

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
November 15, 2007 – 7 p.m.
Foster City Community Building, Foster City CA**

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| MINUTES |
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1. Call to Order/Pledge of Allegiance/Roll Call – 7:06 p.m.

BAWSCA Chair, Rosalie O’Mahony, called the meeting to order and led the flag salute. Art Jensen, called the roll. Eighteen (18) members were present, constituting a quorum. A list of directors present (18) and absent (9) is attached.

2. Comments by the Chair:

Chair O’Mahony offered her positive observations drawn from her communications with Mr. Jensen in between meetings of the Board and Board Policy Committee. Chair O’Mahony stated that she is pleased that the San Francisco Public Utilities Commission (SFPUC) has completed the Risk Analysis for the Water System Improvement Program (WSIP), created a firm schedule for adopting changes to the program, and is submitting a report to the State, as required by AB 1823. BAWSCA staff, Legal Counsel and BAWSCA’s team of technical consultants put together a thorough letter of comments on the draft PEIR that emphasizes the urgency of rebuilding the Regional Water System and proposes an innovative option that strengthens the Planning Departments’ Environmentally Superior Alternative. BAWSCA member agencies also provided thoughtful letters of comment on the draft PEIR. Chair O’Mahony is also pleased with BAWSCA’s aggressive, productive, and result-oriented conservation efforts which she hopes demonstrates BAWSCA’s commitment to and responsibility for water conservation. As further evidence, conservation items are included in tonight’s agenda for board action, and an effort to develop new conservation funding ideas is in progress for presentation to the Board Policy Committee at its meeting in December.

Chair O’Mahony announced that in honor of the board’s guest, SFPUC President, Ryan Brooks, the order of the agenda will be changed to let him address the board at the beginning of the meeting. President Brooks’ presence at the board meeting is evidence of the positive relationship he and Mr. Jensen have. President Brooks is a graduate of San Diego State University. He is currently a Senior Executive for Viacom, a leading media company in the U.S. President Brooks served as a senior official for the U.S. Defense Department, and was a member of former San Francisco Mayor Willie Brown’s administration.

3. SFPUC Report:

President Brooks provided more specifics on his background. He stated that the six years with the SFPUC has been an extraordinary opportunity, and he finds it a privilege to be a part of an amazing project as the WSIP. President Brooks believes that BAWSCA and the

SFPUC have a good working relationship and he feels confident that the WSIP is moving in the right direction. He said that he has learned a lot from, and respects, the tough questions Mr. Jensen brings to the commission at its meetings because the tough questions go towards solutions. The solutions may be uncomfortable or may not be what we want to hear. As long as the same vision is shared, there will be movement in the right direction.

The SFPUC has an excellent team with the leadership of Michael Carlin and Julie Labonte. President Brooks stated that his role as a member of the commission is to give policy direction, provide leadership and ensure that there is movement in the right direction. He feels confident that the SFPUC's efforts in the past six years have been successful.

President Brooks emphasized that the certification of the Program Environmental Impact Report (PEIR) will take as much involvement by BAWSCA and its member agencies as it will by the SFPUC, San Francisco Planning Department, and the San Francisco Board of Supervisors. He reported that the Mayor will actively participate in the certification of the PEIR, and all five SFPUC commissioners are dedicated in getting the PEIR certified.

President Brooks expressed his confidence with the team in place and its capability to handle the challenges of the WSIP. He believes that the scope and schedule will change, but that the project will be successful as long as there is capability to handle the changes as they come.

In response to comments and questions from the members of the board, President Brooks stated that he agrees with Chair O'Mahony's comments that BAWSCA's driving force to get the WSIP completed is for the safety of the people, communities and businesses that rely on the regional system.

President Brooks stated that the SFPUC staff members involved in the negotiation of the new water agreement are moving forward in good faith. He said that the partnership between BAWSCA and the SFPUC has been positive. He believes that the contract will be renewed to the mutual satisfaction of both organizations.

Director Wykoff asked whether President Brook's enthusiasm to complete the program, speaks for all the employees of the SFPUC involved in the WSIP. President Brooks assured the board that SFPUC staff share the same goals and vision, and that as leaders, the Commissioners will provide the direction and inspiration to its 2,100 employees to fulfill those goals.

Mr. Jensen asked President Brooks to provide his perspective on the potential for the City bureaucracy outside the SFPUC to inhibit the progress of the program. President Brooks referred to the changes San Francisco has made to expedite the permitting process as the kinds of creative and innovative ideas that can guarantee the success of the program. SFPUC will work with city government, State offices and Federal agencies to get through obstacles. San Francisco has the leadership and commitment from the Mayor, Board of Supervisors, the Commissioners, General Manager and staff of the SFPUC, as well as

BAWSCA to make a successful program. President Brooks stayed and observed most of the board meeting.

4. Board Policy Committee Report:

Committee Vice-Chair Robert Craig reported that the committee met on October 10, 2007, and were presented with a status report on the WSIP by the CEO. The committee discussed the Bay-Friendly Landscape Guidelines and changes to the Washing Machine Rebate Program, items included in tonight's agenda for board action. The committee voted to recommend board authorization of the proposed actions.

5. General Manager's Report:

Current Dry Year Conditions Update: Mr. Jensen reported that there is no relief yet for the dry conditions, but water use reductions continues to exceed the 10% target established by the SFPUC. Bay Area water agencies received a \$1million grant from the State to continue drought outreach campaigns next year. If the Bay Area receives enough rain this season, the funds can be used for other water conservation outreach programs.

Water System Improvement Program Status Report: BAWSCA submitted its comments on the draft PEIR with the leadership of legal counsel and his staff, and assistance of BAWSCA's technical team of consultants. BAWSCA is currently reviewing comments submitted by other agencies, and will continue to work and provide additional information needed by the San Francisco Planning Department as they prepare their responses to comments received. Certification of the PEIR is expected in Spring 2008.

Mr. Jensen reported that he has had the opportunity to describe BAWSCA's comments on the draft PEIR and recommendations to the Planning Commission to Susan Leal and President Brooks, emphasizing that they focus on the urgency of the program's completion for the public's health and safety, supporting the Planning Commission's Environmentally Superior Alternative and recommending the PEIR examine the potential for additional agricultural conservation to provide environmental benefits.

BAWSCA's comments substantiate the wholesale customers' demand projections between now and 2030 as reasonable baseline projections. The wholesale customers' projections include conservation and recycling that is based on proven methodologies and technologies that permit reliable estimates of water savings. New ideas for additional recycling and conservation will arise, which is why BAWSCA supported San Francisco's Environmentally Superior Alternative that calls for an additional 10mgd of water conservation and wastewater recycling. Mr. Jensen noted that BAWSCA member agencies' written commitments to future conservation and recycling are equivalent to two-thirds of the amount of water currently used by the entire City and County of San Francisco. These water savings will make a major contribution to the management of water supply in the Bay Area.

Mr. Jensen reported that BAWSCA participated in the last workshop the SFPUC held on November 14th to discuss the WSIP risk analysis, and schedule, scope and budget reviews. Mr. Jensen provided an assessment of WSIP progress using the same format as the presentation provided to the board in March 2007. BAWSCA's assessment addresses the

interests of BAWSCA agencies and their customers wholesale customers relative to project scopes, schedules, costs and the overall trajectory of the program. Achievements and the presence or absence of problems are noted.

As of September 30, 2007, completion of the program is on schedule. Some scopes that have been redefined during the program remain consistent with the Level of Service (LOS) goals. Mr. Jensen reported that some projects will cost more, and the SFPUC may consider adding more money to the program, or cutting projects. Scope revisions were included in the revised project cost estimates presented to the commission at the workshop. In general, scope revisions can result from new information prepared during planning and design work, or may be being considered as a way to keep a project within budget. BAWSCA will continue to work with the SFPUC to understand all scope changes and the reasons for them, and to report to the board whether those changes affect the ability of the system to provide a reliable supply of water.

A geotechnical condition assessment reported to the commission at the workshop indicates that project scopes and cost may be affected. Other condition assessments that remain to be completed may or may not impact project scopes.

The comprehensive program schedule review shows that the completion of the entire program has shifted from June 2014 to December 2014. Nine projects are delayed by 12 months or more, but six projects out of the nine are described as less critical. Mr. Jensen reported that the two projects he finds critical are the seismic rehabilitation of Bay Division Pipelines (BDPL) #3 & #4 and the BDPL interconnection and isolation valves project in the South Bay. The BDPL #3 & #4 is delayed 26 months, and the later project is expected to be two years later than originally scheduled.

Director Quirk asked what caused the 26-month delay. Mr. Jensen explained that there are several alternatives, some more complex than others, that SFPUC is reviewing on how to build the pipeline to be as resilient as possible where it crosses the fault.

Director O'Connell expressed concern with how critical projects are shifted, and are suddenly significantly delayed. Ms. Labonte stated that project extension is also a concern of the SFPUC, and explained that, in particular with the BDPL #3 & #4, there are now several alternatives being examined. The best alternative that would have a good chance of being selected has highly specialized materials and fabrication requirements that may add 18 months to the project schedule. That procurement period adds several months more to the construction schedule.

Ms. Labonte stated that there are creative ways to accelerate the schedule. She stated her commitment to the commission to reassess the schedule. Ms. Labonte stated that the two critical projects Mr. Jensen mentioned, BDPL #3 & #4 and the BDPL interconnection and isolation valves project, are included in the list of 10 critical projects she is closely tracking.

Mr. Jensen reported that commission action on any budget, schedule and scope changes will be the subject of a hearing the SFPUC will schedule in January 2008. If the

commission adopts changes at that hearing, the SFPUC, in accordance with AB1823, is required to submit to the State a report on the adopted changes to the program.

In regards to the program's environmental work, further delays to the PEIR would critically affect project schedules. The SFPUC is taking the certification of the PEIR very seriously so that the program can be adopted and the work started.

The program remains very close to its budget. Mr. Jensen referred to a set of processes in the Sunol Valley Water Treatment Plant that might be deleted from that project to save money. He explained that the plant is critically important to the water quality served to the entire Bay Area and provided a historical example that demonstrated its importance. Mr. Jensen stated he has asked the commission to receive and thoroughly consider the potential risks to water customers and costs to communities before policy decisions are made to trim project scopes .

Mr. Jensen asked the board to confirm whether he had accurately expressed their concerns. The board is concerned with the projects scopes, and would support necessary budget adjustments to complete the projects and their full scopes of work. The board also looks for a program schedule that, although may be longer, would be realistic in completing the projects.

Director Wykoff commented that while a \$143 million adjustment is not large when compared to the total WSIP budget, he would not characterize his concerns as "I don't care what it costs, just get the job done". Director Wykoff is concerned about both cost and getting the job done.

Director Guzzetta commented that BAWSCA member agencies should be aware that when all the projects are completed and the WSIP is done, it is the customers that pay for the costs. Even if the projects remain on schedule, and local systems do not require their own upgrades, there will be a big increase at the end. Director Guzzetta stated that BAWSCA member agencies need to, "make sure that facilities are built the way we want them to be built, but at the most cost effective way".

Mr. Jensen noted that cost increases during planning phases are covered by project contingencies, which, although reported as sufficient by the SFPUC in March 2007, will need to be reassessed. The program risk assessment indicates that there is a 40% probability that cost escalation rate will be less than or equal to the originally assumed 3.5% per year. Mr. Jensen emphasized the inverse: there is a 60% chance that the actual rate of escalation will be higher. One question is whether the commission should increase project budgets to accommodate a higher rate of cost escalation, or to defer the question until later in the program. Mr. Jensen stated his support for a number of program risk mitigation measures presented to the commission that appear to be wise financial investments.

Right-of-Way activities are planned and scheduled. All components of Quality Assurance and Quality Control are implemented and value engineering has been conducted on selected projects. Operational shutdown schedule appears to be critical.

The program risk analysis was conducted to help identify potential problems and necessary actions. Some of the questions at the workshop are whether staff resources will be sufficient during the construction period, and whether changes in policy and leadership will delay the program. The SFPUC has made efforts to ensure that there are sufficient resources through the construction period, and has institutionalized changes to mitigate the impacts of changes in leadership. The commissioners requested that a staffing plan be prepared for the construction period. BAWSCA has asked that the plan include the operating staff, which will be critical as members of the staff approach retirement during the heavy construction period.

Following his presentation on the current status of the WSIP, Mr. Jensen reviewed the questions BAWSCA considers as it assesses whether the WSIP is likely to stay on a trajectory to be completed on time and on budget. Noting the long period of the program and that changes in leadership can potentially affect program success, he stated that no changes in leadership were foreseen.

Director O'Connell expressed her appreciation for the positive communications that seems to be based on personal interactions, and wondered if communications can somehow be institutionalized for consistency. President Brooks agreed with having consistency throughout the project, and considered regular meeting attendance by boards of the PUC and BAWSCA.

BAWSCA's Quarterly Report on the Negotiations for a New Long-Term Water Agreement with San Francisco: Mr. Jensen reported that he has delayed the distribution of the Quarterly Progress Report to include additional information from San Francisco. A meeting with the agreement representatives appointed by each BAWSCA member agency is scheduled for December 6th to provide a detailed report and receive input from them.

San Francisco Public Utilities Commission Revenue Bond Oversight Committee (RBOC): The San Francisco Revenue Bond Oversight Committee, whose members are largely comprised of people from San Francisco, was formed under a City Charter amendment. That Charter amendment also specifies that one member of the committee shall be appointed by the Bay Area Water Users Association (BAWUA), BAWSCA's predecessor agency. As the General Manager of BAWUA, Mr. Jensen appointed Patrick Sweetland, Director of Water and Wastewater Department for the City of Daly City.

Mr. Sweetland reported the findings of the committee's second financial audit of the WSIP as positive. Some areas of concerns include the results of detailed analysis between 2002-2005 that show incomplete information describing changes in project, scopes and budgets. The uncertainty with the ultimate cost of the WSIP, and the R&R and Enhancement projects removed from the WSIP that appears to be underfunded, are also concerns.

The RBOC will provide comments to members of the SFPUC staff, and present the findings to the commissioners. A scope for a third review is under consideration.

6. Public Comments:

Linda Corwin, Vice President of Citizens Concerned About Chloramine, spoke against the use of chloramines for water treatment.

Bill Young, Conservation Coordinator for the Sierra Club, Loma Prieta Chapter addressed the board about water sustainability.

Mr. Jensen reported to the board that BAWSCA will be meeting with Bill Young and the Chapter's Executive Director to discuss promoting water conservation in their newsletter.

7. Consent Calendar:

M/S/C (Klein/Pierce/Unanimous) that the Minutes of the September 20, 2007 BAWSCA Board meeting be approved; that the FY 2006-07 Audit Reports for BAWSCA and BAWUA, and the Monthly Budget Status Report and Monthly Investment Report and the Directors' Quarterly Reimbursement Report for period ending September 30, 2007 be received and filed.

8. Action Calendar:

- a. Distribution of Stopwaste.org Bay Friendly Landscape Guidelines: Senior Water Resources Engineer, Nicole Sandkulla, reported that BAWSCA outreached to Stopwaste.org, an organization in Alameda County that focuses on waste reduction. Stopwaste.org's Bay Friendly Landscape Guidelines is a 62-page bound publication that can serve as a resource for landscape professionals and homeowners in the BAWSCA service area. Professional landscapers and homeowners can use the book as a reference for incorporating water conservation into their landscaping designs and practices. It can also be used as a resource by the agencies in looking at ways to meet upcoming state requirements for new model landscape ordinances.

At its meeting on October 10, 2007, the Board Policy Committee voted unanimously to support BAWSCA's recommendation to distribute a memo to member agencies that would 1) remind cities about the legislation requiring DWR to update its model landscape ordinance and informing them of DWR's current schedule, and 2) provide a copy of the Bay Friendly Landscape Guidelines as an informative resource for their staff, their customers, as well as for landscape professionals.

M/S/C (Fergusson/O'Connell/Unanimous) that the board authorize staff to distribute a memo to each member agency regarding the State Model Landscape Ordinance and a copy of the Bay Friendly Landscape Guidelines.

- b. Change in Program Administration for Residential Washing machine Rebate Program to PG&E Partnership: Ms. Sandkulla reported that BAWSCA was approached by PG&E with the interest to work together on its conservation programs. The partnership would coordinate water and energy rebates to customers into a single program, and involve PG&E as the program administrator for the Washing Machine Rebate Program.

Partnering with PG&E lowers member agencies' administration costs by eliminating the current \$850/month administrative fee, and reducing the rebate processing fee from \$6.25 per rebate to \$6 per rebate. The program can also benefit from the greater visibility it gets from PG&E's marketing efforts.

Effective January 1, 2008, customers can get one application for both water and energy rebates. Customers benefit from the simplicity of having one application form and the ease in accessing and understanding the program.

M/S/C (Pierce/Guingona/Unanimous) that the board authorize the Chief Executive Officer/General Manager to negotiate and execute a contract with PG&E, subject to legal counsel's final review, for implementation of the Washing Machine Rebate Program in FY 2007-08 and FY 2008-09. All program costs will be paid by participating BAWSCA agencies.

- c. Authorize Agreement to Implement Grant Funding for the Washing Machine Rebate Program: Ms. Sandkulla reported that the grant application submitted to the State in conjunction with other agencies have been awarded nearly \$3 million. BAWSCA's share of the grant is \$300,000. The funds will be used to augment rebate amounts for the Residential Washing Machine Rebate Program as of January 1, 2008.

The grant lowers member agencies' spending, and allows budgeted funds for conservation to go farther. Zone 7 Water Agency is the lead agency for the grant application. BAWSCA is required to have a Memorandum of Understanding with Zone 7 to access the grant funds.

M/S/C (Guingona/Vella/Unanimous) that the board authorize the Chief Executive Officer/General Manager subject to legal counsel's review of the final documents, to enter into an interagency MOU with Zone 7 Water Agency and the other PWAs for the grant administration of Proposition 50 grant funds for the Bay Area Residential Washing Machine Rebate Program.

9. Directors' Discussion: There were no additional comments from members of the board.

10. Adjournment: The meeting was adjourned at 9:45.

11. Date, Time and Location of Next Meeting: The next meeting is scheduled for January 17, 2008 at 7:00 p.m. in the Wind Room, Foster City Community Center.

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer/General Manager and Secretary

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Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
November 15, 2007

Attendance Roster

Present:

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| Randy Breault | Guadalupe Valley Water District |
| Cyril Bologoff | City of Brisbane |
| Robert Craig | Westborough Water District |
| Kelly Fergusson | City of Menlo Park |
| Michael Guingona | City of Daly City |
| Rob Guzzetta | California Water Service Company |
| Marc Hershman | City of Millbrae |
| Larry Klein | City of Palo Alto |
| Patrick Kolstad | City of Santa Clara |
| Robert Livengood | City of Milpitas |
| 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 |
| Bill Quirk | City of Hayward |
| Louis Vella | Mid-Peninsula Water District |
| John Weed | Alameda County Water District |
| Rick Wykoff | City of Foster City |

Absent:

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| John Fannon | Town of Hillsborough |
| Mike Goff | Stanford University |
| Chris Mickelsen | Coastside County Water District |
| Matthew Pear | City of Mountain View |
| Chuck Reed | City of San Jose |
| Chris Reynolds | Skyline County Water District |
| Dan Seidel | Purissima Hills Water District |
| Ron Swegles | City of Sunnyvale |
| David Woods | City of East Palo Alto |