

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
September 18, 2008 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:12 pm

BAWSCA Chair, Rosalie O'Mahony, called the meeting to order and led the salute of the flag. Art Jensen, called the roll. Sixteen (16) members of the board were present, constituting a quorum. A list of directors present (16) and absent (11) is attached.

Mr. Jensen noted several excused absences from some members of the board due to personal matters.

2. Comments by the Chair: Chair O'Mahony commented that BAWSCA faces five daunting challenges in the coming months. The continued support and counsel of the board of directors and members of the Board Policy Committee is critical to strengthen the work of the CEO and staff.

The challenges include:

1. Timely completion of a new master water sales contract with the City and County of San Francisco;
2. Continued monitoring of the Water System Improvement Program (WSIP) to ensure problems are identified and addressed promptly by the San Francisco Public Utilities Commission (SFPUC);
3. Intensifying BAWSCA's conservation efforts to save or reuse every possible drop of water;
4. Long-term thinking about new and uninterruptible sources of water for the member agencies and its customers, as strongly suggested by Director Wykoff and supported by members of the board; and
5. Working diligently and cooperatively with San Francisco towards a pleasant and productive relationship that support the needs of the BAWSCA member agencies and its customers.

3. Board Policy Committee Report: Committee Vice-Chair Robert Craig reported on behalf of Committee Chair John Fannon, who was unable to attend the board meeting due to family matters. Director Craig reported that the committee met twice since the July 17th board meeting. The committee met in closed session immediately following the board meeting on July 17th to discuss guidelines for the CEO/General Manager's performance evaluation. Evaluation forms were provided to each member of the committee. No actions were taken at that meeting.

The second meeting was held on September 3, 2008. The committee's discussion is summarized in a report included in tonight's agenda packet. The committee adjourned to a

closed session to review the CEO/General Manager's review forms, and to establish a recommendation to present to the board tonight in closed session.

4. Conservation Program and Legislative Updates:

Conservation Program Update: The High Efficiency Toilet Rebate Program started in September with 12 participating BAWSCA member agencies covering most of San Mateo County, and areas in the East Bay, including Hayward. BAWSCA member agencies in the South Bay can participate in a similar program through the Santa Clara Valley Water District, providing coverage in that area. BAWSCA is utilizing the database system developed with the City of Redwood City, which efficiently centralizes the processing and monitoring of rebate applications.

A uniform rebate amount throughout the region is up to \$150. Program brochures and application forms are at retail stores now, and are also available through the BAWSCA website. Benjamin Pink coordinated with East Bay Municipal Utility District (EBMUD) in incorporating BAWSCA's program information with EBMUD's artwork materials and developing a package that works well for the participating BAWSCA member agencies.

The online version of the Waterwise Gardening CD, released in the Summer of 2007, is now available through the BAWSCA website. Several BAWSCA member agencies have been able to link their sites to the software which gives water customers full access to information regarding water efficient gardening. CDs remain available for those who request them.

Legislative Update: AB 2437 (Ruskin) was signed by the governor on July 10, 2008. Assembly Member Ira Ruskin sent a letter to the chief clerk of the assembly clarifying a portion of the bill's intent that the Seismic Safety Commission and Department of Public Health refer to the most recently adopted program schedule when conducting their reviews of program changes.

AB 2175 (Laird) was a bill that would have required statewide water use reduction. There were several controversies in the language for the urban and agricultural sectors. No agreement reached, and the bill failed to be enacted. The bill may be re-introduced next year. Mr. Jensen commented that the bill has some merit to it, but there is work that needs to be done to make it work for everyone.

5. SFPUC Report:

Mr. Harrington, SFPUC General Manager, agreed with the five priorities Chair O'Mahony stated in her opening comments, and noted that the SFPUC is working toward the same goals. He said he thought negotiations between BAWSCA and the SFPUC for a new water sales agreement were going well. Weekly meetings are scheduled in the next two weeks so that BAWSCA and the SFPUC can continue to work diligently towards an agreement on the tough decisions and issues currently at hand.

Mr. Harrington reported that activities in the current municipal bond market are not affecting the WSIP projects at the moment. The SFPUC is currently working on commercial paper which has had no disruptions. Bonds are not expected to be sold until late next spring.

While current conditions of the economy bring uncertainty in the financial market, there is typically a flight to invest in known government bonds during times of uncertainty. This results to lower rates in the bonds that will finance the WSIP. In January, the State will be coming out with a new rating structure called an International Rating, in which all public sector bonds are expected to be upgraded. If there is uncertainty in the market, people will likely bid on government bonds and certainly on lower risk and well-known entities such as San Francisco. For example, current projections indicate that San Francisco can sell its bonds at a rate of 5% in late Spring. A bond rate drop from 5 percent to 4 ½ percent when the bonds are sold for the WSIP program, would lower charges to suburban customers. Market fluctuations can make a good difference and some uncertainties can typically help a strong local government agency like San Francisco.

The Program Environmental Impact Report (PEIR) is expected to be released on September 30th and is hoped to be certified by the end of October. Other EIRs are taking more time than expected, but it is appropriate as it is the way concerns are brought up and mitigated.

Mr. Harrington emphasized that the SFPUC staff takes its relationship with BAWSCA with a high level of seriousness. The WSIP is the most important task the SFPUC is doing, and is Mr. Harrington's highest priority as the General Manager of the SFPUC.

There will be good news and bad news that will come with any project the size of the WSIP. Mr. Harrington stated that BAWSCA can trust the SFPUC is forthcoming with truthful information, and is working on the WSIP diligently. The SFPUC has a good team of staff and consultants that is doing a good job and is working with BAWSCA towards a common goal. He introduced Julie Labonte, Director of the WSIP, to present an update on the program.

Ms. Labonte reported that one of the most important undertakings of the year was the program realignment combined with the program risk assessment. Adjustments to the budgets, scopes and schedules were made, based on the results of the assessment, to best deliver the program while meeting the levels of service goals. The changes were approved by the commission, and submitted to the state for their review and comment, as required by AB 1823.

Eleven risk categories were identified in the Programmatic Risk Assessment. As a result, a Risk Mitigation Action Plan was developed with 100 recommended actions to be completed by the quarter ending June 30, 2008. The implementation began in early 2008, and to date, 86 of the 100 actions have been completed.

Having been identified as one of the highest risk area, construction management (CM) had the greatest progress. A CM management and information system was developed in

January 2008 to better administer construction activities. A system shutdown schedule and a system shutdown staffing plan were developed to identify the resources needed to perform the numerous shutdowns successfully. A System Shutdown Coordinator has been appointed, and a Shutdown working group was created to work with BAWSCA agencies in some of the planning efforts.

Right-of-way encroachments are another challenge for project construction, particularly for the Bay Division Pipeline #5. Ms. Labonte reported that right of way team has removed more than 200 encroachments in the past year, providing confidence that all encroachments will be removed on time for the start of construction.

Ms. Labonte noted the SFPUC is carefully monitoring the area of environmental review as well as the contracting and cost escalation. The SFPUC is on track in responding to the thousands of comments submitted on the draft PEIR, and in issuing the Final PEIR on September 30th.

During the past year, six projects have moved from the planning phase to the design phase, five construction contracts have been awarded, and four projects have been completed.

A chart was presented to the board showing the planning phases that have been completed for selected regional projects. Ms. Labonte noted that the construction progress remains relatively low, but will gain momentum soon. Progress of each phase is on track, with the exception of the environmental phase. Environmental work is at 53% complete versus planned completion of 63%

Ms. Labonte presented the schedule variances for major projects that are delayed. All of the projects, except for Alameda Siphon #4, are primarily delayed by challenges related to the environmental review phase.

The Alameda Siphon #4 project design phase is running parallel with the environmental review phase. Changes in the design of the project can lead to multiple iterations of the environmental analysis. Ms. Labonte reported that Alameda Siphon #4 is a critical project, and will be handed over to outside consultants who are experts in these types of projects.

SFPUC has had to deal with a few difficult environmental issues. Unfit consultants have prolonged environmental review in some cases, and have resulted in the termination of six environmental contracts. New consultants have been brought under contract. However, a transition period will be needed for the new consultants to become familiar with the project.

To address the delays, there is higher accountability to meet project schedules. A new approach for reviewing documents was implemented to ensure all outstanding project concerns are resolved.

Contract provisions such as a Dispute Resolution Board and Dispute Resolution Advisor have been added to help resolve difficulties in the field. Financial incentives, where appropriate, are applied to contracts to promote schedule compliance and early completion.

The SFPUC is also reaching out to decision-makers who are essential in getting the projects through.

Ms. Labonte reported that a majority of the projected cost variances are due to the scheduled delays. The current forecasted program cost shows a net increase of \$50M to \$4.4 billion.

The SFPUC is addressing the cost variances by pursuing and maintaining a competitive environment that is contractor-friendly. SFPUC co-sponsors large events with labor and trade organizations to reach out to contractors. Bid documents required from contractors are less voluminous, payments are made quicker, and city codes have been changed so that final payment retention until construction projects are completed is reduced from 12% to 5%.

A quality management program is in place and calls for a number of independent reviews at different milestones of each project. Both labor and material markets are monitored to ensure that the program's escalation rates remain appropriate.

Ms. Labonte reported that smaller projects have received bids that are lower than the engineer's estimates. Whether a similar trend applies to larger project remains to be seen. The first bid received for a larger project, the Tesla Treatment Facility Project, came in 8% lower than the engineer's estimate. The New Crystal Springs Bypass Tunnel Project is estimated at \$60.9M. Bids for this project are due October 1, 2008.

Three main concerns were brought up when the WSIP program changes were proposed in late 2007: the geo-technical concerns with the Harry Tracy Water Treatment Plant (HTWTP) and whether an alternative site is the solution, the system reliability in Sunol Valley, and the schedule acceleration of the seismic upgrade of BDPL #3 and #4 projects.

The SFPUC is finalizing its assessment of the HTWTP, and will be briefing the commission on the recommended approach at its meeting in October. A comprehensive master planning level assessment of site alternatives for HTWTP will soon be released. Ms. Labonte noted that the assessment strongly suggests improving HTWTP, rather than relocating it. A follow up report to the BAWSCA board can be made after the release of the report.

To address BAWSCA's concerns with the system reliability in the Sunol Valley area that is around the Calaveras Fault, SFPUC is ensuring that the new infrastructure, Alameda Siphon #4, is as robust as possible. That project has been handed to highly qualified experts and will have additional independent reviews. A supplemental assessment is being conducted to look at the overall reliability of the Sunol Valley 24-hours after a seismic event. SFPUC's Emergency power capabilities and response procedures are also being examined.

The SFPUC is also looking at the feasibility of modifying the alignment of the San Antonio Backup Pipeline through the Alameda Creek area to provide raw water from the San Antonio Reservoir in case of an emergency. Because this may be costly and challenging

due to the area's extreme sensitivity, the SFPUC will allow completion of all assessments needed for Alameda Siphon #4, and propose a different approach, if there is one.

Finally, how much schedule acceleration can be done for the Bay Division Pipeline #3 and #4 (BDPL #3 & #4) is yet to be determined. Ms. Labonte explained that the project is one of the most complex projects because of the site. The right-of-way crosses the Hayward Fault at an angle that promotes compression on the pipeline. There is fault slippage in the order of 10 feet which brings incredible technical challenges. An innovative solution is to use ball joints which can be fabricated, however, by only one manufacturer in Japan.

An Indian burial site in the middle of the project location and improvements having to be done under Mission Boulevard, a very busy thoroughfare, bring extremely challenging traffic issues and may require a full Environmental Impact Report.

Some positive notes on the project are that Caltrans approved construction with an open trench through Mission Boulevard, and SFPUC has been able to revise the sequence of construction work to make the project less vulnerable to system shutdowns. Ms. Labonte noted the commitment she made to BAWSCA and the State agencies to report the specific schedule of BDPL #3 & #4 in the Fall, and offered to report back to the BAWSCA board.

Ms. Labonte said she is confident that the SFPUC is doing the best job it can, as efficiently as it possibly can. Although there are good news and bad news, as expected with a program of this size, she is pleased with the progress achieved in the past year.

In response to Director Guzzetta's questions on whether the three issues she described in her presentation were her top priority, Ms. Labonte stated that her priority is getting through the environmental reviews so that project construction may begin.

Director Weed asked whether the master services agreement needs to be in place, uncertainties in the environmental and engineering issues resolved, and a guaranteed cash flow necessary to ensure the best interest rates and rating. Mr. Harrington stated that money will not be borrowed for projects that have not yet completed environmental review. He said having a long term agreement with the wholesale customers in place and a guaranteed revenue stream will be very important. The SFPUC will issue commercial paper where there are short term downfalls in the long-term bond market, until the market is stabilized

Mr. Harrington stated that the SFPUC is taking the issue of capitalized interest seriously, although it is not unusual to borrow money to pay debt while projects are under construction and to borrow money to pay debt service until the asset is in place to recover money. Since the system is still raising revenue while construction is underway, it would have been good to have a plan to raise the rates faster and not have had a capitalized interest. It will be a collective judgement call for both the SFPUC and wholesale customers on whether to go with the current plan of having capitalized interest, or a method that would raise rates sooner than anticipated and allow more cash payment towards debt service. The SFPUC and BAWSCA are currently working together in determining what

method would be better. Mr. Harrington pointed out that both methods could have significant rate impacts.

- 6. Chief Executive Officer/General Manager's Reports:** The California Seismic Safety Commission (CSSC) and California Department of Public Health (CDPH) finalized their comments on the SFPUC's changes to the WSIP. CDPH's review found that the changes did have increased risks to public health and safety. They recommended that the SFPUC continue to implement management improvements to keep the program on schedule, and to further examine the three issues Ms. Labonte pointed out in her presentation.

The CSSC was not certain how significant the program changes were to public health and safety due to its limited resources. The CSSC was able to determine that the delay of the seismic improvements amounts to approximately one year, and that the probability of an earthquake within that 1-year period is 1 to 2 percent.

The commission was concerned that the SFPUC's seismic review taskforce was not truly independent, and recommended that an independent review of the seismic work by qualified experts be established. They recommended SFPUC action to avoid environmental delays to projects, and that BAWSCA and SFPUC have an active outreach program to ensure that the public understands the risks involved both before and after the program is completed.

Mr. Jensen reported that two critical reports will be released at the end of September: the Final PEIR (FPEIR) by the San Francisco Planning Department and the proposed program for the WSIP by the SFPUC. The SFPUC's proposed water supply limitation is a key feature of both the FPEIR and the SFPUC's proposed program.

The FPEIR may be appealed to the San Francisco Board of Supervisors if it inadequately addresses the impacts of the water supply limitation until 2018. The SFPUC plans to adopt its proposed program for the WSIP immediately following certification of the FPEIR on October 30th. If necessary, BAWSCA, with the assistance of legal counsel, will act promptly prior to the next meeting of the board and the board policy committee to protect the interest of its member agencies. Mr. Jensen emphasized that BAWSCA has not and will not agree to the SFPUC's proposed supply limitation because it does not provide for projected needs in 2018. Discussions on implementing a supply limitation will continue with Ed Harrington and his staff. As previously discussed, the cities of San Jose and Santa Clara are two out of the twenty-seven wholesale customers that have interruptible supplies from San Francisco and could be impacted by the SFPUC's proposed action.

Mansour Nasser, Division Manager for San Jose's Environmental Services read a statement from San Jose Mayor Chuck Reed that reinforces BAWSCA's authority to represent San Jose's interest in the new water sales contract negotiations with San Francisco, and to pursue a satisfactory conclusion for the SFPUC's proposed supply limitation.

Director Kolstad noted that Santa Clara Mayor Mahan wrote a similar letter to Mayor Newsom regarding the water supply limitation. Like San Jose, Santa Clara is exploring all its options to protect its water supply.

Director O'Mahony has discussed the issue with BAWSCA's CEO and General Manager, and stated, on behalf of the BAWSCA board, her full support for the prompt actions that

need to be taken, and for the requests of San Jose and Santa Clara to ensure that they continue to receive water from the regional water system.

7. Public Comments: Three members of the public made public comments:

Wynn Grcich of A-Town, Claudette Main of Citizens Concerned About Chloramine, and Michael Francois of the City of East Palo Alto each spoke about water quality concerns.

8. Consent Calendar:

M/S/C (Pierce/Swegles/One Abstention) that the Minutes of the July 17, 2008 BAWSCA Board meeting be approved; that the Pre-Audit Budget Status Report as of June 30, 2008, Monthly Investment Report as of August 31, 2008, and the Directors' Reimbursement Report be received and filed.

9. Action Calendar:

- A. Authorization to Extend Office Lease: BAWSCA's current lease with Casiopea Bovet, LLC expires on October 31, 2008. The original lease rate in 2005 was \$4.38/sq. ft. The current lease rate is \$2.40/sq. ft, and the proposed rate for the new lease is \$3.20/sq/ ft. The proposed rate has an inflation index of 4% a year for the next three years. The annual cost to BAWSCA would be \$92,000/year, which is an amount less than what was being budgeted prior to 2005. Budget preparations anticipated a rate increase, and the approved budget for FY 2009-10 have sufficient funds to cover the proposed rate.

Properties in the immediate area were explored and the proposed rate is a comparable rate. Consideration of the South and East Bays came up in discussions with the BPC. It is more practical to remain at the current location because of the cost of moving, most of the staff members reside in the immediate area, and the current location is central to the member agencies. Three years is a reasonable period for the current size of the staff and for activities that can be reasonably anticipated. The property manager is willing to include a provision to permit another three year extension.

M/S/C (Kolstad/Swegles/Unanimous) That the board authorize the CEO/General Manager to extend the current lease for a period of three years.

- B. Authorization to Negotiate and Execute a Professional Services Agreement and Transfer Funds to Augment Budget for Development of a Water Conservation/Recycling Implementation Plan: Requests for Proposals were sent out to more than 40 consultants. Two responses were received from Maddaus Water Management (MWM) and Erler Kalinowski (EKI). BAWSCA worked with a review panel comprising representatives from Palo Alto, Stanford and Santa Clara Valley Water District (SCVWD) to evaluate the proposals and interview the consultants.

Both consultants submitted cost estimates that exceeded the approved budget of \$120,000 because of the amount of detailed work needed to update the existing water demand analyses for each BAWSCA member agency.

The review panel unanimously recommended the selection of MWM because of their experience with water demand projection methodology, implementing conservation programs, and the quality of their proposal.

MWM would update the DSS models with new population and employment projections and conservation data from the past four years, identify and evaluate new conservation measures, prepare an implementation strategy, examine financing strategies, and develop an implementation plan for policy consideration. BAWSCA will negotiate with MWM to keep the costs down, but a significant alteration to the scope of work is not recommended.

Director Seidel inquired about the value of the additional work being done. Mr. Jensen reported that BAWSCA has carefully analyzed the cost of the work and the value of the results of the study to BAWSCA and its member agencies. MWM developed the DSS models, and can update the analyses and prepare an implementation plan at a fraction of the cost of the original demand projections.

An additional benefit is that the model will provide agencies with information required by the state to fulfill Urban Water Management Plans (UWMP), saving agency staff time.

Public comment in support of BAWSCA's efforts on water conservation was delivered by Ann Clark, resident of San Francisco. She delivered a message from Peter Drekmeier in support of the BAWSCA board's approval to increase the budget for the Conservation Implementation Plan. Ms. Clark stated her appreciation for the positive and constructive difference Mr. Harrington has brought to the meetings she attends in San Francisco.

M/S/C (Pierce/Swegles/Unanimous) that the board:

- 1. Authorize the CEO/General Manager to negotiate and execute a contract with Maddaus Water Management, or the second-rated firm if negotiations cannot be completed successfully, subject to legal counsel's approval; and**
- 2. Authorize the transfer of funds from the budgeted contingency and general reserve to fund the study up to an amount not to exceed \$225,000.**

10. Closed Session: The board adjourned to closed session at 8:45 for the evaluation

11. Re-convenement: The board reconvened at 9:05.

M/S/C (Guingona/Swegles/Unanimous) that the board authorize a 4.185% increase to the CEO/GM salary, retro-active to July 1 2008, and a \$10K bonus using funds available in the budgeted contingency for FY 2008-09. The CEO/General Manager has the option of putting the \$10K bonus in either his 457 or other account that he prefers.

12. Directors' Discussion: Director Seidel announced that he will be retiring from Purissima Water District effective December 1st, and will be stepping down from his role as a member of the Board for BAWSCA and RFA. The November meeting will be the last meeting he will attend. He introduced Dr. Robert Anderson as his successor on the BAWSCA and RFA boards. Dr. Anderson is a chemical engineer and a retired professor from San Jose State. Chair O'Mahony thanked Director Seidel for his service to the board.

Chair O'Mahony announced that she will continue the practice of BAWSCA's previous Chairs in holding office for a maximum of only two years, and will not stand for re-election in January. She stated her appreciation for the privilege and high honor to serve as Chair of the BAWSCA and RFA boards during a critical time for the member agencies. She thanked the members of the board for their generous participation in meetings, their counsel and support in fulfilling BAWSCA's responsibilities.

Vice-Chair Kolstad thanked Chair O'Mahony for her kindness and for serving as his mentor in understanding the issues presented at every meeting. Director Guzzetta stated his appreciation for Chair O'Mahony's thoughtfulness and clear articulation of the issues when historic decisions were being made. Truly a job well-done.

Director Weed announced a September 19th meeting of ACWA Region 5. Topics include recycling and alternative water supplies. He encouraged directors to attend.

13. Adjournment: The meeting was adjourned at 9:20.

14. Date, Time and Location of Next Meeting: The next meeting is scheduled for September 18, 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
September 18, 2008

Attendance Roster

Present:

Cyril Bologoff	City of Brisbane
Robert Craig	Westborough Water District
Mike Goff	Stanford University
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Larry Klein	City of Palo Alto
Patrick Kolstad	City of Santa Clara
Rosalie O'Mahony	City of Burlingame
Matthew Pear	City of Mountain View
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Chris Reynolds	Skyline County Water District
Dan Seidel	Purissima Hills Water District
Ron Swegles	City of Sunnyvale
John Weed	Alameda County Water District
Rick Wykoff	City of Foster City

Absent:

Randy Breault	Guadalupe Valley Water District
John Fannon	Town of Hillsborough
Kelly Fergusson	City of Menlo Park
Robert Livengood	City of Milpitas
Chris Mickelsen	Coastside County Water District
Irene O'Connell	City of San Bruno
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Chuck Reed	City of San Jose
Louis Vella	Mid-Peninsula Water District
David Woods	City of East Palo Alto

