

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY  
BOARD OF DIRECTORS MEETING  
May 20, 2010 – 7 p.m.  
Foster City Community Building, Foster City CA**

<b>MINUTES</b>
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**1. Call to Order/Pledge of Allegiance/Roll Call – 7:00 pm**

BAWSCA Chair John Fannon, called the meeting to order and led the salute of the flag. Art Jensen, called the roll. Nineteen (19) members of the board were present, constituting a quorum. A list of directors present (19) and absent (7) is attached.

**2. Comments by the Chair:**

Chair Fannon emphasized that he considers the Water Supply Management Program and Long-Term Regional Water Supply Strategy (Strategy) to be as critical as BAWSCA's continuing efforts to monitor the SFPUC's Water System Improvement Program and the negotiation of the new Water Supply Agreement. He stated that they share a common goal: a reliable supply of water, which has been an issue Director Wykoff has emphasized for some time. He is pleased to report that BAWSCA is moving forward with the Strategy, and a report on the progress will be provided to the board. Chair Fannon reminded the members of the board to think regionally as the Strategy addresses regional issues that affect all BAWSCA member agencies.

Chair Fannon congratulated Mr. Jensen and his staff for effectively leveraging the use of staff and consultant resources during an economically difficult time and successfully putting together a prudent budget plan for FY 2010-11. The proposed budget for FY 2010-11 is 3% below the current budget.

Chair Fannon stated the Board Policy Committee has a significant role of giving advice and counsel to the CEO and the board. He said he set one-year terms for the Chair's appointments of directors as chair and vice chair to provide an opportunity for more board members to become more active in BAWSCA's affairs. He said the recent board policy committee discussion with Mr. Jensen about limiting presentations to the Board to the critical factual elements was very appropriate. Board members can read the packet material that is circulated before board meetings to get the background information for the CEO's shorter presentations. This will save time for everyone and streamline our board meetings.

**3. Board Policy Committee Report:** Committee Chair O'Connell thanked Directors Kelly Fergusson and Bill Quirk for their service on the committee as Chair and Vice-Chair. She looks forward to working as chair of the committee, and to working with committee Vice-Chair Rob Guzzetta.

She stated that the committee is advisory to the Board and the CEO regarding policy matters of significance, and re-iterated Chair Fannon's encouragement for board members to be involved when requested.

Director O'Connell reported that at its April 14<sup>th</sup> meeting, the committee discussed the items listed in the board agenda. The proposed budget for FY 2010-11 was discussed in detail to address the challenges the CEO presented at the March board meeting, the workplan, funding alternatives for the operating budget as well as funding alternatives for the Strategy. Recognizing the current challenging economic times, the committee thoroughly discussed staff resources for the coming year, consideration of COLA adjustments for salaries, and maintaining a competitive compensation for one position.

The committee voted to recommend board approval of the proposed budget, and budget related items, as well as the professional services contracts listed in the agenda.

- 4. Chief Executive Officer's Reports:** Mr. Jensen reported that the Board Policy Committee discussed the issue of public comments regarding the use of chloramines for treating drinking water, and advised the CEO to prepare an informational handout and make it available at every board meeting. Mr. Jensen said a handout originally prepared in September of 2005 has been updated and revised and will now be available at board meetings.

- A. Water System Improvement Program – Update: Ms. Sandkulla reported that BAWSCA's reviews of the SFPUC's progress in implementing the WSIP focuses on whether the program is on schedule, budget and scope. The program is on time with the current completion date of December 2015. It is within the current \$4.6 Billion budget, is on scope, and meets the Level of Service (LOS) goals adopted by the SFPUC in 2005. Ms. Sandkulla noted that the SFPUC modified one level of service goal in 2008 by limiting how much water San Francisco would supply until 2018.

Ms. Sandkulla presented a graph showing the overall program progress since 2005. She noted the buildup of the typical construction S-curve, and reported that the overall program is 22% complete, with the construction program at 10% complete as of December 2009. Planning and environmental phases are nearly done, and the SFPUC's focus is moving towards awarding construction contracts. Expenditures will increase as construction contracts are signed and work on larger projects begins to move forward.

BAWSCA's focus in monitoring the program is shifting from the environmental and planning phases to the SFPUC's ability to manage the construction phase, and maintaining ongoing operations during the construction period.

- B. Water Conservation Implementation Plan – Update: Ms. Sandkulla reported on the progress of two key conservation rebate programs, Washing Machine Rebate Program (WMRP) and High Efficient Toilet Replacement (HET) Rebate Program.

Ms. Sandkulla reported that the current high customer demand for washing machine rebates indicate that the goals for the WMRP are reasonable and achievable. The goal was set at approximately 8,200 rebates per year, and participating agency budgets meet approximately 3,500 rebates per year. The number of rebates issued to date exceed the original budget for FY 2009-10, and Ms. Sandkulla stated that participating agencies

would need to increase their program budget to meet the Water Conservation Implementation Plan (WCIP) rebate goals.

The HET rebate program is less evolved than the WMRP. It is not exceeding available budgets, however, it is issuing twice the number of HET rebates issued in FY 2008-09. Increased customer demands for the rebates demonstrate increased customer awareness and interest, as well as market transformation, indicating that the aggressive WCIP rebate goals are achievable.

The WCIP goal for HET rebates is approximately 5,800 for this fiscal year. Participating agencies' budgeted for approximately 3,100 rebates. As of May, 1,903 rebates have been issued.

Ms. Sandkulla stated that the reason for the water conservation programs is to ensure sustainable water supplies to meet anticipated growth and noted member agencies decreased water purchases during FY 2009-10 by 5%. While the decrease in water use can be from a variety of reasons, including the call for voluntary reductions and the economic downturn, it is important to continue current conservation programs and look at other cost-effective means of extending existing supplies.

Director Quigg commented that the public gets confused with why toilets that use 1.6 gallons per flush (gpf) do not qualify for the rebates, and asked when manufacturers will stop making 1.6 gpf toilets. Ms. Sandkulla stated that there are no State or Federal regulations that prohibit the manufacturing of toilets that uses 1.6 gpf, but a State plumbing code that will go in effect in 2014 may prohibit the sale of those toilets in California.

Director Pierce asked whether agencies will provide additional funds for the rebate program if they see that it is well accepted. Ms. Sandkulla reported that agencies have indicated their intention to increase their budget to meet the target and customer demand for the coming fiscal year. She noted that agencies participating in the rebate programs are looking into an option of lowering the WMRP rebate level to \$50 to make their program budgets go farther and/or be able to move some money over to the HET program.

5. **SFPUC Report:** SFPUC General Manager, Ed Harrington reported that the SFPUC is moving forward with key projects on the WSIP. A construction contract will be awarded on June 8<sup>th</sup> for the Irvington Tunnel, which is known to be the most important project of the program. The Calaveras Dam Project is one of the more challenging projects in the program, and the SFPUC continues to focus on ensuring water supply reliability in its negotiation process with the National Marine Fisheries Service and the State Department of Fish and Game. The SFPUC is currently interviewing potential Construction Management Contractors.

The SFPUC's budget for FY 2010-11 is flat except for the debt service that will increase in the next two years from \$70 million a year to over \$300 million a year. A mandatory furlough program for most of the City's employees who accepted the program will apply a total of 12-days off in the next fiscal year. The days will be staggered but a shutdown of offices between Christmas and New Years can be expected.

Mr. Harrington pointed out for the board's edification that the SFPUC's wholesale water rate is typically 40-60% of BAWSCA member agencies' retail rates to their customers. It is convenient to say that when San Francisco raises its water rates, wholesale agencies' increased rates are "just a straight pass through." Mr. Harrington asked that wholesale customers consider including in the discussion the other costs incorporated in their rate increase.

The SFPUC expects to sell approximately \$950 million of bonds between June 9<sup>th</sup> and July 21<sup>st</sup>. The sale is set up to provide flexibility to include bonds that would be most productive, including Build America Bonds (BABS). The SFPUC's budget anticipates a 5% debt service on the bonds, but a debt service of 4% or less can be expected with the SFPUC's recent upgrade by Moody's and Standard & Poor's.

Director Guzzetta asked how the furloughs would affect the maintenance of the regional water system. Mr. Harrington stated that the SFPUC has several options including rearranging shifts, overtime, and in the furthest case, adding more staff. Mr. Harrington noted that the SFPUC and the Mayor discussed the issue of the potential need to add more staff if hours are being cut. Mr. Harrington stated that work in the Water Supply and Treatment Division and major capital programs, including the shutdown schedules, is bond-related and will be unaffected. He also noted that Union Local 39, operating engineers, chose the pay cut instead of the days off, and will maintain the same number of hours at work.

**6. Public Comments:** There were no public comments.

**7. Consent Calendar:** Mr. Jensen noted a correction on page 5, Paragraph 3 of the minutes, where it states, "Mr. Harrington said that the PUC would be issuing about \$400 billion in May..." should instead say, \$400 million.

**M/S/C (Quigg/Anderson/Unanimous) that the Minutes of the March 18, 2010 meeting be approved with the correction, the Monthly Budget Status Report, Quarterly Investment Report, and Quarterly Directors' Reimbursement Report for periods ending March 31, 2010 be received and filed.**

## **8. Special Reports**

A. Long-term Reliable Water Supply Strategy (Strategy) – Status Timeline and Estimated Costs: Mr. Jensen stated that the Strategy is a key element of BAWSCA and its member agencies' Water Management Program. The objective of the Water Management Program is to ensure a reliable supply of high quality water where and when needed by the people, businesses and community organizations within the BAWSCA service area. Mr. Jensen noted that the key is "when and where needed" because it signifies the importance of timing and location for where the water has to be.

Mr. Jensen stated that the Water Management Program ensures reliability of supply from the San Francisco Regional Water System, and ensures the reliability of supply to meet future water needs. The Strategy is a critical component for the member agencies and their customers because the existing water supplies are subject to shortage. The economic consequences of a 20% shortfall are regional and estimated to cost \$7.7

billion a year. Mr. Jensen noted that even if that estimate were off by a factor of 10 or 100, the economic downside to businesses and communities in the service area would be serious.

Additionally, some agencies are already exceeding their contractual rights to water from the SFPUC. As a group, it is projected that BAWSCA member agencies' water needs will exceed available supplies within 10 years. BAWSCA is working to develop policy considerations so member agencies understand the consequences of exceeding the 184 mgd supply limitations, and how water supply projects can help meet near-term water supply needs in normal and dry years.

Mr. Jensen reported that Phase I of the Strategy was initiated in September 2009 and will be finalized in June 2010. The total cost of Phase I is \$117,588. BAWSCA has worked with member agencies during this fiscal year to prepare the technical scope of the work needed for the development of the Strategy.

Phase I provides the scope, schedule and cost of the next phase, which has been broken into three stages: Phase IIA, IIB and IIC.

Phase IIA includes identification and evaluation of near-term local and regional water supply projects and the necessary field investigations required to develop long-term supply projects. Phase IIA is estimated to be completed by January of 2012.

Mr. Jensen noted that there are a lot of unknowns about some projects and as BAWSCA works with member agencies in Phase IIB, information will need to be collected through additional field investigations. Phase IIC would use this additional information to develop and evaluate alternative supplies and make recommendations to meet long-term demands to 2035.

Mr. Jensen noted that the staging process will provide ability to address future cost allocations that Director O'Mahony raised at the March Board meeting. The BAWSCA board can consider the allocation of costs depending upon the nature, location and benefit of projects prior to their implementation.

The cost of Phase IIA is being finalized, and is estimated to be between \$2 and \$2.2 million spread over 18-months. Mr. Jensen noted that part of Phase IIA is to identify what additional information needs to be developed, and until we approach Phase IIB, a rigid cost for that phase cannot be provided. Phase IIB is currently estimated between \$500 K to \$3 million, and Phase IIC is estimated to be between \$1 million and \$1.5 million.

Policy matters on the technical scope, schedule and evaluation criteria, as well as the schedule and estimated costs for Phase IIA will be brought to the Board Policy Committee in June and to the Board in July.

In response to Director O'Mahony, Mr. Jensen reported that the water supply management representatives appointed by each member agency have been involved with determining the need for the Strategy and the allocation of water during droughts. The representatives have participated, reviewed the work products and read through the technical memoranda that have been developed throughout the five meetings held to date. Another meeting is scheduled on May 26<sup>th</sup> with all the representatives.

Director O'Mahony asked if there has been discussion on charging those who have gone over their contractual rights with San Francisco. Mr. Jensen stated that it would be a public policy issue that would be discussed by the board policy committee and considered by the board when more information is known about what water supply projects would be done, how much it costs and what benefit(s) it provides.

Director Quirk asked if the Tuolumne Basin is at 100% of a normal year in terms of water supply. Mr. Harrington confirmed that the regional system's water bank is full and that the reservoirs will be full by June 30<sup>th</sup>.

## 9. Action Calendar:

- A. Approval of Proposed Modifications to the Description, Title and Top Step Salary for the Position of Sr. Water Resources Engineer: Mr. Jensen reported that the position of Sr. Water Resources Engineer, which Ms. Sandkulla holds, has continued to increase in responsibilities and duties that are exercised. This position is currently responsible for BAWSCA's oversight of all aspects of the SFPUC's WSIP including project scopes, costs and schedules, interpreting the Quarterly Progress Reports, and preparing, developing and signing off on comments on environmental documents for all the projects the SFPUC is pursuing. The position is also responsible for running the conservation program activities that are common to all agencies, the growing water conservation subscription programs under the WCIP, and developing the Long-Term Reliable Water Supply Strategy.

An independent firm was hired to compare BAWSCA's position to other positions performing comparable responsibilities in other agencies. The comparison found a difference in the title, job description and top-step salary for BAWSCA's position.

The recommendation to the board is to approve a modification of the title, job description, and top-step salary of the position based on the median of the top-step salaries found in other agencies. The actual level of employee compensation is determined by the CEO/General Manager and would be within the range.

**M/S/C (Quirk/Pierce/Unanimous) that the Board approve the recommended modifications to the position description, title and top-step salary by 6.7% for the position of Senior Water Resources Engineer.**

- B. Approval of Proposed Achievements and Operating Budget of FY 2010-11: Details of the proposed budget for FY 2010-11 are provided in the staff memo. Mr. Jensen reported that the agenda item includes three recommended items for board action; approve the work plan for FY2010-11, approve the operating budget of \$2,680,000 to fund all activities except for the Strategy, approve the funding for the operating budget with no increase in assessments and no net decrease to the general reserve balance. At its meeting on April 14<sup>th</sup>, the board policy committee thoroughly discussed each item and voted unanimously to recommend board approval of the three recommendations.

Mr. Jensen went through the list of 12 results to be achieved in FY 2010-11, and discussed two issues under the work plan.

First, increased workload related with the WCIP and the Strategy is anticipated to exceed staff resources. Mr. Jensen reported that he will examine, and report back to the Board Policy Committee and the Board at mid-year, the nature and justification of the resources needed and alternatives for addressing the issue. This item is #7 of the results to be achieved in FY 2010-11, which was inadvertently dropped because the table's formatting in Word.

Second, the budget contains a 3.01% COLA adjustment to staff's top-step salaries. The Board Policy Committee advised that a comparison be made with what member and competitor agencies are doing. The results of the comparison are included in a table provided in the staff memo. Mr. Jensen noted that the actual increases in employee salaries will be based on performance.

Each year, the board is presented with the list of activities not included in the workplan. At its April 14<sup>th</sup> meeting, the Board Policy Committee recommended that activities related to the State water bond measure be added to the list of activities NOT included in the workplan .

Director Weed asked if the Board's consideration of a position on the State Water Bond, through a policy statement or resolution, could be put on the agenda for discussion by the Board or the Board Policy Committee.

Director Quirk commented that it will not be a unanimous vote and stated that he prefers the board not to address it.

Chair Fannon directed the Board Policy Committee to discuss the matter and advise whether it should be considered by the board.

The proposed operating budget for FY 2010-11 of \$2.68 million is slightly below the current fiscal year's budget of \$2.76 million. The current year will finish below the approved budget by 5%-10%, and the balance will be deposited in the general reserve. The net increase in the general reserve at the end of the current year will be between \$0 and \$140,000.

The proposed operating budget can be funded from the general reserve with no net decrease in reserve balance and no increase in current assessments. The Board Policy Committee voted unanimously at its meeting on April 14<sup>th</sup>, to recommend board approval of the proposed board actions.

The concerns about using the Water Management Charge to fund the Strategy and how costs would be allocated among the member agencies were raised at the March Board meeting. The Board Policy Committee discussed those issues at its April 14<sup>th</sup> meeting and a summary of that discussion is included in the budget memo.

Mr. Jensen noted that funding the Strategy is a separate item from the operating budget on which the board is being asked to act on this evening. Recommendations to fund the Strategy will be brought back to the Board Policy Committee for further discussion in June and to the Board for consideration in July. Discussions of the Board Policy Committee from its meeting in April are being reported to the board for consideration before it acts on the proposed workplan and budget.

Identified advantages of funding the Strategy through the Water Management Charge include keeping the Strategy's expenses separate from the operating budget, and having greater future flexibility in allocating implementation costs.

Two ways of allocating costs include a uniform charge per unit of water purchased from San Francisco, or proportion the charge based on the benefits each agency receives. Because information on what projects and how will they be implemented, who benefits, and who pays are currently unknown, it is difficult or impossible to allocate costs for developing the Strategy based on benefits. That approach could be considered for future decisions to implement specific projects.

The Board Policy Committee recommends the use of the Water Management Charge to fund the Strategy and to apply a uniform charge to all the member agencies.

**M/S/C (Quirk/Pierce/Unanimous) that the Board approve the proposed work plan and operating budget of \$2,680,394 for FY 2010-11, and to fund the operating budget with no increase in assessment and no net decrease in the general reserve balance.**

- C. Approval of Professional Services Contracts that need to be in place by July 1, 2010: Mr. Jensen reported that 12 Professional Services Contracts need to be in place beginning July 1, 2010. They are not all of the professional services needed for the year. Mr. Jensen noted that a professional services contract for financial auditing services is noted in the CEO/General Manager's letter, and will be brought to the Board in July following the selection process.

**M/S/C (Quigg/Vella/Unanimous) That the Board approve the Professional Services contracts that needs to be in place by July 1, 2010.**

**10. Adjourn to Closed Session: Public Employee Evaluation:** The Board adjourned to Closed Session at 8pm.

**11. Reconvene to Open Session:** The board reconvened to Open Session at 8:25 pm.

**12. Report on Actions Taken in Closed Session:** Chair Fannon reported that members of the Board are pleased with the CEO/General Manager's performance, and that specific questions raised will be discussed with the CEO/General Manager.

**13. Directors' Discussion:** Director Vella asked who the representative from the City of San Jose is on the BAWSCA board and suggested that Chair Fannon call him to see if he can attend the BAWSCA meetings or whether he would like to designate a representative, because it is important for the City of San Jose to be a part of this unit.

Mr. Jensen stated that Mayor Chuck Reed's presence on the BAWSCA board has great political significance to the Board as a whole and asked members of the board to take that into consideration.

Director Fergusson asked if Mayor Reed has been able to join the CEO/General Manager when he's visited with the mayor of San Francisco in the past. Mr. Jensen said yes, that Mayor Reed has attended several meetings with Mayor Newsom.

Chair Fannon stated that he will talk to Mayor Reed.



**14. Date, Time and Location of Next Meeting:** The next meeting is scheduled on July 15, 2010, in the Wind Room, Foster City Community Center.

**15. Adjourn to next meeting scheduled for July 15, 2010:** The meeting was adjourned at 8:30pm.

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**  
**May 20, 2010**

**Attendance Roster**

Present:

Ruben Abrica	City of East Palo Alto
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
Rob Guzzetta	California Water Service Company
Larry Klein	City of Palo Alto
Marty Laporte	Stanford University
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Ron Swegles	City of Sunnyvale
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District
Rick Wykoff	City of Foster City

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Absent:

Ken Coverdell	Coastside County Water District
Armando Gomez	City of Milpitas
Michael Guingona	City of Daly City
Patricia Mahan	City of Santa Clara
Matthew Pear	City of Mountain View
Tom Piccolotti	North Coast County Water District
Chuck Reed	City of San Jose

**7**