

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING**

**March 18, 2010 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:00 pm

BAWSCA Chair John Fannon was out of town. Vice-Chair, Barbara Pierce, 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:

Vice-Chair Pierce recalled Chair Fannon's statement that BAWSCA's current and future workplans focus on taking command of our destiny. Communities must have reliable supplies of water to meet current and future water needs. This is the reason the state authorized the formation of BAWSCA, and why every one of the member agencies voted to form the agency and become a member of it. It is important that members of the board have a clear understanding of what the agency may be called upon to do and what decisions it will be asked to make.

Vice Chair Pierce stated that it is important that board members are able to envision what the consequences are if the board fails to act; therefore, she said she had asked Mr. Jensen to clarify the issues and consequences for the board in practical, day-to-day terms as we move along, beginning with his presentation of the preliminary workplan and budget for FY 2010-11 this evening.

3. Board Policy Committee Report: Vice Chair Pierce reported that the Board Policy Committee did not meet in February due to a lack of quorum.

Vice-Chair Pierce stated that in January 2009, Chair Fannon appointed Director Fergusson as Chair and Director Quirk as Vice-Chair of the Committee for a one year term. In January 2010, Chair Fannon made two new appointments to the Committee Chair and Vice-Chair to give other directors an opportunity for greater participation.

Director O'Connell was appointed to serve as Committee Chair, and Director Guzzetta was appointed to serve as Vice-Chair. Director O'Connell has been a member of the BAWSCA board since its formation in 2003. She currently serves as a council member for the City of San Bruno and is involved in the council's Water and Well Water Committee and Stormwater Committee. Director Guzzetta was appointed to the BAWSCA board in 2005. He is Vice-President of Operations for Cal Water Service Company, the single largest wholesale customer of San Francisco. Both agencies have been increasingly active in BAWSCA's water conservation programs.

On behalf of Chair Fannon, Vice-Chair Pierce thanked Directors Fergusson and Quirk for their service as officers of the Committee, and for continuing to serve as members of the Committee.

Director Fergusson expressed that it was an honor and a pleasure to serve the board as Chair of the Committee. She looks forward to working on the Committee and serving the Board in the future.

Vice-Chair Pierce welcomed and introduced Marty Laporte as a newly appointed member of the board from the Stanford service area. Director Laporte was appointed by the Santa Clara Board of Supervisors on March 2nd, and takes the place of former BAWSCA Director Mike Goff who retired in January 2010.

4. Chief Executive Officer's Reports:

- A. The board was reminded that FPPC Form 700's are due to BAWSCA by April 1, 2010.
- B. Silicon Valley Water Conservation Awards – Mr. Jensen recognized the efforts of Peter Drekmeier for organizing the 2nd Annual Silicon Valley Water Conservation Awards which recognize the work of organizations, agencies, businesses and individuals in advancing water conservation in the Silicon Valley. BAWSCA is proud to announce that one of the winner is a BAWSCA member agency, and others are organizations within the BAWSCA service area. The award recipient for Government Agency is the City of Hayward. Cisco in San Jose received the award for Business, and the Human Society Silicon Valley in Milpitas received the award for Organization. Winners will be honored at the awards ceremony on March 22nd.

Director Quirk stated that the City of Hayward is pleased and proud the receive the award. He thanked Mr. Drekmeier for leading the effort, and Alex Ameri, Deputy Public Works Director for the City of Hayward, who has been an integral part of the City's tiered pricing for water. Director Quirk noted that Hayward's tiered pricing is the single most important reason for the city's low water use. The City of Hayward participates in BAWSCA's conservation programs and is very anxious to be the first to have indoor and outdoor regulations.

- C. Water Supply Conditions – Update: Mr. Jensen reported that current water supply conditions are good. A precipitation chart of Hetch Hetchy for Water year 2010 showed that precipitation is at 100% of normal for this time of year and 60% of normal for the entire year. While mandatory rationing is not anticipated, voluntary rationing will continue to be encouraged.
- D. San Francisco Wholesale Rate Adjustment – Each year the SFPUC adjusts the wholesale water rate that it charges for the water purchased from San Francisco. A rate increase of 15.2% is proposed, which will increase the cost of water to \$1.90 per unit. The rate covers the agencies' collective share of costs for operations and capital expenses, including bond payments. The rate calculations are consistent with the new Water Supply Agreement. The wholesale rate is \$.05 per unit lower than the original projection of \$1.95 per unit. Art explained that a \$.01 per unit savings is worth approximately \$800,000. A good portion of the savings is due to the low bond interest rates the SFPUC received from its competitive sale of bond for the WSIP projects.
- E. Water System Improvement Program – Update:

SFPUC Response to BAWSCA's Recommendations: Last summer, BAWSCA made four recommendations to the SFPUC's revision of the WSIP. Those recommendations were incorporated into the revised program adopted by the commission. The SFPUC responses to three of the recommendations are:

1. Analyses that confirmed revised WSIP projects meet the adopted level of service goals (LOS)
2. A plan that monitors and tracks construction activities is in place.
3. A report on whether the schedule has been compressed and whether action is needed to reduce risk of schedule delay has been completed and submitted to the commission.

The fourth recommendation is the comparison of bids and awards to estimates and budgets. This is an ongoing effort until construction is completed. The commission was updated on at its last meeting.

Mr. Jensen stated that BAWSCA is pleased with the SFPUC responses to our recommendations.

San Francisco Revenue Bond Oversight Committee (RBOC) Presentation: Patrick Sweetland, Director of Water and Wastewater for the City of Daly City, has been BAWUA's appointed representative to the San Francisco RBOC and provided the Board a report on recent activities.

The RBOC was enacted by San Francisco voters in 2002 as an amendment to the City and County Charter. The committee has seven members appointed by the Mayor, the Board of Supervisors, the Controller, the Supervisors' Budget Analyst, and BAWUA, BAWSCA's predecessor organization.

The committee is responsible for reviewing and publicly reporting on the SFPUC's expenditure of revenue bonds for the repair, replacement, upgrading and expansion of the City's water, power, and wastewater systems. It will sunset on January 1, 2013.

The committee has a wide range of authority to conduct independent reviews, and can prohibit further issuance or sale of bonds upon majority vote of members, and upon specific findings and legal consultation.

Mr. Sweetland reported that the committee recently finished an independent review of the Sunset Reservoir-North Basin Project. The project seismically improves the reservoir that was originally constructed in 1938. It was identified as the highest priority of all City reservoirs for seismic retrofitting.

The review found that all schedule changes conform to policies and procedures. Construction management and project management procedures are consistent with industry leading practices, and changes that took place between 2005 and 2009 were easily tracked. The consultant recommended that quarterly progress reports address key performance indicators to serve as an executive level tool to monitor project performance.

The report was sent to the SFPUC, in which the committee received comments from Todd Rydstrom and Julie Labonte. Mr. Sweetland reported that the SFPUC staff is proceeding with the recommendation.

In response to Director O'Connell's question, Mr. Sweetland explained that the committee's sunset in 2013 is based on original charter language back in 2002. He personally believes that the committee should continue.

Mr. Jensen reported that Mr. Sweetland has completed the two consecutive terms permitted by the Charter, and that Steve Toler, Financial Services Director for the City of Foster City, has agreed to serve as our new appointee on the committee.

BAWSCA Report on SFPUC Contract Awards: A staff report on BAWSCA's review of the SFPUC WSIP contract awards was included in the agenda packet. Key findings of BAWSCA's comparison between contract awards and estimates indicate that the bidding climate remains competitive, recent bids average well below engineer's estimates, projects are completed below budget even with change orders, and current projects are small compared to pending projects that the SFPUC is about to take on. Mr. Jensen noted that BAWSCA will continue monitoring and tracking the SFPUC's progress.

Director Pear asked for the dollar difference between the smallest project and the larger projects. John Ummel, BAWSCA Sr. Administrative Analyst, stated that the largest project is approximately \$210 million while others average \$20 million each.

SFPUC Expert Panel Report: Independent Review of SFPUC's Water System Improvement Program: A copy of the SFPUC Expert Panel report was included in the agenda packet. Mr. Jensen reported that the goal of the independent review panel was to examine the SFPUC's progress and whether it is prepared to take on the heavy construction period. The panel looked at the SFPUC's organizational structure, the qualifications of key personnel, construction management procedures, and project monitoring and control systems. The Panel determined the SFPUC's organization structure has the ability to get a program of this magnitude completed on time and on budget. Key personnel were found to be well qualified, well experienced, and highly motivated. The monitoring and control systems in place are sound.

Specific recommendations made by the Panel include maintaining good internal vertical and horizontal communication to keep everyone informed of what's going on and what is expected, evaluating personnel capabilities and personnel changes to maintain a strong organization, testing and auditing of the construction management organization and systems as the program moves along, and refining the performance tracking and reporting to improve the usefulness of the quarterly progress report.

The Panel's report identified some risks and challenges which were no surprise for the staff and management of the SFPUC.

Ms. Labonte and her staff are executing the recommendations and are coordinating the changes in the quarterly report.

Mr. Jensen was pleased to report to the board that the SFPUC recently approved a two-year employment contract with Ed Harrington as the General Manager of the SFPUC.

- 5. SFPUC Report:** Mr. Harrington thanked Mr. Sweetland for his work on the RBOC and stated that the committee is expected to continue beyond its expiration date of 2013, until the revenue bond money has been spent. The committee provides the SFPUC valuable oversight and an effective means of discussing important issues in a public forum.

Bonds are selling at lower interest rates than originally expected. San Francisco recently sold a combination of general obligation bonds and Buy America bonds at approximately 3 1/2 %. By May, the SFPUC will be issuing about \$400 million worth of bonds and it is expected that low bond interest rates will continue.

The WSIP is now moving forward with more projects nearing construction. The Bay Division Pipeline Project broke ground for the eastern end of the project today. Construction costs for the Bay Division Pipeline came in at about \$100 million under the engineer's estimates. The total cost for construction work on the tunnel and on both eastern and western ends is about \$332 million.

Projects are receiving multiple bids that are under the engineer's estimates. Construction bids received for the Sunol Water Treatment Plant project came in 24% under engineer's estimates.

Mr. Harrington reported that projects are ahead of schedule as a result of the high demand the construction industry has for work. Core staff and extra crews are brought on site and the jobs get done faster and more efficiently. Projects like the Tesla Portal and Crystal Springs Bypass tunnel are ahead of schedule.

The SFPUC held its first annual meeting with the wholesale customers and BAWSCA under the requirements of the new Water Supply Agreement. The meeting used to be referred to as the Suburban Advisory Group Meeting. The meeting was very well attended, there were good discussions and a strong show of support for both sides' collective efforts.

Mr. Harrington was pleased to report that the scheduled shutdown of the Coast Range Tunnel finished ahead of schedule, and although some things went wrong, the system was brought back up as expected. The SFPUC had multiple contingency plans in place that allowed them to accommodate unexpected events with no disruption of service to customers in the service area.

Mr. Harrington reported that the operating expense for the San Francisco's water department will be kept flat to minimize the impacts on the rates when the debt service increases from \$70 million to \$350 million.

The City of San Francisco's major budget problem for the city's general fund is unlike the water department, which relies on water, wastewater and power revenues rather than tax revenue. There was a plan to lay off all city employees, including Mr. Harrington, and re-hire them at 37 1/2 hours a week to save the city money. In response to Director O'Mahony's question about who will receive the layoff notices, Mr. Harrington explained that it will be across the board.

The mayor continues to be in negotiations with the unions, and the final decisions may be different. Additionally, compensation increases have not happened in the past two years and are not expected in the next couple of years. Mr. Harrington noted that the City's wellness program, which allows employees to cash-out unused sick leave at retirement, may bring about an abnormal number of retirements at the end of the fiscal year.

Director O'Mahony asked if incentive programs are offered to contractors that complete jobs ahead of schedule. Mr. Harrington stated that incentive programs are applied where they will make a difference in the contractor's behavior in terms of the quality of work, as opposed to applying it to the whole project's early completion. An example is the Crystal Springs Tunnel project which was anticipated to have tunneling work 24 hours a day that could cause noise and light impacts during the night. The project is ahead of schedule and the part of the work that may cause noise and light disturbance to the neighborhood is minimized to 10-hours per day as opposed to 24 hours.

- 6. Public Comments:** Public comments were heard from Marjorie Rauch, Wynn Greich, Linda Corwin, and Peter Drekmeier.

7. Special Reports

- A. State Water and Delta Legislation – Report from Association of Water Agencies (ACWA).** Mr. Jensen introduced ACWA Executive Director Tim Quinn to present ACWA's perspectives on the State water legislation, the distribution of authorities and responsibilities, the benefits of the bond measure, the beneficiaries, and other issues.

Mr. Quinn reported that the state is having a serious crisis over water that is conveyed across the Delta. The challenge is rebuilding and investing in a system that was designed in the last century for inexpensive water supply for farms and cities, to be both economically and environmentally sustainable. ACWA's board believes that the passage of the legislation on November 2009 was a significant step forward in solving challenges that have been disputed for more than 20 years.

The legislation was drafted on the principle that environmental restoration and water supply reliability are equally important.

The comprehensive state policy for California's water future includes the Delta Policy, the Statewide Policy and Finance.

The Delta Policy provides a way to make decisions that work for both the environment and the economy. The Delta Stewardship Council's main job is to develop a Delta Plan through collaboration with State and local agencies, federal agencies, stakeholders and the public.

Below the Council are three bodies: the Delta Protection Commission, the Delta Conservancy, and the California Water Commission.

The Delta Protection Commission currently has important land use responsibilities and will now have a responsibility to develop a sustainability plan for the Delta along with the Delta Conservancy and the California Water Commission.

The Delta Conservancy is a new body with the responsibility to implement restoration programs. The California Water Commission is an existing body that is being revitalized to oversee allocation of \$3 billion dedicated to storage projects for supply reliability. It will also develop rules for quantifying the anticipated public benefits from the infrastructure.

There is a proposed water bond measure to fund some aspects of the legislation. The expenditures can be sectioned into 3 major categories: \$4 billion for local resource development, \$4 billion for habitat and watersheds restoration, and \$3 billion for storage for co-equal goals and other public benefits. The total amount of the bonds measure is \$11.14 billion.

Mr. Quinn noted that a popular argument is that the legislation subsidizes water for agriculture. Mr. Quinn stated that all the money will go to local resources development, habitat development, and new infrastructure. The legislation has the largest commitment to resource development and habitat and watershed restoration in the history of California. The bond measure will be on the November 2010 ballot.

Mr. Quinn pointed out that the system that we rely on today was built by our grandparents' generation. He said an investment in infrastructure during the current state of economy would translate into thousands of jobs in the construction industry.

Director Quirk noted that devoting tax revenue to pay off the bonds would require funding cuts to welfare programs, education and health, and asked why not use water fees. Mr. Quinn stated that water infrastructure will be paid for by water users and State project customers through water fees, as specified in the policy bills and in the bond measure. In terms of competition for other public dollars, Mr. Quinn opined that solving the water problems is just as important to the public interest as education and other public expenditures.

In response to a question from Director Swegles, Mr. Quinn said there was no debate in the legislature about requiring specific technical expertise from the appointed members of the Delta Stewardship Commission.

Director O'Mahony asked about the focus on storage and reservoirs. Mr. Quinn stated that the storage provisions were the most intensely negotiated item in the legislative package. Storage for water supply, as opposed to environmental flows, would be paid for by water users rather than tax revenue.

In response to Director Weed's inquiry, Mr. Quinn confirmed that the November bonds cannot be used for construction of a peripheral canal or bypass tunnel in the Delta. This will have to be paid for by water contractors.

- B. **Water Supply Management Program – Status Report:** Mr. Jensen reported that the underlying objective of BAWSCA's Water Supply Management Program is to ensure that reliable high-quality water supply is available where and when needed by the residents, businesses and community organizations within the BAWSCA service area.

Mr. Jensen presented a chart that shows how BAWSCA's various activities relate to this overall objective and to each other.

To ensure the reliability of receiving water from the regional system, BAWSCA will continue to monitor the WSIP and ensure San Francisco adheres to the provisions of the Water Supply Agreement. Related activities include protecting member agency interests during the Federal Energy Regulatory Committee (FERC) re-licensing of New Don Pedro, and developing a method for water allocation during drought.

The Water Conservation Implementation Plan and the development and implementation of the Long-Term Reliable Water Supply Strategy (Strategy) are the near and long-term activities BAWSCA and its member agencies must do to ensure future water supply demands are met during normal and drought years.

Mr. Jensen emphasized the regional importance of meeting long-term water needs. There are some agencies that purchase water in excess of their contractual rights to water from San Francisco, and there will be others who will follow within eight years if solutions are not implemented. Also, the economic impacts of drought can amount to several billion dollars per year if water reductions are as high as 20% system-wide.

The Strategy will identify specific projects that can be implemented by BAWSCA, by individual agencies, or through cooperative agreements. The Strategy would ensure BAWSCA member agencies a reliable water supply through 2035.

Mr. Jensen explained that Phase 1 of the Strategy, development of the scope, was started in the current fiscal year and will be finalized in June 2010. Mr. Jensen reported that there is a 2-month delay from the original schedule to ensure that the scope of work is refined and complete.

Phase 2 of the Strategy will begin in FY 2010-11. The preliminary cost estimate for Phase 2 was reviewed with the Board Policy Committee and will be discussed with the board under the agenda item for FY 2010-11 budget.

As reported in January, the Washing Machine (WMRP) and High Efficiency Toilet (HET) Rebate programs continue to receive high customer interest and market activity. The number of rebate applications received for both programs indicate that agencies could fund more rebates and achieve more savings, and that the target for the programs are achievable. Agencies would need to increase their budgets to meet the target set for each program.

Director Quirk commented that turning away rebate applications due to lack of funds is not what agencies should do, and asked whether there is anything that can be done to ensure that the program targets are met. Mr. Jensen said he would respond at the next Board Policy Committee.

- C. **Presentation of Results to be Achieved in Fiscal year 2010-11 and Preliminary Budget Estimate:** In January, the board was presented with results that need to be achieved in the long-term and short-term perspectives. The long-term results to be achieved were condensed into the work plan for FY 2010-11. As done in the past, the workplan is organized under four categories: reliable supply, high quality, fair price, and agency effectiveness.

A list of activities not included in the preliminary workplan for FY 2010-11 was also presented to the board.

Except for the Strategy, the workplan can be funded without increasing assessments or drawing down reserves. The board can consider funding the Strategy using the Water Management Charge. Under the Water Supply Agreement with San Francisco, agencies delegated the BAWSCA Board authority to have the SFPUC include a Water Management Charge on the bills sent to wholesale customers. The money collected would be delivered to BAWSCA to be used for Board-approved purposes. BAWSCA would provide San Francisco and each of the member agencies a report on how the money is spent and what results are achieved. This Charge could be used to pay for developing the Long-Term Reliable Water Supply Strategy.

Mr. Jensen stated that the cost of developing the Strategy is not yet finalized, but that the amount of the charge is estimated to be between one and two cents per unit of water. A one-cent per unit charge would generate approximately \$800,000. The work entailed to do develop the Strategy would not be more than \$1.6 million during the first year.

Director O'Mahony expressed her reluctance to support the use of the Water Management Charge because of her concern that it will become fixed. She questioned what the money would develop and produce for the cities and participating agencies who will pay for the charge. She asked the Board Policy Committee to consider and discuss the Water Management Charge with great seriousness.

Director Quirk stated his support for the use of the Water Management Charge for the specific purpose of developing a plan to ensure water supply reliability. He said the charge would have a specific purpose to fund critical work that needs to be done. Director Quirk agreed with Director O'Mahony's concern with the charge becoming permanent, and therefore stated that the charge should go away when the life span of the purpose ends.

Director Fergusson mentioned a concern about how the costs of the Strategy should be allocated. She commented that while the defense in favor of regionalism is valid, different communities may benefit to different degrees. There would be common ground in the area of researching drought supplies, but there will be varying needs in the area of supply for growth.

Mr. Jensen acknowledged Director Fergusson's concern as a question of how to allocate benefits and costs among the BAWSCA's member agencies. He said it is currently difficult to identify the benefits and allocate the costs among the agencies based on the small amount of information currently at hand. Mr. Jensen stated that while the concern is legitimate, it would be difficult to allocate costs based on benefits at this time.

Director Breault expressed his support for the study and as well as his concern about how the costs will be decoupled for agencies that are not going to be beyond their supply guarantees and are clearly not looking to BAWSCA for their additional supplies before 2018.

Mr. Jensen noted that the use of the Water Management Charge would be a decision of the Board. Further discussion of the expressed concerns will be brought to the Board Policy Committee along with alternatives as to how they might best be addressed.

The board's discussion of the preliminary workplan and budget continued with Mr. Jensen's presentation of the challenges for FY 2010-11. There are three open items for the Board Policy Committee's discussion at its meeting in April. First, the projected workload for the implementation of water conservation program, and the completion and implementation of the Strategy will add up to more than 3,000 hours per year or one full-time position.

The preliminary budget memo does not include a budget for a new position, but includes development of a job description and compensation level for presentation to the Board next winter. If the Board approved a new position, funding for the position would be included in the budget for FY 2011-12. If compelling reasons require the position sooner than the end of FY 2010-11, the board could approve filling the position next year, if sufficient funds could be identified.

Second, a 3% COLA increase is included in the preliminary budget memo. An informal review of the member agencies' compensation program reveals a mixture of COLA increases, furloughs and wage freezes for FY 2010-11. No COLA increases were approved in last year's budget. Mr. Jensen remains sensitive to current financial conditions and looks forward to further discussion with the Board Policy Committee in April.

Third is competitive compensation for the Sr. Water Resources Engineer. A review of the positions current duties and compensation reveals a difference to what it was before. A recommendation will be brought to the Board Policy Committee in April for discussion and a recommendation before it is brought to the board in May.

The budget items presented will be brought back to the Board Policy Committee in April for further discussion following incorporation of the comments and suggestions provided by the board tonight. A proposed workplan and budget will be presented to the Board for approval in May.

Vice-Chair Pierce thanked Mr. Jensen for his clarification of the elements of the Water Management Program and emphasizing how important the Strategy is to the member agencies, their communities, and to the directors' actions as BAWSCA board members.

8. Consent Calendar:

M/S/C (O'Mahony/O'Connell/Unanimous) that the minutes of the January 21, 2010 board meeting be approved, the Monthly Budget Status Report and Investment Report for period ending January 31, 2010 be received and filed.

- 9. Directors' Discussion:** Director Quirk suggested looking into what it would take from each agency to reach the goal for the High Efficiency Toilet rebate program, to at least fund the current demand.

- 10. Adjournment:** The meeting was adjourned at 9:15 pm.

11. Date, Time and Location of Next Meeting: The next meeting is scheduled on May 20, 2010, 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
March 18, 2010**

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Cyril Bologoff	City of Brisbane
Randy Breault	Guadalupe Valley Water District
Ken Coverdell	Coastside County Water District
Robert Craig	Westborough Water District
Kelly Fergusson	City of Menlo Park
Armando Gomez	City of Milpitas
Michael Guingona	City of Daly City
Larry Klein	City of Palo Alto
Marty Laporte	Stanford University
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
Ron Swegles	City of Sunnyvale
John Weed	Alameda County Water District

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Absent:

Ruben Abrica	City of East Palo Alto
John Fannon	Town of Hillsborough
Rob Guzzetta	California Water Service Company
Patricia Mahan	City of Santa Clara
Chuck Reed	City of San Jose
Louis Vella	Mid-Peninsula Water District
Rick Wykoff	City of Foster City