

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING****July 15, 2010 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order and Roll Call – 7:07 pm

Immediately following the adjournment of the RFA meeting, Chair John Fannon, called the meeting of the BAWSCA Board of Directors to order. Nicole Sandkulla, acting CEO/General Manager and Secretary of the Board, 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 announced that Nicole Sandkulla is the evening's acting CEO and General Manager while Art Jensen is on vacation.

Ms. Sandkulla is the senior staff executive in charge of the Long-Term Regional Water Supply Strategy (Strategy), which Chair Fannon noted as ranking in the same importance as the negotiation of a long-term water agreement with San Francisco and ensuring that the Regional Water System is rebuilt on time and on budget.

Chair Fannon reported that Phase 1 of the Strategy is completed, and the effort is moving towards Phase IIA and the remaining phases. He noted that the next steps of the Strategy will require extraordinary leadership, management capabilities and determination to get the results BAWSCA member agencies need and water customers require. Although the budget is big, the consequences for not addressing future water supply needs are even greater. Chair Fannon expressed his enthusiasm about the prospects for the Strategy and looks forward to Ms. Sandkulla's report.

3. Board Policy Committee Report: Committee Chair Irene O'Connell reported that the committee met on June 9, 2010 and had a robust discussion about the Strategy's next steps to ensure that the long-term water needs of member agencies' communities are met in normal and dry years. The next steps include consideration of the recommended technical evaluation criteria and initiation of Phase IIA.

Director O'Connell explained that the recommended evaluation criteria will provide the BAWSCA board with the necessary technical information that will be used to make future policy decisions on the strategy. The criteria will also serve as a tool with which the project and the respective benefits can be compared against each other. Director O'Connell noted that it is critically important for board members to remember that the BAWSCA board is a regional board working toward a greater whole.

The committee unanimously voted to recommend approval of the proposed board action to implement Phase IIA of the Strategy.

The committee also discussed whether BAWSCA should take a position on the State Water Bond Ballot Initiative. The committee unanimously voted not to take a position.

4. Chief Executive Officer's Reports:

- A. Status of Pending Legislation – AB 2488 (Ruskin), a bill that amends BAWSCA's legislation, was signed by the Governor. BAWSCA worked closely with the office of Assembly Member Ruskin on this bill and is pleased for his continuing support for BAWSCA locally and in Sacramento.

BAWSCA is also following AB2483 (Coto), a bill that amends the enabling charter legislation of the Santa Clara Valley Water District. The bill passed the Senate and is pending consideration with the Assembly Local Government Committee. BAWSCA will not take a position on the bill, but will continue to watch its development to ensure that nothing in the bill impinges or hampers BAWSCA's abilities.

- B. Schedule for updates to BAWSCA and RFA Conflict of Interest Codes – The Fair Political Practices Commission requires Special Districts, such as BAWSCA, to review its Conflict of Interest Codes once every two years. A review of the current Conflict of Interest Code indicates a need for a minor update specifically associated with the addition of new staff, Anona Dutton, and changes to the titles of staff members. Changes will require a 45-day notice, and the Board Policy Committee can expect to see the recommended changes to the Conflict of Interest Code in August for the Board's consideration in September.

- C. Final Settlement Agreement Crediting Wholesale Customers – In accordance with the the Master Water Sales Agreement between San Francisco and the Wholesale Water Customers, BAWSCA provides an annual independent review of the costs that San Francisco incurs to operate and maintain the regional water system.

A dual review by BAWSCA and an independent auditor hired by San Francisco is necessary and beneficial to each of the BAWSCA member agencies and to the customers they serve. The reviews are completed following two distinct separate approaches that are very successful in finding systematic errors.

The completed reviews for FY 2005-06 and FY 2006-07 have resulted in a \$2.7 million credit to wholesale customers. This credit will be applied to the balancing account and will offset future rate adjustments in subsequent years.

Director O'Mahony expressed her appreciation to BAWSCA's Senior Water Resources Analyst, John Ummel, for his assiduous care in the audit.

As a response to Chair Fannon's question, Mr. Ummel reported that approximately a total of \$15 million have been cumulatively saved from the last 15 years he has worked for BAWSCA.

5. **SFPUC Report:** SFPUC Deputy General Manager, Michael Carlin, addressed the BAWSCA board on behalf of SFPUC General Manager, Ed Harrington. Mr. Harrington was out of town. Steve Ritchie, SFPUC Assistant General Manager for Water, David

Briggs, SFPUC Manager for Water Supply and Treatment, and Sharyn Saslafsky, SFPUC Manager for Special Projects for the Water Enterprise, were present to address the board on questions they may have.

Mr. Carlin reported that the SFPUC's bond sales in June got a 3.87% interest rate on a \$425 million bond issue. Combined with the two bond issues in 2009, a savings of approximately \$159 million over 30 years is projected. It is expected that this favorable bond environment will continue for the upcoming bond sale scheduled for July 22nd.

Conservation efforts are proving to be successful with a decrease in water sales by 8%. However, revenue expectations anticipated at a 4% decrease which will therefore require some adjustments to the balancing account. The adjustment will be taken from the credits applied to the suburban revenue requirements as a result of the wholesale audits for FY 2005-06 and FY 2006-07.

Mr. Carlin reported that the wholesale audits for FY 2007-08 and FY 2008-09 are currently being performed, and that approximately \$4.5 million credit to the BAWSCA agencies can be expected from those fiscal years. Overall procedures are being tightened up with additional staff and a new rate administrator.

The bidding environment for construction remains favorable. Construction contracts for the Irvington Tunnel, Sunol Valley Water Treatment Plant, and San Joaquin Pipeline projects, which were released for bids in the first six months of 2010, were collectively 15% lower than the engineer's estimates, and amounted to a \$59 million savings.

As a response to Directors O'Connell and Guzzetta's questions, Mr. Carlin clarified that the 15% is based on the engineer's estimates that have been adjusted based on the current bidding environment. The SFPUC is benefitting from the current bidding environment that seem to be driving the interest of large civil construction firms from the Midwest and Texas. Mr. Carlin noted that the gap between the lowest and highest bidder is tightening up, and while it is unknown how long this type of environment will continue, it will not last forever.

Mr. Carlin introduced Steve Ritchie to report on a recent news article regarding mercury found in fish in Crystal Springs Reservoir.

Mr. Ritchie reported that mercury, as a contaminant, has been in California water bodies in tiny concentrations for many years. It associates itself with sediment particles that become bio-available and gets into micro-organisms that are eaten by larger organisms and, therefore, can be found in fish. However, mercury has not in any level been detected in the SFPUC drinking water supply.

Because there are no known sources of mercury in the Crystal Springs area, the SFPUC is working with other agencies to commission further studies on whether the aerial deposition of mercury from airborne sources as far away as China to waters in the United States is the cause of mercury in fish in Crystal Springs.

- 6. Public Comments:** Public comments were received from Michael Francois and Wynn Greich.

7. Discussion Item:

Recommended Technical Evaluation Criteria for Use in Long-Term Reliable Water Supply Strategy: Ms. Sandkulla reported that BAWSCA and Camp, Dresser, McKee, BAWSCA's technical consultants, developed evaluation criteria to be used for the development of the Strategy. Six quantitative and qualitative criteria were developed to provide the technical information that policy makers, such as the BAWSCA board and potentially policy makers of individual BAWSCA member agencies, would need to consider in advance of an action. She noted that additional information including beneficiaries of projects and cost allocations would be needed, but are not included in the six technical criteria.

The board was presented with each criterion and the sub-metrics within them to determine whether the criteria are clear from a policy maker's perspective, and whether additional criteria should be included.

In response to Director Weed's comment, Ms. Sandkulla noted that quantifying and determining the cost, which will at minimum include the capital and lifecycle costs, will be critical so that the policy board can decide on how to address the criteria.

8. Action Calendar:

- A. Recommended Modifications of BAWSCA's Statement of Investment Policy: Ms. Sandkulla reported that staff recommendations incorporate two changes to the Statement of Investment Policy. The first is to raise the maximum deposit in any account to be consistent with the new FDIC limit of \$250,000. The second is to update the title of the CEO and General Manager. The requirement for an annual review by the board will be maintained.

The policy will also maintain its standard of prudence and its objectives for safety, liquidity and return on investment.

M/S/C (Quigg/Coverdell/Unanimous) that the board approve the modifications to the Statement of Investment Policy that 1) increases the maximum amount from \$100,000 to \$250,000 to be deposited with any bank or savings association; 2) updates the title of the CEO/General Manager; and 3) maintains the requirement that the Policy be submitted annually for Board review.

- B. Contracting and Funding to Initiate Phase IIA of the Long-Term Reliable Water Supply Strategy: Ms. Sandkulla presented the board with the five action items needed to initiate Phase IIA of the Strategy. The first three items secure the additional consultant resources needed to perform the development of the strategy. The fourth is the allocation of a contingency specifically for Phase IIA to address unforeseen scope changes and additions that would be under the authorization of the CEO/General Manager. The fifth is the utilization of the Water Management Charge to fund Phase IIA.

Ms. Sandkulla noted that BAWSCA's enabling legislation established and authorized the agency to plan for and acquire supplemental water supplies and to encourage water conservation and the use of recycled water on a regional basis. The Strategy's design to

quantify how much water is needed by each member agency in normal and dry years, and identify what projects are needed to meet those needs is consistent with the enabling legislation.

San Francisco's unilateral action in 2008 to limit the available supplies that the wholesale water customers could receive from the system until at least the year 2018, initiated the need for water management activities, including the examination of a plan to meet long-term water needs for the communities of the wholesale customers.

BAWSCA moved rapidly in completing Phase I of the Strategy, which provides a scoping report for the development of the plan, as well as identifying a schedule and a cost for the next steps.

Phase IIA is the next step, and is the first of three phases under Phase II of the Strategy.

The results of Phase IIA will include:

- Update estimates of the amount of water needed by the BAWSCA agencies in normal and dry years,
- Screening and evaluation of projects presented in Phase I,
- identification of projects that require further field investigations during Phase IIB and final evaluation in Phase IIC, and
- development of the scope and budget for Phase IIB and IIC.

Additional results include identification of near and mid-term projects that would prove to be beneficial to implement sooner than later.

Through a review of several existing water supply projects in the service area and the State, Ms. Sandkulla presented a sampling of the policy issues that will potentially be addressed in recycled, desalination, brackish groundwater desalination, and water transfer projects. The Strategy will consider these types of projects in addition to expanded water conservation and local water capture and reuse.

Estimated water supply need in 2035 is 25mgd in a normal year, and over 70 mgd in a dry year. The cost of Phase IIA is \$2,322,000.

Ms. Sandkulla noted that the Board adopted BAWSCA's operating budget for FY 10-11 in May, along with the FY 10-11 work plan. The Strategy was included in the work plan, but the funding for the strategy was deferred with the idea of funding it through the Water Management Charge.

Ms. Sandkulla presented the recommendation for the board's consideration to use the Water Management Charge to fund Phase IIA. The board must first decide whether to use the Water Management Charge, and then decide how the charge will be allocated among the agencies.

The Water Management Charge is a provision incorporated in the new Water Supply Agreement, specifically at the request of each member agency and specifically for this purpose. It provides the Board with flexibility to collect revenue and allocate costs differently from the assessment process and rules. It also separates the project budget from the BAWSCA budget and can be easily tracked and monitored.

The recommended allocation of the charge would be in proportion to the agencies' FY 2000-01 water purchases from SFPUC. This method would apply a fixed monthly amount from each agency that is equivalent to about \$0.02 per ccf, or 1% of the SFPUC water bill. The charge would be for a period of 18 months.

An allocation alternative considered is to set a fixed charge based on the FY 2008-09 purchases from the SFPUC. The method uses the same proportion as the assessments. The largest difference for any agency between the alternative and recommendation is approximately \$1,000.

A second allocation alternative is to set the charge as a rate applied to actual water use in future months. The rate per ccf would be the same as the recommended alternative, \$0.02 per ccf, however, the actual revenue collected would be uncertain as it would depend upon actual sales and therefore, the method will likely under or over collect.

Director Weed commented that it appears BAWSCA is looking at long-term supplemental water supplies over and above 184mgd when a critical concern particularly for agencies in the Peninsula is identifying short term water supplies following a shutdown in the San Francisco regional system. He asked whether this is a factor that will be incorporated in the study, and whether proposed efforts in the Delta and other programs will be examined.

He also commented that the desalination project in Sand City, one of the example projects Ms. Sandkulla provided, was unsuccessful at first-round. It is now breaking ground at twice the cost of Hetch Hetchy water, and this highlights the importance of water supply's availability over relative cost.

As a response, Ms. Sandkulla stated that the short term water supply following a shutdown in the regional water system is currently not directly incorporated in the study, but can be considered under discussion with the technical committee. Ms. Sandkulla also stated that BAWSCA is looking at including the examination of the Bay Area Regional Desalination Project that other Bay Area utilities are considering.

Director Piccolotti expressed his concern with an open-ended surcharge and stated that he would like the funding mechanism to provide North Coast County Water District the option to pay the charge through its assessment.

Director Quirk stated that keeping the charge separate from the normal assessments for all the agencies will clearly identify a beginning and an end, and would avoid the charge from becoming an expected part of BAWSCA's budget.

Director O'Mahony expressed her support for Director Piccolotti's request. In looking at the list of proposed projects, Director O'Mahony stated that not one project involved the City of Burlingame. Director O'Mahony stated that she hopes the option of a different allocation method be considered after Phase IIA, so that agencies who choose not to participate in the development of a project will not be charged.

Director Breault asked whether numbers were calculated for the third allocation alternative which looks at future water use, and why the recommendation is to base it on 2000-01 purchases as opposed to the most current purchases.

Ms. Sandkulla explained that numbers were not calculated because the numbers would be guesstimates based on projected water sales. Fiscal year 2000-01 is recommended primarily because it is consistent with BAWSCA's assessment process.

M/S/C (Quirk/Anderson/Picolotti opposed) that the board authorize the CEO/General Manager to initiate Phase IIA of the Strategy including:

- a. **Negotiate and execute a contract with CDM to develop Phase IIA for a cost not to exceed \$2,100,000;**
- b. **Amend the existing contract with Hanson Bridgett to provide legal services to support Phase IIA with an increased cost of \$76,000;**
- c. **Amend the existing contract with Bud Wendell to provide strategic counseling services for Phase IIA with an increase cost of \$46,000;**
- d. **Authorize a \$100,000 contingency to cover additional, and currently unbudgeted work associated with the completion of Phase IIA, and authorize the CEO to spend this money provided any and all use of this fund, and associated contract amendments, are reported to the Board; and**
- e. **To enact the Water Management Charge to fund the Phase IIA work up to a no-to-exceed amount of \$2,322,000 and to allocate charges to all agencies in proportion to their FY 2000-01 water purchases from the SFPUC.**

9. Consent Calendar:

M/S/C (Pierce/Quirk/Unanimous) that the Minutes of the May 20, 2010 meeting be approved, the Monthly Budget Status Report, Quarterly Investment Report for periods ending March 31st, and Directors' Reimbursement Report for period ending June 30th, 2010 be received and filed.

- 10. Directors' Discussion:** Director Coverdell commented that he is currently not aware of any interpretation of the landscape ordinance occurring in city planning departments and county building departments. He asked if there is a committee or action group that is looking at how the various municipalities in the service area can put some teeth into the ordinance so that it can be taken seriously.

Ms. Sandkulla stated that the September board meeting will provide a full update to the board on conservation activities including the work in implementing the ordinances in the state level and throughout the region.

- 11. Date, Time and Location of Next Meeting:** The next meeting is scheduled on September 16, 2010, in the Wind Room, Foster City Community Center.

- 12. Adjourn to next meeting scheduled for September 16, 2010:** The meeting was adjourned at 8:20pm.

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
July 15, 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
Ken Coverdell	Coastside County Water District
John Fannon	Town of Hillsborough
Armando Gomez	City of Milpitas
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
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
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District

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Absent:

Robert Craig	Westborough Water District
Kelly Fergusson	City of Menlo Park
Larry Klein	City of Palo Alto
Patricia Mahan	City of Santa Clara
Chuck Reed	City of San Jose
Ron Swegles	City of Sunnyvale
Rick Wykoff	City of Foster City

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