of San Jose |
| Chris Reynolds | Skyline County Water District |
| Michael Sweeney | City of Hayward |
| John Weed | Alameda County Water District |
| David Woods | City of East Palo Alto |