

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

**March 5, 2007– 2:30 p.m.
155 Bovet Road, 1st Floor Conference Room**

MINUTES

1. Call to Order: 2:30 p.m.

The meeting was called to order by committee Chair, John Fannon at 2:30. Eight (8) members of the committee were present, constituting a quorum. A list of directors present (8) and absent (1), and members of the community attending is attached.

2. Public Comments: There were no public comments.

3. Reports:

a. Comments by Chair: Committee Chair John Fannon welcomed members of the committee at its first meeting of the new year and under new leadership. He looks forward to working with the committee in achieving BAWSCA's goals, and ensuring that the SFPUC's Water System Improvement Program is completed on scope, on time and on budget.

b. General Manager's Reports:

Mr. Jensen noted that the committee's agenda packet includes a memo from BAWSCA Chair Rosalie O'Mahony providing an update on what has taken place following the January 18th Board Meeting. SFPUC General Manager, Susan Leal, wrote Chair O'Mahony and Director Beecham a letter, following a January 30th meeting she and Tony Irons had with Director O'Mahony, Director Beecham, and Art Jensen. Ms. Leal's letter proposes a communication process to address the need for open communication and sharing of information regarding the SFPUC Water System Improvement Program (WSIP). Chair O'Mahony and Mr. Jensen responded to Ms. Leal's letter accepting her recommendations. The letter also clarifies that BAWSCA staff will continue to work and communicate with individuals they routinely contact at the SFPUC regarding matters other than the WSIP.

Status of the Water System Improvement Program: Mr. Jensen reported that the Quarterly Progress Report received in February for the period ending December 31, 2006 has improved over the last few quarters. The comparisons between expected and actual achievements are easier to read, and schedule errors were corrected.

The overall assessment of the progress to date is that it is on plan with actual progress at 5.8% vs. planned progress of 6.0%.

BAWSCA's assessment of the progress report focuses on the member agencies' questions and concerns. It addresses their interests in project scopes, schedules and costs. The assessment also addresses their interest in the program's trajectory toward ultimate completion within

scope, on schedule by 2014, and within the budget of \$4.3 billion. Achievements and presence or absence of problems are reported.

Currently, project scopes are consistent with the levels of service goals and scopes have not diminished to stay on schedule and budget. There are no known problems at this time that can prevent projects from remaining within scope. Art stated that BAWSCA has several questions that may be answered by the resulting report of the SFPUC's comprehensive schedule and project risk reviews. BAWSCA looks forward to its release.

Project phases are being completed on schedule. For some projects, facility condition assessments have been deferred from planning to design phases. All projects are on their adopted schedules, except for the Crystal Springs Bypass Tunnel which has a 16 month delay due to the need for a full EIR. This delay apparently can not be recovered. It is unknown whether this delay will affect other projects, but that question will be reviewed. It is unknown when this delay will be reported to the State.

There is a 6-month delay on the release of the draft PEIR but the SFPUC indicates that project completion dates will not be affected by the delay. Project-specific environmental work remains critical to project schedules. Director Fergusson asked how other projects remain unaffected by the 6-month delay in the PEIR. Nicole Sandkulla said designs have proceeded concurrently with environmental work to save time. Also, the SFPUC states the process for certifying the PEIR and obtaining the permits for construction of the projects provides additional flexibility in project schedules.

Work completed is within the planned budgets, and construction bids are matching engineer's estimates. Cost increases during the planning phase are being covered with budgeted contingencies. The SFPUC reports that contingencies remain sufficient for both design and construction. A review of cost escalation allowances by Professor Ibbs indicates: (1) original cost estimates included appropriate escalation factors for materials and labor, and (2) that the factors used appear consistent with current rates of cost escalation. The SFPUC's current risk assessment will include a review of the escalation allowance. Costs of right-of-way restoration are being examined by the SFPUC. The ongoing schedule and risk assessments may result in adjustments to project scopes, schedules and costs. At this time there are no known problems at this time that would prevent projects from remaining within budget.

Mr. Jensen stated that directors have voiced concern over the ability to complete the program on scope, schedule and budget. A variety of issues were examined for their potential to affect the future trajectory of the program and how they were being addressed by the SFPUC. Environmental work, a critical schedule activity, is now detailed in project schedules. SFPUC's efforts to maintain project schedules include obtaining direct control of some environmental work. The SFPUC is conducting outreach to communities that will be affected during construction. All components of a QA/QC program are being implemented and value engineering is conducted on selected projects to maintain project quality.

The SFPUC's comprehensive schedule review and risk assessments are efforts to anticipate possible problems and identify means to avoid or mitigate impacts to schedules and budgets. The program risk assessment review is expected to address cost escalation and impacts of market competition. The schedule review and Phase 1 of the risk assessment is expected to be completed in March or April.

Staff and management resources appear to be sufficient with a consultant in place to review staff succession plans. These succession plans are believed to include the WSIP team. To ensure sufficient resources for the steep construction period, the SFPUC is revising contracting methods, outreaching to the contracting community and soliciting input on contracting issues. Potential competition for bids with other public works projects is being reviewed, and projects are being bundled to attract competitive bids. A contractor-dispute review board has been established, a project labor agreement to prevent work interruptions was negotiated, and a process to obtain future construction management support has begun. The potential for the program to be delayed due to changes in policy and management leadership before the end of construction is a concern; however, there are no known problems at this time. The SFPUC's institutionalized changes mitigate some of these potential impacts.

Mr. Jensen said this report is intended to address skepticism over whether the program can and will be completed on schedule and budget. If directors remain concerned, he asked that they articulate specific concerns that can be examined and evaluated.

Annual Suburban Advisory Group Meeting – February 23, 2007: Mr. Jensen explained that the Suburban Advisory Group meeting is required by the existing master contract, and is attended by the BAWSCA agency representatives. The meeting on February 23rd had the most well-organized presentation to date. The SFPUC reported that the final wholesale water rate adjustments for FY 2007-08 will be finalized in late Spring. The SFPUC provided a range of possible rate adjustments but would not commit to an upper bound to the rate adjustment. BAWSCA encouraged agencies to make prudent assumptions for budgeting and local rate setting in order to comply with the requirements of Prop. 218.

Correspondence

The committee discussed two letters recently received. A letter from the Chair of the California Joint Legislative Committee was sent to Susan Leal and Art Jensen urging the SFPUC to address recommendations in the reports issued last spring by the California Seismic Safety Commission (CSSC) and the California Department of Health Services related to the regional water system. The letter urges both the SFPUC and BAWSCA agencies to address recommendations in the Seismic Safety Commission Report related to retail distribution systems for protecting the health and safety of the people and institutions that depend on the water system. The letter states that the committee may call upon the agencies to demonstrate the progress made addressing the recommendations. The BAWSCA Technical Advisory Committee (TAC) has been addressing the recommendations related to seismic upgrades to retail distribution systems.

Some BAWSCA agencies have received a letter from Restore Hetch Hetchy urging support of the Interior Department's proposal to further study the restoration of the valley. BAWSCA was not copied on the letter. The letter refers to a BAWSCA statement dated July 14, 2005. Mr. Jensen clarified that BAWSCA's current position is that if the proposal is pursued, any expenditure of funds should be directed toward identifying and securing an alternative water supply before additional money is spent on further studies of how to restore the valley. This point was made in a statement delivered on October 2006 at a hearing of the Assembly Committee on Water, Parks and Wildlife, chaired by Assemblymember Lois Wolk, in response to her request for input on "next steps." Restore Hetch Hetchy elected to omit this important point from its letter to the BAWSCA agencies. Mr. Jensen will send a clarifying letter to member agencies and Restore Hetch Hetchy.

a. **Action Calendar:**

a. Approval of the minutes from the December 13, 2006 Meeting:

M/S/C (O'Mahony/Reynolds/Unanimous) that the minutes of December 13, 2006 be approved.

- b. Planned Achievements and Preliminary Budget Proposal for FY 2007-08: A reliable supply of high quality water at a fair price remains to be BAWSCA's goal for FY 2007-08. Minor budget reallocations were made at mid-year but no additional funding was required. BAWSCA will complete the year at approximately \$288,000 below budget, and unspent funds will be deposited in the BAWSCA reserve fund. The Preliminary budget estimate for FY 07-08 is \$2,508,967 or 9.5% more than the current year's. The proposed budget increase covers additional funding needed for negotiations of a new water agreement with San Francisco, and potential water conservation grant matching funds. The preliminary budget would otherwise be lower than the budget for the current year.

The committee discussed the results to be achieved in FY 07-08 and the activities not included in the preliminary budget. Art reported on BAWSCA's progress with the new water agreement and in preparing communities for long-term water outages. BAWSCA will continue to participate in additional hearings regarding the proposal to drain Hetch Hetchy as needed.

The proposed budget includes administrative funding for the RFA and BAWUA. Agency assessments, the BAWUA general reserve, and reimbursements for water conservation assistance fund the budget.

Mr. Jensen presented two funding alternatives. Alternative #1 recommends the use of \$391,000 from the BAWSCA reserve and maintaining the current agency assessment rates. A sufficient reserve balance of \$551,000 or 22% of the operating budget will remain in the BAWSCA reserve. The budgeting guideline is 25% of the operating budget.

Alternative #2 recommends the use of \$217,000 from the BAWSCA reserve, and an increase of 8.2% in agency assessments. This option maintains a balance of \$725,000 or 29% of the operating budget in the BAWSCA reserve.

Mr. Jensen noted the timing of individual agency budget processes with the BAWSCA board's adoption of the budget in May. Committee members expressed preference for Alternative #1.

- c. Improved Administration of Water Conservation Programs: Nicole Sandkulla reported that automating administration of water conservation programs can improve BAWSCA's efficiency in managing conservation programs and potentially increase the number of regional programs BAWSCA can support with existing staff. The automation would require a one-time cost for database development. The immediate application would be for the direct-install High Efficiency Toilet program. The application can be modified and expanded for use on other conservation programs. Automation would avoid multiple data entry, reduce opportunities for error, and redirect staff time from manual billing and tracking activities to higher-priority tasks.

The database would be developed for BAWSCA by the City of Redwood City based on a system already in place with a proven track record. The cost of automation is \$21,250 for system development, plus a monthly fee of \$50 for website hosting and database backup. BAWSCA's current budget has sufficient funds available under water conservation.

A bid from an outside consultant was higher than Redwood City's. The estimated time savings will be calculated and presented at the March board meeting.

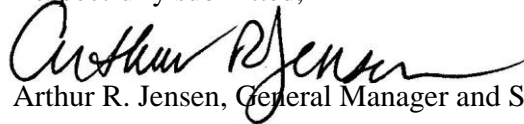
M/S/C (O'Mahony/Kolstad/Unanimous) that the committee recommend the board to authorize BAWSCA general manager to negotiate and execute an agreement with the City of Redwood City to develop and implement a Conservation Program Database System to administer water conservation programs.

- d. Professional Services Contract with Hilton Farnkopf: Mr. Jensen reported that the SFPUC's changes to improve and accurately allocate labor charges for the Hetch Hetchy assessment can have a significant impact on the reallocation of costs from San Francisco's power customers to its retail and wholesale water customers. Hilton, Farnkopf and Hobson (HFH) has the expertise and background to support BAWSCA to effectively monitor the allocation of costs relevant to the suburban revenue requirement calculations.

M/S/C (Kolstad/O'Mahony/Unanimous) that the committee recommend the board to authorize the general manager to; a) negotiate and execute an agreement between BAWSCA and Hilton, Farnkopf and Hobson, subject to legal counsel's final review, for a not-to-exceed amount of \$25,000; and, b) fund the study using \$25,000 from the FY 2006-07 budgeted contingency.

5. Adjournment: The next meeting is scheduled for April 11, 2007, at 1:30pm 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
Board Policy Committee
December 13, 2006**

Attendance Roster

Committee Members Present:

John Fannon	Town of Hillsborough
Cyril Bologoff	City of Brisbane
Kelly Fergusson	City of Menlo Park
Rob Guzzetta	California Water Service Company
Patrick Kolstad	City of Santa Clara
Rosalie O'Mahony	City of Burlingame
Chris Reynolds	Skyline County Water District
Rick Wykoff	Esterro Municipal Improvement District

Committee Members Absent

Robert Craig	Westborough Water District
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BAWSCA Staff Members Present:

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

Guests:

Bern Beecham	City of Palo Alto
Vivian Blomenkamp	League of Women Voters
Jane Ratchye	City of Palo Alto
Sharyn Saslafsky	San Francisco Public Utilities Commission