

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
May 21, 2009 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

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

BAWSCA Chair, John Fannon, called the meeting to order and led the salute of the flag. Art Jensen, called the roll. Twenty (20) members of the board were present, constituting a quorum. A list of directors present (20) and absent (7) is attached.

2. Comments by the Chair:

Chair Fannon reported that he, along with Vice Chair Barbara Pierce and CEO Arthur Jensen, attended and testified at the SFPUC on April 18th to urge the commission to adopt the new Water Supply Agreement between the wholesale customers and the City and County of San Francisco.

Mr. Fannon cited BAWSCA's work on the new Water Supply Agreement, rebuilding the regional system, and implementing a larger and more intensive water conservation effort, emphasize why the state legislature authorized BAWSCA and enacted companion legislation, enabling us to handle these major challenges.

Chair Fannon said the new agreement was reached by a strong team under Mr. Jensen's leadership with outstanding contributions by his staff, general counsel Ray McDevitt, and key consultants. They did a superb job in meeting the new-agreement objectives set by member agencies in 2006. The results-driven approach by SFPUC General Manager, Ed Harrington, and the involvement of Mayor Newsom and several State officials contributed to the smooth negotiations of the agreement.

Chair Fannon noted that the 1.7 million people, 30,000 businesses and many community agencies that BAWSCA represents, drive the State's economic progress and provide vital services to people in the region. The new multi-billion dollar agreement underscores the reality that the BAWSCA's member agencies and their customers are San Francisco's largest block of customers for the regional water system who pay two-thirds of its operating and rebuilding costs. They should be provided with reliable service and satisfaction by San Francisco. Through BAWSCA, they must be brought in at the beginning of discussions regarding policy decisions that affect them.

Adoption of the new agreement with San Francisco by each member agency is imperative. Mr. Fannon urged members of the board to encourage their governing bodies to consider and approve the new Water Supply Agreement by June 30, 2009.

BAWSCA's 38mgd challenge is a major effort which requires the member agencies' determination and ingenuity. Chair Fannon said he is confident that BAWSCA is moving in the right direction and the level of emphasis on the effort should be continued.

Board Policy Committee Chair Kelly Fergusson will report the committee's discussions on the proposed budget and workplan for FY 2009-10. The board and staff understand the current harsh economic environment requires saving taxpayers and water rate payers money wherever possible. Chair Fannon and the committee recommend the board's approval of the proposed budget.

- 3. Board Policy Committee Report:** The committee met on April 8, 2009. Committee Chair Fergusson reported that the committee discussed in detail, the reconfirmation of the investment policy, the proposed workplan for FY 2009-10, the general reserve, and alternatives for funding the proposed budget. The scopes of work for nine professional services contracts to be in place by July 1, 2009 were also discussed. The committee voted unanimously to recommend board approval of all items discussed.

Director Fergusson reported that she represented the BAWSCA board at the ground breaking ceremony of the Crystal Springs Bypass Tunnel in April.

- 4. Chief Executive Officer's Reports:** Mr. Jensen introduced Anona Dutton, BAWSCA's new Water Resources Planner.
- A. Reminders: Board members whose terms are expiring on June 30, 2009 were reminded that their agencies are asked to make appointments or re-appoint them by June 30, 2009 to ensure a quorum on both boards and that the agencies are continuously represented.

The Water Education Foundation (WEF) Hetch Hetchy tour will be held on July 22, 23 and 24th. BAWSCA will pay for tickets of BAWSCA board members whose agencies do not pay for their tickets. Spaces are still available for the general public. Member agencies' governing body and staff who are interested in going should contact WEF or BAWSCA to reserve their seats.

- B. Reports:

Rate Adjustments: The SFPUC adopted the wholesale rate increases which are predominantly associated with the Water System Improvement Program (WSIP). The adopted rate is consistent with what was anticipated and announced to wholesale customers in February of 2009. It is also consistent with the new Water Supply Agreement methodology.

WSIP: BAWSCA continues to monitor San Francisco's progress in rebuilding the regional water system, the impacts that necessary environmental work may have on construction schedules, and the SFPUC's efforts to recover lost time. There are cost increases on some projects, although those may be partially offset by construction bids coming in lower than estimated construction costs. The SFPUC staff will have a revised project and budget schedule to present to the commission for its consideration in the summer.

BAWSCA will be updating its review and analyses of the SFPUC's bidding history for WSIP projects, and results will be presented to the board upon its completion.

Overview of Current Water Use Characteristics: Mr. Jensen stated that his presentation on BAWSCA member agencies' water use characteristics stems from presentations he has made to outside organizations. The presentation describes how much water wholesale customers use, what they use water for, how efficiently they use water, and how their water use compares to other parts of the Bay Area and the State.

The information, also presented to the board policy committee, is relevant to future decisions the board must make to provide reliable supplies of water for BAWSCA communities.

Residential customers account for 60% of total water-use in the BAWSCA area. Commercial and industrial customers use 25%. Government and institutional uses total 11%. The remaining 6% of distributed water is termed "unaccounted for water" or "non-revenue water," and represents the combination of leakage, firefighting and other unmetered uses, net meter errors and unauthorized uses. This level of unaccounted for water is considered good in the industry. Agencies' leak detection programs are one reason this number remains low. Nevertheless, Mr. Jensen stated that there can be potential savings in all categories of water use.

The average residential use is 91 gallons per capita per day (gpcpd) for BAWSCA member agencies. More than 95% of the residents use less than 150 gpcpd, and more than 90% use less than 100 gpcpd. The highest water using areas represent a small percentage of the BAWSCA service area population. Moreover, the small BAWSCA agency having the highest per capita residential use, uses less water than the average for the large Colorado River Region of Southern California.

Based on data from the State Department of Water Resources published in May 2005, BAWSCA's average residential use of 88 gpcpd is less than the 97 gpcpd average for the nine-county Bay Area region, and well below that of the nine hydrologic regions of the State.

The BAWSCA area water use is more efficient than other areas due to the characteristics of the communities, including climate, demographics, lot sizes, and population density.

Increased water-use efficiency is possible and can be achieved, as demonstrated by BAWSCA's Water conservation Implementation Plan. Near-term policies to accommodate continued growth must focus on cost-effective water conservation measures. Long-term policies must look at both additional water-use efficiency and innovative solutions for new supplies.

Water Conservation Implementation Plan: Ms. Sandkulla explained that the objectives of the Water Conservation Implementation Plan are: 1) to develop a strategy for BAWSCA and its member agencies to meet the water efficiency goals to which agencies committed in 2004, and 2) to maintain reliable water supplies through 2018 within the interim supply limitation imposed by the SFPUC. The results identify who must do what by when in order to achieve these objectives.

The work included updating the 2004 water demand projections, identifying and evaluating different water conservation measures for their potential, and estimating whether the water savings would enable BAWSCA and its agencies to stay within the 184mgd supply limitation imposed by the SFPUC.

BAWSCA's role in implementing the measures was coordinated with work planning to be done by individual member agencies and by the agencies in Santa Clara County through the Santa Clara Valley Water District (SCVWD). Staff from the SCVWD has participated in developing the Plan.

Population and employment projections were based on information from the Association of Bay Area Government (ABAG) and provide consistency with adopted land use plans. Analysis of water demand projections considered the ages of homes and the number of people in each household for each member agency. The water use characteristics for member agencies were updated and reviewed by the workgroup.

Results of the analyses indicate an approximate 1% increase in water needs per year until 2030 as a result of planned growth. A conservation savings potential of 10-14mgd can fulfill the difference between the agencies' water need projections and the SFPUC's Interim Supply Limitation of 184mgd to 2018.

Agencies can achieve the 10-14mgd savings by meeting the conservation commitments made back in 2004, and by implementing five new and expanded measures. Those measures have been presented to the board as part of the budget presentations. They include the High-Efficiency Toilet Rebates (HET), High-Efficiency Washing Machine Rebates (WMRP), Residential Landscape Education Program, Indoor Water Efficiency Ordinance for New Buildings, and Efficient Landscape Ordinance for New Buildings.

Ms. Sandkulla explained that the HET program will target the estimated number of old toilets that still use more than 1.6 gallons per flush. An estimated 60% of all water accounts in the region have been identified as already having water efficient toilets, leaving 40% as potential HET rebate targets.

The proposed program targets replacing 25% of this potential over the next 10 years. This target is equivalent to 15,000 rebates processed through BAWSCA in FY 09-10 compared to the 1,000 rebates achieved in BAWSCA's first HET program during FY 2008-09.

Director Quirk commented that tiered rates may be successful for other member agencies as they have for the City of Hayward and can support the high goals of the HET rebate program.

Director Quigg suggested looking at a commercial program that includes hotels, condominiums and apartment complexes which are highly concentrated to help achieve the goal for the HET.

The Washing Machine Rebate Program (WMRP) has been successful and has a substantial potential for additional savings. The proposed target will expand the program by achieving 8,300 rebates through FY 09-10 compared to approximately 5,300 rebates per historical year.

The success of the programs will require significant effort from the agencies to reach out to customers and encourage them to participate. It will also require significant actions by policy makers in considering and enacting indoor and outdoor ordinances that will affect new construction, and perhaps include resale of existing buildings. The challenge will be to ensure that ordinances are enforced and produce measurable and predictable results. There will be legitimate issues on which different persons may hold strong differences of opinion. Strong support at the policy level will be needed to consider and resolve issues and enact appropriate ordinances.

The conservation measures can create a potential surplus water of up to 9 mgd. As has been the case historically, surplus water can be available for San Jose and Santa Clara until 2018. However, overall success and the certainty of the savings depend on the actions of BAWSCA, individual member agencies, and outside agencies including SCVWD, cities and counties.

Director Breault asked whether the analyses for water savings potential were examined according to what can be achieved in shorter time increments versus looking at it out to 2018. Nicole explained that the model runs every year for 30 years, and can be looked at 5-year increments. Because the projected demands reach a total of 184 mgd between 2012 and 2013, the analysis focused on determining what would need to be achieved in order to keep purchases from San Francisco at or below the limitation imposed until 2018.

The financing and implementation of the plan has a total estimated cost of \$112 million between now and 2018. The core conservation program, defined as the measures which benefit all agencies, will be paid for by all member agencies. It includes development of the indoor and outdoor conservation ordinances for new buildings, a regional public information campaign targeting to achieve results, and the expansion of the residential outdoor water use education program.

Agencies will continue to pay for other BAWSCA programs on a subscription basis, including continuation of the large landscape audit program, the expanded HET rebate program, the Washing Machine Rebate Program, the School Education Program, and the bulk purchase of water efficient fixtures.

Director Fergusson asked if the effect of price on conservation behavior was considered and whether the elasticity, if any, of water demand in the Bay Area is known. Ms. Sandkulla explained the analysis did look at the future cost of water, and the implementation of the conservation programs is cost effective in comparison to the price agencies would pay for the next increment of water.

The water conservation implementation plan is flexible and allows agencies to achieve results through independent action, through BAWSCA's programs, or through other regional programs, such as the program in Santa Clara County administered by the Santa Clara Valley Water District.

Ms. Sandkulla noted that the budget being considered by the board includes the funding for the core conservation programs, support for the subscription programs, development of conservation results monitoring and tracking capability and the scoping of work needed to meet long-term water needs beyond 2018.

Director Pierce recommended considering actions that would have a large impact on public outreach. Offering the first two or three thousand toilets for free was a successful publicity for Redwood City's HET program. Good strong messages that help educate the community about water use efficiency, as well as messages that provides clarification on the agencies' water use characteristics.

New Water Supply Agreement - Status

Mr. Jensen provided an overview of the new Water Supply Agreement and the status of approval actions by BAWSCA agencies.

He explained that each member agency has, and will continue to have, two contracts with San Francisco. One is the Water Supply Agreement that has elements and provision common to all the wholesale customers. The other is an individual water sales contract that specifies the conditions or provisions that are unique to each agency.

The major provisions of the new agreement exceed the agencies' original objectives. It continues to protect the member agencies and its customers' financial interests and has a term of 25 years. Unlike the existing contract, the new agreement can be extended or renewed by an act of the agencies, and does not require re-negotiation, unless that is what agencies prefer to do.

BAWSCA and San Francisco reached concurrence on the member agencies' ten original objectives for water supply reliability, high quality and fair price. The new agreement formalizes a joint Water Quality Committee. For over a decade BAWSCA's current Water Quality has met with representatives of San Francisco and the California Department of Public Health. Under the new Agreement, this will become a joint committee, with chair and vice chair alternating annually between BAWSCA and the SFPUC.

The basic structure of the existing agreement regarding fair price was retained, with modifications to simplify and improve where possible. Wholesale customers will continue to pay only for facilities and services that directly benefit their agencies and their customers. Eligible costs will continue to be allocated between San Francisco and the wholesale customers as a group on the basis of proportional annual purchases of SFPUC water. A balancing account will continue to pick up the difference between actual expenditures versus budgeted expenditures, or estimated versus actual purchases. Annual accounting audits will also continue.

Mr. Jensen noted that the balancing account will be managed differently than it has been under the existing contract. The new Agreement helps avoid sharp rate fluctuations by having the flexibility of applying any positive balance to the offset rates or to prepay existing or future capital obligations.

There are four additional provisions in the new agreement:

1. A formula for allocating water available during droughts between San Francisco's retail customers and the wholesale customers as a group;
2. Equitable administration of SFPUC's unilateral decision to limit water supplies to the region until at least 2018;
3. If San Francisco develops new supplies to increase the supply assurance, it must do so under separate agreement(s) with BAWSCA;
4. If San Francisco intends to provide the Supply Assurance by developing new supplies that substitute for existing supplies, BAWSCA and the wholesale customers will be informed and be able to collaborate with San Francisco..

The Agreement assigns to BAWSCA the authority and responsibility to administer the agreement, as previously done with the existing contract; agree to amendments of technical attachments if and when needed; direct the use of the balancing account balance; enter into agreements with the SFPUC for development of new supplies(although BAWSCA remains free to develop new supplies independently of San Francisco); and determine how its members will allocate their share of water among them during droughts if agencies are unable to reach an agreement.

BAWSCA will facilitate the agencies' discussions on water allocations during drought. The existing drought allocation formula will be reviewed, and revised if needed. If an agreement among the agencies is not reached, the BAWSCA board can specify the formula for the allocations, or decide to continue using the existing formula until the agencies come to an agreement. The Agreement does not permit San Francisco to specify how the agencies divide their combined share of available water during drought.

The repayment of San Francisco's capital investments in the regional water system was changed from Utility method to Cash method. The new method saves wholesale customers \$270 M over the next 25 years. It provides the same average wholesale rate increase over the next seven years as the existing Utility Method, pays off financial obligations sooner, and improves bond buyer outlook and interest rates.

The SFPUC approved the agreement on April 28th, and BAWSCA member agencies are in the process of having it considered by their governing bodies and approved by the end of June.

Chair Fannon urged members of the board to ensure that the agreement is passed by their governing bodies, and encouraged them to get in touch with Art Jensen for any assistance they may need.

5. SFPUC Report:

Michael Carlin, Assistant General Manager for SFPUC's Water Enterprise addressed the BAWSCA board in Ed Harrington's absence. Mr. Carlin thanked Chair Fannon and Vice-Chair Pierce for coming to the commission meeting on April 28th to testify on the new Water Supply Agreement. Mr. Carlin stated that the new Water Supply Agreement is a

landmark agreement that defines the relationship of BAWSCA' and the SFPUC in a new era of cooperation. The SFPUC is looking forward to the implementation of the new agreement and is working with each agency in getting the individual contracts completed and adopted along with the new water supply agreement by July 1st.

The SFPUC presented its budget to the San Francisco Board of Supervisors with the elements of water conservation and water use efficiency, recycled water and the development of ground water supplies for supply reliability during drought.

An ordinance on residential and commercial resale retrofit was passed by the City of San Francisco following extensive efforts for its approval.

Projects for the Water System Improvement Program (WSIP) continue to receive lower bids than the engineers' estimates as a result of the current market conditions. Environmental Impact Reviews for significant projects including the San Joaquin Pipeline are in the process of closing out, and may be able to benefit from the current trend of low bids.

The SFPUC is working diligently to address scheduling issues for critical projects such as the Calaveras Dam and the Harry Tracy Water Treatment Plant. Cost overruns are expected for those projects.

In response to Director Guzzetta, Mr. Carlin reported that the projected gap between the overruns and the savings is getting close to \$100 M.

The groundbreaking for the Tesla Portal Disinfection project took place and the project is well underway. Mr. Carlin thanked agencies who participated in the ground breaking ceremonies and encouraged the agencies' involvement in future ones.

Mr. Carlin reported that Hetch Hetchy Reservoir storage is at about 320,000 acre feet out of the reservoir's 360,000 acre foot capacity, and that storage is rising at about one foot per day. This year, as in the past two years, the SFPUC released water from storage for ecological enhancements. The outflow below the dam is increased to 10,000 cubic feet per second to flood the downstream valley. Biologists, the national park service, and the U.S. forest service are observing the significance to the environment.

6. Public Comments: Public comments were received from Ms. Wynn Greich.

7. Consent Calendar:

M/S/C (Quigg/Breault/Unanimous) that the Minutes of the March 19, 2009 BAWSCA Board meeting be approved; that the Monthly Budget Status Report, Quarterly Investment Report, and Directors' Reimbursement Report for period ending March 31, 2009, be received and filed, and modification of FY 2008-09 contract with Hanson Bridgett, LLP be approved.

8. Action Calendar:

- A. Annual Review of BAWSCA's Investment Policy: Mr. Jensen reported that the Investment Policy was initially adopted by the board in 2004, and was last reviewed in 2008. The principles of the policy are safety, liquidity and return on investment, in that order. There are no recent changes in the laws, regulation or financial conditions that would warrant a change in the policy. With BAWSCA's cash flow requirements, Mr. Jensen recommends continuing to operate with a limit of \$150,000. Any need for modification of the policy would be brought back to the board.

M/S/C (O'Connell/Anderson/Unanimous) that the board re-confirm BAWSCA's current investment policy.

- B. Approval of FY 2009-10 Results to be Achieved, Proposed Budget and Funding Method: The report on the proposed workplan, budget and funding method addresses the concerns and includes the comments previously received from the board and the board policy committee. The proposed budget is nearly identical to the current year's budget. The budget did not go down following the completion of the new agreement, as was expected a year ago, because of the new water supply challenge BAWSCA faces as a result of the SFPUC's action to limit supplies available to its wholesale customers.

A timeline of major activities to be achieved during FY 2009-10 was presented to the board. A major result to be achieved is preparing the scope for achieving long-term water supply reliability. A request to negotiate and execute professional services contract will be presented to the board policy committee in August, for the board's consideration in September.

The committee discussed and concurred with the recommendation to review the progress in December, and revisit how much more of the study can be done if additional funding is made available.

BAWSCA will lead the review and revision, if necessary, of the drought allocation formula. At the same time, it will also facilitate discussions between the agencies regarding the Interim Supply Limitation imposed by the SFPUC's action on the PEIR. Under the new Agreement, the SFPUC will determine at what point an environmental surcharge be imposed on each wholesale customer. The SFPUC is expected to give due consideration to recommendations that may be forwarded by the wholesale customers.

Other activities for the year include administration of the old agreement and initial administration of the new agreement.

The policy committee and board were presented with three funding alternatives with a recommendation to increase agency assessments by 9%, and transfer \$250,000 from the general reserve.

M/S/C (O'Connell/Anderson/Unanimous) that the board approve the proposed results to be achieved during FY 2009-10, the proposed budget of \$2.767 M, a nine percent increase in assessments, and the use of \$250,000 from the general reserve.

- C. Approval of Professional Services Contracts for FY 2009-10: The board was asked to approve professional services contracts that need to be in place by July 1st.

A general memo on the nine professional services contract followed by separate staff reports on each consultant contract was included in the agenda packet for the board's review.

M/S/C (Wykoff/Quigg/Unanimous) that the board approve the nine contracts for legal, engineering, financial, strategic and water conservation services to be in place by July 1, 2009.

- 9. Directors' Discussion:** Director Klein reported that Mr. Jensen addressed the Santa Clara County Cities Association (SCCCA) at its meeting on May 14th. His presentation on water conservation was very well received and initiated a lot of thought and discussion on the subject. The SCCCA is an organization of 15 cities in the Santa Clara County. Six of the cities are BAWSCA member agencies.

10. Adjournment: The meeting was adjourned at 9:50pm.

11. Date, Time and Location of Next Meeting: It was noted that the next meeting is scheduled for July 16, 2009, in the Wind Room, Foster City Community Center.

Respectfully submitted,

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

ARJ/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
May 21, 2009

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Cyril Bologoff	City of Brisbane
Randy Breault	Guadalupe Valley Water District
Robert Craig	Westborough Water District
John Fannon	Town of Hillsborough
Kelly Fergusson	City of Menlo Park
Mike Goff	Stanford University
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Larry Klein	City of Palo Alto
Patricia Mahan	City of Santa Clara
Irene O'Connell	City of San Bruno
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
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Chris Reynolds	Skyline County Water District
Rick Wykoff	City of Foster City

Absent:

Ruben Abrica	City of East Palo Alto
Armando Gomez	City of Milpitas
Chris Mickelsen	Coastside County Water District
Chuck Reed	City of San Jose
Ron Swegles	City of Sunnyvale
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District