

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD POLICY COMMITTEE**

**August 9, 2006– 1 p.m.
155 Bovet Road, 1st Floor Conference Room**

MINUTES

1. Call to Order: 1:00 p.m.

The meeting was called to order by committee Chair, Rosalie O'Mahony at 1 o'clock. Five (5) members of the committee were present, constituting a quorum. A list of directors present (5) and absent (1), and members of the community attending is attached.

2. Public Comments: There were no public comments.

3. General Manager's Report:

- a. Water Sustainability – Bay Area Water Stewards (BAWS) Symposium: The Bay Area Water Stewards (BAWS) has scheduled a 2-day Symposium on September 28th and 29th where experts in water use efficiency will review San Francisco and BAWSCA member agencies' plans for increasing water use efficiency. The symposium can serve as an opportunity for agencies to access advice from field experts. On the other hand, agency projections may be questioned or challenged, and the integrity of information being used in the PEIR is important.
- b. Administrative Correction of Admin and Vacation Leave: Art reported that in May a review of administrative and vacation leaves revealed errors in leave balances. Administrative and vacation leave accruals had been done by Prime Pay, the payroll services provider, on a fiscal year instead of calendar year basis. Data entry errors were made and computer reports were inconsistent. Correct leave balances have been calculated and legal counsel concurs that a one-time adjustment can be made to administrative and vacation leave balances to fix the clerical error. The corrections conform with the actual time off taken, and BAWSCA's employee handbook. No employee will lose or gain paid time off as a result.

The adjustments have been made for employees other than the general manager, and each employee will sign a written acknowledgement of the adjustments. Prime Pay has received clear instructions and leave reports are checked for consistency and accuracy.

For the general manager position, Prime Pay mistakenly credited only 40 hours of administrative leave per year instead of 60 since January of 2004. A one-time adjustment crediting the general manager with 61 hours of vacation leave would be needed to fix the error. 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.

The Committee concurred that adjustments were appropriate for both staff and the general manager, and were pleased that other corrective actions were taken. The Committee advised that the Board should be notified in the September general manager's letter.

- c. Total Cost to Rebuild, Improve and Maintain the Regional Water System: Art stated that it is important to know the history of the WSIP's program costs. A draft statement on the \$5.3 billion cost to maintain, rebuild and improve the Hetch Hetchy regional water system emphasizes that the total cost should be summarized in a consistent manner so that the consequences are clearly understood and the program costs and progress can be easily followed. There is a potential for program cost to increase and cost changes need to be tracked. Art presented a cost breakdown between the costs of the WSIP, Repair & Replacement (R&R), Future CIP, and inflation.

Art reported that SFPUC Deputy General Manager, Tony Irons, agrees with BAWSCA's suggestion for transparency on the costs of all projects, and for all information to be summarized clearly in one place.

The committee discussed the draft statement and suggested clarifying how the costs to rebuild, improve and maintain the system would affect water rates for customers in Alameda, San Mateo and Santa Clara Counties. The committee discussed whether costs should be shown in current dollars or inflated dollars, and agreed that cost estimates should be shown on a consistent cost basis.

- d. San Francisco Revenue Bond Oversight Committee: Patrick Sweetland, Director of Water & Wastewater Department for the City of Daly City, sits on the San Francisco Revenue Bond Oversight Committee (RBOC) as a representative for the water customers outside San Francisco.

Beginning in 2003, the SFPUC has used Commercial Paper, in lieu of issuing bonds, for short-term financing of its Water System Improvement Program (WSIP). Last year the RBOC hired financial experts to review the Water system Improvement Program Expenditures under the SFPUC's Commercial Paper Program.

Mr. Sweetland provided the committee a summary of the report prepared by Robert Kuo Consulting, LLP and Lawrence Doyle. The report is both complimentary and cautionary.

It confirms that funds to date are reported to be properly spent and records provide a transparent view of the use of funds. Spending attributable to four WSIP Projects were charged to PUC general revenues both prior and slightly after November 2002. Pre-CIP general revenues and bond proceeds have been spent on the WSIP, and Financial data used in Primavera, a project management system used to prepare the WSIP Quarterly Reports, ties in with the City's official financial records.

The report notes sources of uncertainty for both project costs and schedules, and recommends four topics for future inquiry: Annual review of appropriations and expenditures for 5-10 randomly selected WSIP projects, review how the PUC intends to control project scope, schedule, and costs, identify and monitor progress of high profile projects having the greatest uncertainties, and review SFPUC's debt strategy.

It raises the issue of affordability and warrants discussion as to its significance in future public policy decisions.

The general manager said he thought it was appropriate to send a letter to the RBOC expressing appreciation for the professional work and supporting the auditor's recommendations for follow up work.

The RBOC was established in November 2003 pursuant to Proposition P, which was approved by the San Francisco voters at the November 2002 election. The committee is responsible for reporting publicly to the Mayor, the PUC and the Board of Supervisors regarding PUC's expenditure of revenue bond proceeds.

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.

- e. California Seismic Safety Commission Recommendations: In its review of the SFPUC's changes to the Water System Improvement Program (WSIP), the California Seismic Safety Commission (CSSC) cited actions it believes local agencies should take to protect public health and safety. The CSSC noted that 30% of the regional turnouts can potentially be out of service for up to 30 days even after the SFPUC completes its program to rebuild the regional water system. Art explained that the CSSC encouraged San Francisco and the systems outside of San Francisco to ensure their local distribution systems are able to function after a major earthquake.

After the release of a 2001 vulnerability assessment on the impacts of a major earthquake to the service area, member agencies were encouraged to do seismic assessments of their systems. Several agencies participated in a seismic vulnerability study by John Eiding. Following this example, other agencies hired Mr. Eiding or employed other experts. Agencies have done, and continue to do seismic improvements in their systems.

At the present time there is no comprehensive summary of what has been accomplished, to what standards facilities have been designed by all of the agencies. Three possible approaches were presented to the policy committee for comments: 1) Each agency acts independently to reduce risks, identify standards used, and provide status of completion and performance; 2) San Francisco leads the coordination of effort in defining the objectives and approach, and in characterizing individual agency performance; or 3) BAWSCA

facilitates the exchange of information with San Francisco and between the agencies, coordinates review of standards, and summarize status of agency efforts and performance.

Art reported that the Technical Advisory Committee (TAC) reviewed the CSSC recommendations on August 3rd, discussed these alternative approaches and considered how to address the recommendations made by the CSSC. An ad hoc seismic safety subcommittee was formed and representatives from several agencies volunteered to participate. The subcommittee will evaluate how to coordinate effort, review and disseminate planning or design standards and criteria, assess each agency's progress at ensuring seismic reliability, and demonstrate that responsible actions are being taken to reduce the risks to the communities. It will identify what is expected of each agency, what coordinative actions are needed, how progress will be reported and what resources are required.

Last month Art discussed the SFPUC's work to establish seismic reliability standards with Tony Irons, SFPUC Deputy General Manager. Tony agreed to make the SFPUC Seismic Standards report available to BAWSCA members when it is completed.

The Board Policy Committee discussed the alternative actions and whether or not BAWSCA action was appropriate. The Committee stated that the recommendations should be addressed responsibly. Further, the Committee advised that BAWSCA should coordinate a review of where each agency stands. The Committee considered whether a consultant should be retained to assess agency progress, and decided to wait for the general manager's recommendation following his discussion with the TAC subcommittee.

4. Water Management:

- a. **Water Rate Structures:** The California Urban Water Conservation Council (CUWCC) endorses the recommendation and is conducting a study of rate designs that would produce revenue that can cover utility costs, encourage conservation and avoid penalizing customers that already conserve. Currently, all BAWSCA agencies have water rate structures characteristic of a water conservation pricing defined by CUWCC. BAWSCA agencies are encouraged to consider rate designs that would encourage greater water conservation.

Rate changes by water utilities are approved by the California Public Utilities Commission (CPUC). Art reported that a recent letter prepared jointly by water companies and environmental groups suggests changes to CPUC's rate setting practices. The changes would permit regulated utilities to recover costs of water conservation programs and support rate structures designed to encourage water conservation.

The letter was written and signed by California Water Services Company (Cal Water), California American Water Company (Cal Am), Golden State Water Company (Golden State), Mono Lake Committee, and the Natural Resources Defense Council. Rob Guzzetta, BAWSCA Director and Vice President of Operations for Cal Water has been asked to make a brief presentation on Cal Water's work with environmental groups and the CPUC regarding water rate practices at the September meeting of the BAWSCA board.

The committee briefly discussed Proposition 218 and that recent judicial decisions will impact water rate setting by unregulated water utilities.

- b. Potential Significance of the Department of Water Resources (DWR) Climate Change Report: A report on incorporating climate change into California's water resources management was released by DWR on July 10th. Mr. Jensen presented the report's key findings. The loss of Sierra snow pack will decrease seasonal water storage. Mr. Jensen stated that the snow pack that relates to Hetch Hetchy typically amounts to about 600,000 acre-feet, or two-thirds of the storage at Hetch Hetchy watershed. Mr. Jensen stated that the linkage of climate changes and water supply is still difficult to quantify for individual watersheds. In general, more rain and less snow will reduce storage and negatively impact water supply reliability.

Relevant questions for BAWSCA members are: Will water use patterns change for irrigation or other applications? How will a loss of snow pack impact water supply and drought protection? Will increased variability in precipitation require more drought protection? What are potential impacts of climate change on San Francisco's water supply and storage system? How might other sources of supply be impacted?

Director Wykoff added that looking at other sources of reliable water should be considered. Director Beecham noted Commissioner Sklar's suggestion to consider raising O'Shaughnessy Dam to mitigate impacts of climate change. He observed that increasing the capacity of the Hetch Hetchy Dam also provides an ability to maintain fishery flows in the Tuolumne River.

5. Action Calendar:

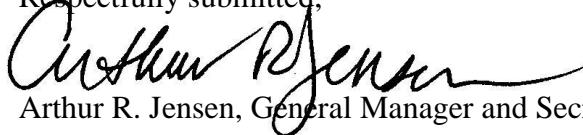
M/S/C (Reynolds/Beecham/Unanimous) that the minutes of June 14, 2006 be approved.

6. **Closed Session:** The committee went into closed session to discuss the general manager's performance evaluation.

7. **Open Session - Discussion and possible action on General Manager's contract and compensation:** The Committee returned to open session to discuss the general manager's compensation. The committee decided to recommend to the board of directors that it approve a 3% salary increase and 2% bonus, retroactive to July 1, 2006.

8. **Adjournment:** The next meeting is scheduled for October 11, 2006, at 1pm in the first floor conference room of the BAWSCA office building, 155 Bovet Road, San Mateo.

Respectfully submitted,



Arthur R. Jensen, General Manager and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
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August 9, 2006**

Attendance Roster

Committee Members Present:

Rosalie O'Mahony	City of Burlingame (Chair)
Bern Beecham	City of Palo Alto (Vice-Chair)
Kelly Fergusson	City of Menlo Park
Chris Reynolds	Skyline County Water District
Rick Wykoff	Estero Municipal Improvement District

Committee Members Absent

Mike Kasperzak	City of Mountain View
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BAWSCA Staff Members Present:

Arthur Jensen	General Manager
John Ummel	Senior Administrative Analyst
Lourdes Enriquez	Assistant to the General Manager
Ray McDevitt	Hanson, Bridgett, Marcus et al.

Guests:

Vivian Blomenkamp	League of Women Voters
Jane Ratchye	City of Palo Alto
Sharyn Saslafsky	San Francisco Public Utilities Commission
Patrick Sweetland	City of Daly City