

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

**Foster City Community Building – 1000 E. Hillsdale Blvd., Foster City  
Wind Room  
(Directions on Page 2)**

**Thursday, March 17, 2011  
7:00 P.M.**

**AGENDA**

- 1. Call to Order/Roll Call/Salute to Flag** (Pierce)
- 2. Comments by the Chair** (Pierce)
- 3. Board Policy Committee Report** *(Attachment)* (Klein)
- 4. Public Comments** (Pierce)  
*Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.*
- 5. Consent Calendar** (Pierce)
  - A. Approve Minutes of the January 20, 2011 Meeting *(Attachment)*
  - B. Receive and File Budget Status Report – As of January 31, 2011 *(Attachment)*
  - C. Receive and File Investment Report – As of January 31, 2011 *(Attachment)*
- 6. SFPUC Report** (Harrington)
- 7. Reports and Discussions** (Jensen)
  - A. Revisions to the Board Policy Calendar *(Attachment)*
  - B. Follow up on Achieving Critical Results with Available Resources *(Attachment)*
  - C. Planned Achievements and Preliminary Budget Proposal for FY2011-12 *(Attachment)*
  - D. Analysis of and Conclusions about SFPUC Proposed Structure of Wholesale Water Rates *(Attachment)*
- 8. Directors' Discussion: Comments, Questions and Agenda Requests** (Pierce)
- 9. Date, Time and Location of Future Meetings** (Pierce)  
(See attached schedule of meetings)
- 10. Adjourn to next meeting scheduled for May 19, 2011 at 7pm** (Pierce)

*Upon request, the Bay Area Water Supply and Conservation Agency will provide for written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. Please send a written request, including your name, mailing address, phone number and brief description of the requested materials and the preferred alternative format or auxiliary aid or service at least two (2) days before the meeting. Requests should be sent to: **Bay Area Water Supply & Conservation Agency, 155 Bovet Road, Suite 302, San Mateo, CA 94402** or by e-mail at [bawasca@bawasca.org](mailto:bawasca@bawasca.org)*

*All public records that relate to an open session item of a meeting of the BAWSCA Board that are distributed to a majority of the Committee less than 72 hours before the meeting, excluding records that are exempt from disclosure pursuant to the California Public Records Act, will be available for inspection at **BAWSCA, 155 Bovet Road, Suite 302, San Mateo, CA 94402** at the same time that those records are distributed or made available to a majority of the Committee.*

**Directions to Foster City Community Bldg. – 1000 E. Hillsdale Blvd., Foster City**

**From Hwy. 101**, take the Hillsdale Ave. exit East. Turn Right into the parking lot just after the intersection with Shell Blvd. The Community Bldg. entrance is separate from the Library entrance and is marked by signage. The Wind Room will be at the top of the stairs on the right, across from the reception station (there is also an elevator).

**From the East Bay**, take Hwy. 92 West, exiting at Foster City Blvd., and going South on Foster City Blvd. to Hillsdale. Turn Right (West) onto Hillsdale and proceed to Shell Blvd., making a U-turn to be able to pull into parking lot on SE corner of Hillsdale and Shell. See underlined sentence of first paragraph above for remainder of directions.

# **BAWSCA**

**Bay Area Water Supply & Conservation Agency**

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## **MEMORANDUM**

TO: BAWSCA Board Members

FROM: Arthur R. Jensen, Chief Executive Officer

DATE: March 11, 2011

SUBJECT: Summary of Board Policy Committee meeting held February 9, 2011

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The Committee meeting was called to order at 1:33pm by Committee Chair, Larry Klein. The roster of Committee members present and attendees is attached.

The Committee took the following actions and discussed the following topics:

### **Consent Calendar:**

The Committee approved the minutes from the meeting of December 8, 2010.

### **Reports and Discussions:**

Modifications to Board Policy Calendar: Mr. Jensen reported the need to reschedule current workloads based on input received from the Board at its January 20, 2011 meeting. Modifications include delaying the Water Supply Strategy policy decision schedule to May 2011, and the Water Supply Strategy Drought Protection Goals to July 2011. Additionally, the May board meeting will include discussion of updates to the Rules of the Board and other administrative items that are being reviewed by Legal Counsel.

Follow up on Achieving Critical Results with Available Resources: Mr. Jensen noted that the information provided in the Committee packet responds to the Board's request at the January 20<sup>th</sup> meeting to provide alternatives for achieving critical results needed within currently available resources. The memo provided alternatives for achieving critical results needed with the available resources.

The Board Chair and Vice Chair suggested the CEO explain how BAWSCA's work plans have evolved over time in anticipation of, or in response to, various challenges.

Mr. Jensen presented the historical milestones that led to the formation of BAWSCA and the challenges the agency and its members have faced. The presentation related these challenges to the results to be produced by BAWSCA's work plans, approved annually by the BAWSCA Board of Directors.

In 2000, the SFPUC's failure to adopt a Capital Improvement Program inspired Assembly Member Lou Papan's legislation, AB 1823. In 2002, that legislation passed, as was legislation that enabled BAWSCA to be formed (AB 2058).

In passing AB2058, the legislature noted the lack of, and the need for representative governance to programs that develop and implement reliable water supply and conservation programs on a regional basis. With the passage of time, some have assumed that BAWSCA was formed only to oversee San Francisco's completion of the WSIP, and to negotiate a new agreement with San Francisco to replace the agreement which expired in 2009. Mr. Jensen clarified that BAWSCA's enabling legislation does not address the negotiation of a new agreement nor does it mention oversight of the WSIP. Before negotiations began, BAWSCA sought and received the authority from each member agency to negotiate the new Water Supply Agreement on their behalf. And while the legislation states the importance of the WSIP, BAWSCA monitors the progress of the program to protect its member agencies and their water customers who need San Francisco's regional water system to be reliable and who will pay two-thirds of the costs.

In 2003, the SFPUC needed estimates of future water purchases from the wholesale customers as part of their preparation of the Program Environmental Impact Report (PEIR) for the WSIP. BAWSCA was the liaison between the member agencies and the SFPUC during the technical development of those projections. San Francisco required each wholesale customer to provide a written commitment specifying the level of conservation it was going to achieve. It became evident that there needed to be a plan for the agencies to achieve the water savings to which they had committed. To meet this challenge, the BAWSCA board approved the development of the Water Conservation Implementation Plan (WCIP) in 2007.

In October of 2008, the SFPUC unilaterally adopted the Supply Limitation until at least 2018. This action by the SFPUC resulted in a number of things to which BAWSCA had to undertake in order to ensure a reliable supply of water for its member agencies.

When the WCIP was completed in 2009, it included a projection of how much more water conservation might be needed by the agencies to stay within the supply limitation the SFPUC adopted. In addition, BAWSCA began the Long-Term Reliable Water Supply Strategy (Strategy) to address the member agencies' need to secure reliable water supply for drought reliability and to meet the needs of anticipated future residents and businesses.

The Committee was presented with a series of graphs showing how BAWSCA's budget and staffing have changed over time to achieve the results defined by each year's work plan.. Mr. Jensen noted that staffing has been able to remain at the 2004-05 level by employing consultants and interns to do work that can be outsourced and managed. I. The Water Management staff is reaching the limit of its ability to perform technical work and manage a growing number of consultants effectively.

Following this historical review, Mr. Jensen addressed the question of how can critical results be achieved with existing resources. Major Water Management efforts include the Water Conservation Implementation Plan and the Long-Term Reliable Water Supply Strategy. The first question to examine is whether these programs continue to be critically necessary at this time.

Mr. Jensen confirmed that the need for conservation will continue. The agencies' conservation commitments to San Francisco already require 13 mgd of active conservation by 2030. An additional 8 mgd is required for agencies to stay within San Francisco's Interim Supply Limitation, and meeting the 20 by 2020 State legislation would require an additional 20 mgd of conservation savings.

The member agencies' ability to stay below San Francisco's Interim Supply Limitation through 2018, and to meet the requirements of 20 by 2020 without conservation efforts is unclear. The agencies' Urban Water Management Plans due in June 2011 will provide information on how agencies will satisfy these conditions. Whatever their individual approaches, additional conservation will remain a critical and necessary element in agencies' plans to meet future needs. Mr. Jensen noted that BAWSCA's conservation programs help agencies achieve their goals effectively.

Potential consequences to agencies that choose not to do conservation include ineligibility to grant funds for conservation and recycled water projects, and exposure to financial penalties by San Francisco if system usage exceeds 265 mgd and an individual agency exceeds its Interim Supply Limitation.

Mr. Jensen demonstrated that the need to develop and implement the Long-Term Reliable Water Supply Strategy continues to be critical. Existing water supplies are limited and population in the service area continues to grow. New supplies will be needed both in the dry and normal years. Additionally, while other supplies are assets of individual agencies, some of those supplies are becoming less reliable.

Mr. Jensen presented a chart showing the agencies' interests in the Strategy. Based on information gathered this year, 40% of the agencies are interested in the strategy identifying additional water supply for normal years, and 60% are interested in increased drought reliability, increased supply diversity, or potentially providing supplies for the region.

Having confirmed that the conservation programs and the development of reliable water supplies continue to be critical efforts, the second question is what alternatives should be considered to achieve critical results with existing resources. The alternatives include:

1. Reduce or eliminate BAWSCA's conservation programs.
2. Reduce, reschedule and reassign with some added consultant and temp employee support.
3. Hire consultants, temp employees or part-time staff to administer conservation programs.

The second alternative was recommended. This alternative would defer the work with Federal Energy Regulatory Commission (FERC) and assign management of consultant to legal counsel in FY 2011-12, remove support of 20x2020 alliance formation, defer calculation of

conservation savings, expand re-assignment of work to the office assistant and CEO's assistant, access temp staff to "front desk" assignments, and extend timeline for completion of current Strategy phase by 6 to 8 months.

Director Quirk asked whether agencies' water use would remain less than the 184 mgd limitation if they succeeded in meeting the requirements of SB7X (20 percent per capita reduction by 2020). Ms. Sandkulla explained that because some agencies have multiple water supply sources, it is difficult to know which supplies they will be conserving. More information will become available when agencies complete their Urban Water Management Plans (UWMP).

Director Quirk stated that the information would have an effect on Phase IIB of the strategy, and added that until the scope of work beyond Phase II is known, BAWSCA's role and the resources needed to fulfill that role remain unclear. He stated that the current job market has allowed the City of Hayward to hire graduates from UC Berkeley and UCLA at \$15 per hour as interns with no benefits. He stated they have done good work and that BAWSCA should consider this as a possible resource. He said when BAWSCA's role becomes clear as Phase IIB begins in 2012, that may be the time to determine what additional permanent resources are needed.

Director Abrica asked about the implications of extending the timeline for the Strategy. Mr. Jensen stated that a brief delay at this time would not cause major difficulties. The current low water usage buys some time. The implications of slowing the completion of Phase IIA by 6-8 months is currently being reviewed by the consultants, and more information will be known within a month.

With regard to how much more conservation can be done, Director Pierce asked whether the water savings due to low water usage has reached the water savings to which agencies committed. Mr. Jensen stated that it's a difficult question to answer because the cause of low water usage can't be fully credited to conservation efforts. Director Pierce stated that it would be helpful to know and to be able to explain to governing bodies how much water savings need to be achieved in comparison to how much has been achieved or remains to be achieved.

Mr. Jensen reported that BAWSCA and the member agencies are populating a database that will convert data into information about how much water is saved through each agency's local conservation programs. He noted that many agencies are analyzing the significance of recent low water usage while completing their UWMP's, which are due in June 2011. BAWSCA can look at what each agency reports.

Director Pierce asked Mr. Jensen about the deletion of the effort to support a 20 by 2020 alliance formation among the agencies, and whether agencies have indicated how important that might be for them.

Mr. Jensen and Ms. Sandkulla reported that with alliances among the agencies, an additional 3 mgd would be required from each agency in addition to the water conservation commitments agencies made to the SFPUC. Without an alliance, the additional water saving requirement would be 20 mgd. The cities of Burlingame and Menlo Park have expressed interest in having BAWSCA facilitate the formation of alliances.

Director Breault stated that the 17 mgd that would not be saved with the formation of a regional alliance goes against the agency's mission. Director Quirk agreed and stated that Hayward chooses to stand alone and do the additional water savings required.

Mr. Jensen clarified that the proposal is to remove the effort to facilitate the formation of an alliance among the agencies. He also explained that the state law provides the ability for small agencies form alliances to satisfy the requirements so they would not be at a disadvantage compared to large agencies..

The Committee voted unanimously to recommend board approval of Alternative #2.

Public Comments: Peter Drekmeier, Bay Area Program Director from the Tuolumne River Trust (TRT) reported that both the salmon count and water flow in the Tuolumne River is up this season. The wildlife agencies are working hard on the FERC relicensing process to increase the flows to the river, and TRT is interested in working with BAWSCA and the SFPUC in this effort. Studies indicate that less water will be available in the year 2050 due to climate change, and therefore conservation is very important. Mr. Drekmeier applauded the conservation efforts by BAWSCA and its member agencies, and congratulated Director Klein for his role as Chair of the BPC.

Planned Achievements and Preliminary Budget Proposal for FY2011-12: Mr. Jensen directed the Committee's attention to Table 1, Results to be achieved in FY 2011-12 in the staff memorandum, and to Table 2, Activities Not Included in Preliminary Operating Budget for FY 2011-12.

Mr. Jensen stated that some of the activities not included the budget are significant. The activities include investigating why water usage is currently low, and how long the trend will last. Mr. Jensen stated that current and former board members have expressed interest in evaluating the economic and water supply impacts of State efforts to fix the Delta, taking a critical look at the practice of fluoridation, and examining how agencies might sub-meter within mobile home parks and multiple family dwellings. None of those activities are included in the preliminary budget.

Mr. Jensen noted that the preliminary budget estimate is \$110,000 less than the current year's budget, which is smaller than the prior budget. The funding for the preliminary budget would require no changes in the assessments and retains prudent agency reserves.

Key budget elements are: (1) no compensation adjustments for any employees, (2) an anticipated decrease in office lease costs, (3) a slight increase in cost of health premiums, (4) a decrease in the agency's contribution to PERs retirement, and; (5) inclusion of resources to accommodate a smooth transition following the retirement of one employee.

Mr. Jensen announced that John Ummel, Sr. Administrative Analyst, announced his plan to retire in January of 2012. Mr. Ummel's position monitors the SFPUC's budgeting, accounting and water rate setting and San Francisco's compliance with the cost provisions of the Water Supply Agreement. Mr. Ummel has routinely saved BAWSCA agencies millions of dollars a year. His planned retirement next winter comes at a critical time of the year when information on the SFPUC's costs from the prior fiscal year becomes available for review, the SFPUC releases its budget for the following fiscal year, and the SFPUC presents its analyses for

wholesale rate setting. BAWSCA will advertise for his replacement in the fall to allow for a 1 month overlap. The preliminary Operating Budget includes time for Mr. Ummel to assist BAWSCA on an as needed basis after his departure.

Director Guzzetta asked if Table 3 in the budget memo can include a line to show the reimbursements received from the Subscription Water Conservation Program.

Mr. Jensen reported that he is currently working with the financial auditor to transition to fund accounting to track the entire volume of the work that BAWSCA does, as well as all the sources of revenue, for the Operating Budget, Subscription Conservation Programs and the Water Supply Management Charge. He said he will address Director Guzzetta's request in the packet for the March board meeting.

Director Guzzetta stated that it would be helpful to see a historical graph of salaries and dollars spent on consultants over time.

The Board Policy Committee voted unanimously to express its concurrence with the proposed results to be achieved and the preliminary Operating Budget, subject to discussion with the board and further refinement.

### **Brief Status Reports:**

#### **BAWSCA Water Supply Management:**

1. Long-Term Reliable Water Supply Strategy: Mr. Jensen reported that BAWSCA continues to look at the scope, schedule and the implications of changes to the schedule of the Strategy. The work on the analysis continues, as well as the work with Strategic Counsel in looking at the kinds of decisions the Board and the agencies' governing bodies will have to make and how they will be brought forth most effectively.
2. Annual Water Supply Agreement and AB 1823 Compliance: The SFPUC is in compliance with the requirements of AB1823. They submitted a report on their progress made during 2010 on securing supplemental sources of water to augment existing supplies during dry years.

Under the New Water Supply Agreement, San Francisco is required to have an annual meeting with its wholesale customers and BAWSCA, and this meeting has been scheduled for February 25<sup>th</sup>. SFPUC's agenda includes a progress report on the WSIP, operations, financial status and rate setting for the coming year.

The SFPUC sent a report to all member agency staff members that examine two rate structure issues. One of the issues is consideration of a raw water rate structure. The Coastside County Water District's (CCWD), unlike all other BAWSCA members receives untreated water from San Francisco. Historically, CCWD has paid the same rate for SFPUC water as agencies that receive treated, potable water. CCWD's individual contract with San Francisco requires the SFPUC to conduct a study of a separate rate for untreated water. The SFPUC completed such a study, distributed to all agencies for review, and the Commission is scheduled to consider whether to adopt such a rate this spring.

The second issue in the report is San Francisco's consideration of a change in the wholesale rate structure affecting all agencies.

3. Drought Implementation Plan (DRIP) Adoption by Member Agencies: Mr. Jensen reported that to date, seven agencies have adopted the DRIP, and all other agencies have calendared the item for consideration.
4. Lawn-Be-Gone-Program: Under this water conservation program, participating agencies offer water customers rebates to replace lawns with other, more water efficient landscaping. This program was launched on February 1<sup>st</sup>. Mr. Jensen distributed a list of agencies participating in this and other conservation programs administered by BAWSCA.
5. Water System Improvement Program: As a result of concerns expressed by both the Commissioners and BAWSCA, San Francisco performed audits of their construction management practices and overall program management. The audits have been completed and the results are positive. San Francisco will continue to conduct such audits throughout the construction period. The completed audit reports will be distributed to the BAWSCA member agencies.

**Comments by Committee Members:**

In reference to the SFPUC's consideration of alternative wholesale water rate structures, Director Quirk commented that one aspect of consideration is the transfer of financial risks to the agencies when there is low water use, as opposed to the risks being born by the SFPUC.

Mr. Jensen stated that further clarification of the proposal is needed to be able to review these and other characteristics of the proposal.

Committee Chair Klein asked that BAWSCA provide a forum for agency staff to discuss the proposal and to have it agendaized for the next BAWSCA Board meeting. Mr. Jensen stated that it will be included on the March Board meeting agenda.

Legal counsel Allison Schutte stated that there will need to be certain parameters applied to the discussion if it was agendaized on the March board meeting. She added that it is also the subject of the SFPUC's meeting with wholesale customers and BAWSCA on February 25<sup>th</sup> and that BAWSCA directors should reach out to their staff members after the Feb. 25<sup>th</sup> meeting.

Director O'Connell noted that BAWSCA directors can attend the annual meeting if they want to hear the information their staff will be receiving from San Francisco. Ms. Schutte stated that in compliance with the Brown Act, members of the board who attend the meeting should discuss only what is on the February 25<sup>th</sup> agenda.

Director Pierce suggested including an item in an upcoming agenda on how BAWSCA plans to use its resources wisely. She also suggested that when discussion on policy issues regarding the Strategy is calendared, it would be helpful for BAWSCA to provide board members with the list of topics that came up and were discussed, specifically at the November Board Meeting.

There being no additional comments, the meeting was adjourned at 2:50pm.

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD POLICY COMMITTEE – February 9, 2011**

**Roster of Attendees:**

**Committee Members**

Larry Klein, City of Palo Alto (Chair)  
Rob Guzzetta, California Water Service Company (Vice-Chair)  
Ruben Abrica, City of East Palo Alto  
Robert Anderson, Purissima Hills Water District  
Randy Breault, City of Brisbane/GVMID  
Irene O’Connell, City of San Bruno (BAWSCA Vice Chair)  
Tom Piccolotti, North Coast County Water District  
Barbara Pierce, Redwood City (BAWSCA Chair)  
Bill Quirk, City of Hayward

**BAWSCA Staff:**

Art Jensen	Chief Executive Officer
Nicole Sandkulla	Water Resources Planning Manager
Anona Dutton	Water Resources Planner
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP

**Public Attendees:**

Peter Drekmeier	Tuolumne River Trust
Marilyn Mosher	City of Hayward
Sharyn Saslafsky	SFPUC
Craig Von Bargaen	CDM

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

**January 20, 2011 – 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. Twenty-two (22) members of the Board were present, constituting a quorum. A list of directors present (22) and absent (4) is attached.

**2. Special Order of Business – Election of Officers for Calendar year 2011**

Chair Fannon noted that the election of officers for the BAWSCA Board is the first item on the agenda, followed by adjournment to the meeting of the Regional Financing Authority, and election of its officers. Chair Fannon called for nominations for the Chair of the BAWSCA Board.

Director O'Mahony nominated Barbara Pierce as Chair of the BAWSCA Board, and Director O'Connell seconded the motion. There were no other nominations.

**M/S/C (Swegles/Quirk/Unanimous) that nominations be closed and that Barbara Pierce be elected as Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2011 to commence at the adjournment of the meeting at which she was elected.**

Chair Fannon called for nominations for the position of Vice-Chair. Director Quigg nominated Irene O'Connell as Vice-Chair of the BAWSCA Board. Director Guingona seconded the motion. Director Weed nominated Bill Quirk. There being no other nominations, Director O'Mahony moved to close the nominations, seconded by Director Pear. Chair Fannon asked each nominee to comment on why they feel they are qualified for the position of Vice-Chair

Director O'Connell expressed her confidence that both she and Director Quirk could serve the Board well as Vice Chair. She stated her 16-year experience on the City Council of San Bruno and working with city officials and residents. She was voted as Mayor four times, and serves on two regional boards including City/County Association of Governments (CCAG) where she served as Vice Chair. She stated her hope to be a part of the leadership to make the Board a force to be reckoned with throughout the greater Bay Area.

Director O'Mahony stated that Director O'Connell functions admirably on CCAG and does a great job in managing meetings.

Director Fannon stated that having worked with Director O'Connell as Chair of the Board Policy Committee, he is confident of her capability to serve as Vice-Chair of the Board.

Director Quirk expressed his concurrence with Director O'Connell that they could both serve the Board well as Vice-Chair. He stated his desire for an active Board where there is participation in the decision making. He wants to help the BAWSCA Board become a real regional board and to come together as a regional agency to solve tough problems and make tough decisions. He would like to see the agencies work more closely together.

Director Weed commented that Director Quirk's educational background and technical knowledge helps in approaching some of the complex problems and issues the Board will have to address. He said BAWSCA has 26 different viewpoints that would need to be formulated and looking at the methodology and procedures to develop an approach which keeps many of those factors in mind is something that Director Quirk is well suited for.

Director Fergusson commented on both nominees. In working with Director Quirk as Chair of the Board Policy Committee, she appreciated his willingness to speak his mind, challenge the Board's thinking, and his leadership in encouraging participation amongst this group. Director Fergusson also expressed her appreciation for the opportunity to work closely with Director O'Connell and witness her leadership as a public servant in CCAG and most recently with the disaster in San Bruno.

Director Pierce recognized Director O'Connell's leadership in CCAG and CMAC which often dealt with contentious issues that required straight forward answers. Director Pierce also recognized Director Quirk's leadership with the Board Policy Committee where he raised very good issues that brought to light interesting facts that might not have been covered. Both nominees bring very unique and special qualities that would benefit the Board.

Chair Fannon called for a vote in alphabetical order. Sixteen directors voted for Director O'Connell as Vice-Chair of the Board. Director Quirk conceded. Director Weed asked to make the election of Director O'Connell unanimous.

**M/S/C (O'Mahony/Pear/Unanimous) that the nominations be closed and Irene O'Connell be elected as Vice-Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2010 to commence at the adjournment of the meeting at which she was elected.**

- 3. The meeting adjourned at 7:10pm to convene the San Francisco Bay Area Regional Water System Financing Authority Board of Directors meeting.**
- 4. The meeting re-convened at 7:16pm**

- 5. Board Policy Committee Report:** On behalf of the Board Policy Committee, Director O'Connell acknowledged John Fannon's service as Chair of the BAWSCA Board and thanked him for the important issues he addressed in his letter to the Board. Director O'Connell said she will keep the letter for reference from time to time.

Director O'Connell directed the Board to the summary report of the Board Policy Meeting held on December 8<sup>th</sup>, where it shows the rigorous discussion the committee had on the items being presented to the Board.

The committee recommends approval of the recommended adjustment to the budget to transfer \$35,000 from one fund to another, and to amend a consultant contract to support part of this year's work plan. The committee thoughtfully discussed the recommendation for a proposed staff position. The committee does not have a recommendation to the Board, but requested the CEO to provide additional information at tonight's Board meeting.

- 6. Public Comments:** Public comments were received from former BAWSCA Director, Dan Siedel of Purissima Hills Water District, and Wynn Grich of Fluoride Action Network and ATOWN.
- 7. Consent Calendar:**

**M/S/C (Pierce/O'Connell/Unanimous) that the minutes of the November 18, 2010 Board meeting be approved, the Budget Status Report for period ending November 30, 2010, Quarterly Investment Report for period ending December 31, 2010, and Director's Reimbursement Report for period ending December 31, 2010 be received and filed.**

**8. Action Calendar:**

- A. Mid-Year Work Plan Assessment and Budget Re-Alignment: Mr. Jensen reported that the current work plan cannot be completed within the budget the Board approved in May 2010. As specified in the memo included in the agenda packet, some work has been re-prioritized to make best use of existing resources. Mr. Jensen noted that it is critical that the Water Management staff be able to focus on the Long-Term Reliable Water Supply Strategy, and that this will require additional resources to support water conservation programs.

To accomplish this, the proposal is to allocate more staff time to the Strategy and to use an existing consultant to support one specific water conservation activity. This would avoid reducing the scope of existing conservation efforts. Staff recommendation is to re-allocate \$35,000 in the approved budget from one professional service for an activity that can be deferred by one year, and authorize the CEO to add that amount to an existing contract with Brown & Caldwell to support the launch and ongoing implementation of the database for tracking agency water conservation efforts.

**M/S/C (Anderson/Breault/Unanimous) that the Board approve the following adjustments resulting from the mid-year review of workplan and budget:**

- a. **Reallocate \$35,000 in the approved budget from professional fishery consultation to support water conservation activities that would otherwise be performed by staff.**
  - b. **Authorize the CEO to amend the existing professional services contract with Brown & Caldwell to add \$35,000 to support the implementation and ongoing support of the water conservation database, for a total not-to exceed contract amount of \$120,800.**
- B. Recommendation to Resolve Human Resource Needs: Mr. Jensen reported that the current work plan cannot be completed within the budget the Board approved in May 2010. At the time the Board approved the budget it was informed that insufficient staff resources were available. The work plan for this year included evaluating the resource imbalance and providing recommendations to the Board.
- Mr. Jensen reported that the water management activities will require more resources to achieve the results planned for the two critical areas of regional water conservation and water supply development for long-term plan. Alternative solutions were examined and the recommendation is to create a new position. Mr. Jensen stated that the agency is very sensitive to the economic conditions of many cities and districts and recognize the cutbacks and furloughs some have been forced to impose.
- One of the questions raised at the Board Policy Committee meeting was whether the human resources need is a short-term or long-term problem. Mr. Jensen stated that it is not seen as a short-term problem, and that the need can persist over the next 8-10 years.
- Increased demands on the water management activities are expected from the simultaneous work on the Strategy's Phase IIA and Phase III, protecting member agencies' interests in the FERC relicensing process of New Don Pedro Reservoir, and continued growth in agency and customer demand for regional water conservation programs.
- Mr. Jensen presented the information requested by the Board Policy Committee from its meeting on December 8<sup>th</sup>. His presentation included the advantages and disadvantages of the alternative solutions; the basis for the level of compensation of the proposed position; and how the position will be paid for in the current and coming years. Mr. Jensen noted that an additional question came up about the impacts that current low water use have on the need for additional resources.
- Alternative solutions included reducing the scope of BAWSCA's conservation programs. A reduction would require agencies to implement programs independently. Mr. Jensen explained that this would increase the cost for each agency, and if some agencies cut back on programs as a result of higher costs, the effectiveness of the program would be reduced and the water savings would not be achieved.
- Extending the schedule of the Strategy was also examined, but is not recommended. Deferring the Strategy extends uncertainty of identifying future supplies and in reducing the impacts of future droughts. Additionally, deferring capital investments in water supply projects results in increased costs.

The use of temporary employees and outside consultants was also examined. Mr. Jensen noted that these alternatives have significant disadvantages. Temporary staffing can be less reliable for an activity that persists for 8-10 years. Outside consultants must respond to many clients, have a limited ability to take direction on the day to day basis to manage required for conservation programs, and cost more in terms of overhead and profit.

Mr. Jensen reported that an independent human resources consultant looked at comparable positions in other Bay Area agencies to determine an appropriate level of compensation for a new position. The memo on the item includes the position description and a table showing the median of the top step salaries of comparable positions.

Funding for the position would come from the operating budget and the subscription program. Mr. Jensen noted that an estimate based on experience is that the subscription program would pay for approximately half the cost of the position. A question raised at the Board Policy Committee meeting was whether this reduces the operating budget? Mr. Jensen stated that it does not reduce the operating budget but that it does reduce the operating expenditures. He explained that the level of participation in Subscription Conservation Programs varies from year-to-year, and that the operating budget must include the full cost of salaries and benefits. However, participants in those programs reimburse the Operating Budget and the resulting unspent portion of the Operating Budget is returned to BAWSCA reserves.

Another question was whether the additional resources remain necessary despite the current low water use. Mr. Jensen reported that it is unknown how long the reduction in water use will last, and that all agencies will need to continue implementing their water conservation programs to achieve their planning goals and to comply with State law. Most importantly, demonstrating the region's wise use of supplies can help withstand potential challenges during the FERC proceedings and in environmental permitting for new water supply projects.

The Board Policy Committee also asked whether increased administrative costs will impact agency participation in subscription programs, and whether participating agencies should pay a share of employee benefits in addition to salary costs. Mr. Jensen stated that the administrative cost is minimal and will not impact agency participation in subscription programs. Mr. Jensen explained that the benefits cost is about \$200,000 for all BAWSCA staff and that charging for a proportionate share of benefits would not be significant at this time. He said the question will become more significant as water management activities increase, for example during implementation of new water supply projects. Mr. Jensen recommended an evaluation of this issue and alternative solutions be conducted next fiscal year.

He reported that BAWSCA's accounting system is being revised to a system of fund accounting so that the Operating Budget, subscription program revenue, and Water Management Charge can be planned, monitored and reported in a way that is helpful to management and transparent for the Board and public.

In response to Director Quirk's inquiry, Mr. Jensen clarified that the Water Management Charge approved by the Board last July covers the technical consultant

and legal counsel costs for water management activities. It does not currently cover staff time. As Phase III begins, BAWSCA and the Board will need to address whether the allocation of the costs should be different than they are today. Mr. Jensen's recommendation is to put the total salaries and benefits for all the BAWSCA positions in the Operating Budget, and to reimburse it appropriately from the Water Management Charge and the Subscription Water Conservation Program.

To answer Directors Guzzetta and O'Mahony's question about staff time allocation shown on the Water Supply Management diagram, Mr. Jensen explained that the 47% and 70% allocation is the combined percentage of time the Water Planning Manager and the Water Resources Planner devotes to ensuring water supply reliability from the regional water system, and meeting current and future water needs. It is not equally divided among the two positions, it is on an average. The percentages add up to 117% and demonstrate that the positions are overcommitted on those activities.

Director Guzzetta commented that it doesn't seem like it should take a large study to come up with a way to bill subscription programs for a share of employee benefits. Mr. Jensen agreed that a large study is not necessary. However, in reviewing with the auditor the various ways to allocate the costs, Mr. Jensen stated that he wants to take the time to do so that is clear, and does not require an unwarranted administrative activity.

Director O'Mahony commented that agencies should be able to run their own conservation plans and thereby save money. Mr. Jensen reported that the City of Burlingame has run its own washing machine rebate program in the past, but never issued all of its budgeted rebates. This year, Burlingame elected to participate in BAWSCA's program and issued their entire budget for rebates within the first three months of the fiscal year.

Mr. Jensen agrees with Director O'Mahony's concern that a request for a new position comes at a troubling time when agencies are cutting back. He stated that some agencies have said that participation in BAWSCA's programs allows them to use their staff on higher priority items within their agencies. He volunteered that that information was anecdotal and had not been quantified.

In response to Director Klein's question, Mr. Jensen explained that the Water Supply Management activities in the budget approved by the Board last spring are equivalent to 188% of the hours for the Water Planning Manager and the Water Resources Planner.

Director Klein recommended staff look at the difference between 100% and 188% to determine which of the activities are essential, and hire a consultant as opposed to a full-time position, or a half-time position. Mr. Jensen noted that the mid-year budget review included an assessment of priorities, as demonstrated by the approved re-allocation of funds to Brown and Caldwell for completion of the conservation database.

Director Weed suggested hiring, under contract, an employee to do the development of the concepts for long-term water strategies and alternative water supplies.

Director Laporte suggested the consideration of hiring employees for specific tasks with an uncertain future.

Director Pierce stated that the concern seems to be on the reliance of the general fund versus the subscription program. She also noted that demand hardening is a concern that

resonates with the agencies, and it is important to understand how much more conservation can be done.

**M/S/C (Coverdell/Swegles/Failed by 10:11 vote) to approve the creation of a new staff position with an understanding that the CEO will come back in six months to provide a report for the Board's evaluation, as to how effective the position is.**

Director Quirk stated his disagreement with that motion and stated that he would instead, move for hiring of a term employee, a temporary employee, or a consultant.

Director Guzzetta commented that the Board needs to make decisions based on information provided by the CEO, as opposed to "what-ifs". He said Mr. Jensen just informed the Board that there is a job that the existing staff does not have the capacity to complete. If the Board wants the job done, the Board would have to invest in the resources to get it done. Because the job is expected to be 5-8 years worth of work, it is more cost effective to hire a staff employee as opposed to a consultant. Director Guzzetta expressed his support for the new position.

Director Klein stated his negative vote for a new position due to the cuts many cities have had to do. He encourages the agency to focus on the absolute essentials and in doing more with less.

Director O'Mahony supported Director Klein's comments.

**M/S/C (Quirk/Pierce/Opposed O'Mahony) that the CEO look at alternatives to a new employee to bring back to the Board with an indefinite deadline to provide the CEO with the most latitude.**

**9. SFPUC Report:** Mr. Harrington reported on water supply conditions, the progress of the WSIP and the potential rate issues for the next year.

The end of December 2010 marked the wettest year on record since 1983, and water supply conditions are very good. Small amounts of precipitation this spring can ensure a normal year.

Mr. Harrington reported that the nine projects that were required to be under construction in 2011 are on schedule. Six of those projects have already begun construction and the rest are rapidly moving towards construction. They are the Second Irvington Tunnel, the Bay Division Tunnel and East and West Side Pipelines, Alameda Siphon #4, the New Crystal Springs Bypass Tunnel, Bay Division Cross-Connections, and San Joaquin Pipeline Systems.

Construction of the Crystal Springs San Andreas Transmission Upgrade, Seismic Upgrade of Bay Division Pipeline #3 and #4, and the Calaveras Dam Seismic Improvements have not begun, but are expected to be under way within this calendar year.

In response to Director Swegles' question regarding water storage and the overflow being released as opposed to being conserved, Mr. Harrington confirmed that Hetch Hetchy has been releasing water since November because of the snowpack and wet conditions early in the fall. He explained that the SFPUC looks at its entire system storage that includes

500,000 acre-feet in New Don Pedro Reservoir. That water bank represents more than all of Hetch Hetchy's storage, and is currently full

Mr. Harrington reported that the Water System Improvement Program (WSIP) is making good progress. With its progress however, is the anticipated rise in water rates to cover the cost of the program. The recent reduction in water use causes rates to rise even higher than expected.

Mr. Harrington reported that the SFPUC has been making assumptions in the last couple of years that water use will stabilize. However, water use has gone down by 30 mgd between WY 2007-08 and 2009-10. Many factors contribute to the current low water use including the economy, wet weather conditions, and conservation.

The decrease in water use affects the SFPUC's cash and fund balances, which must remain reasonable to maintain the confidence of bond rating agencies and bond buyers. The SFPUC will be recommending some changes in next year's rate setting. Information on the changes will be distributed to the wholesale customers and discussed at the annual meeting scheduled for February 25<sup>th</sup>.

Mr. Harrington stated that a 30% - 40% rate increase will apply to wholesale customers next year. The SFPUC is looking at setting water rates based on a rolling average between an agency's and the entire groups' actual water usage two years ago. San Francisco believes this may be a better way for setting wholesale water rates that keeps rates stable for a period of time as opposed to adjusting rates significantly as water use varies.

In response to Director Guzzetta's question whether the changes are short- or long-term, Mr. Harrington explained that the plan will depend on how well it works for the wholesale customers and San Francisco. The current balancing account has a credit of \$54 million that wholesale customers owe San Francisco.

Mr. Harrington stated that the proposed change in rate setting will be further discussed with the agency staff at the Annual Meeting on February 25<sup>th</sup>. It will then be brought to the Commission in March and April with full public hearings.

Mr. Harrington stated that the objective is to stabilize San Francisco's cash balances as it heads towards the completion of the WSIP.

Director Weed asked about planning for additional customers on an interim basis while water usage is low and there is left-over supply. Mr. Harrington stated that San Francisco welcomes the discussion with those who have serious interests. He stated that the agreements would need to be longer term. He also noted that when there is additional supply, San Francisco has chosen to increase flows to the rivers, creeks, and delta to provide environmental coverage for years when there is drought.

Director Pierce commented that the advantages she sees in the reduced water use are that there will be no need for drought allocations or the environmental surcharge.

Director Guzzetta thanked the SFPUC staff for the email notifications about shutdowns and their status.

## **10. Reports and Discussions:**

- A. Fiscal Year 2011-12 Work Plan and Budget Preparation: Mr. Jensen reported that the budget is developed in a long-term perspective. Vital results that need to be achieved are identified, and then the resources needed to achieve those results are determined.

The major areas of the budget include Water Supply Management, Water System Improvement Program, Water Quality, and Fair Price.

Under the Water Supply Management, Mr. Jensen reported that the work includes the Long-Term Reliable Water Supply Strategy, BAWSCA's representation of member agencies' interests in the FERC relicensing process, implementation and monitoring of conservation programs under the Water Conservation Implementation Plan (WCIP), providing SFPUC future water supply needs as required by the new WSA, supporting agencies in the completion of UWMP's, and pursuance of regional grant opportunities.

BAWSCA will continue to monitor and track the progress of the WSIP to ensure that the program is completed within scope, schedule and budget. A Water Quality Committee is attended by both San Francisco and member agencies. BAWSCA will continue to coordinate with, and provide support for the committee chair, which alternates between BAWSCA member agencies and the SFPUC Water Quality Bureau.

Finally, the area of Fair Price involves the administration of the old and the new water supply agreements.

Recommendations for funding consideration will be brought to the Board and will include the Water Management Charge and the transition to fund accounting. The preliminary work plan and budget will be brought to the BPC in February and presented to the Board in March. Consideration and action is scheduled for the Board meeting in May.

- B. Water Supply Management:

Long-Term Water Supply Strategy - Mr. Jensen reported on the progress of the Strategy. BAWSCA and technical consultant held one-on-one meetings with each member agency staff regarding their desired outcomes in terms of new supplies, drought reliability, and projects the agencies may want to undertake independently. The technical consultant is now reviewing available project information and is identifying critical data gaps. Staff is working with legal and strategic counsel in examining the necessary actions for implementation and the timeline for key decision making by the Board.

Mr. Jensen will be working with the Board Policy Committee and the leadership of the Board to develop a plan to provide information needed to make well-informed policy decisions. Mr. Jensen presented a table that illustrated the period of policy development. The initial discussion took place in November, and a preliminary schedule will be brought to the Board in March, where Board members can express additional thoughts and questions.

Water Conservation-Annual Report – Ms. Sandkulla reported that BAWSCA's Annual Conservation Report was released and distributed in December. The report documents the activities in BAWSCA's core and subscription programs. It describes the programs available through BAWSCA and which agencies are participating in what programs.

Ms. Sandkulla noted that agencies in the Peninsula have more participation in BAWSCA's programs because the agencies in Santa Clara County typically participate in programs with the Santa Clara Valley Water District. There is a slight change in that trend, and some agencies are finding BAWSCA's programs more attractive and cost efficient for their constituents.

Ms. Sandkulla noted that BAWSCA's programs are able to augment agency staff and provide higher customer visibility through its consistent regional promotion. Participation amongst the agencies in both the core and subscription programs is increasing. Agency budgets on subscription programs have grown to slightly more than \$1.6million this fiscal year, from less than \$200,000 in FY2001-02 when the Washing Machine Rebate Program began.

Ms. Sandkulla was pleased to report that ACWD, an agency that typically runs its programs independently, is participating in BAWSCA's Lawn-Be-Gone Program.

Ms. Sandkulla reported that agencies are on track to meet their conservation goals and noted that it is critical for them to stay on course with conservation for several reasons. Agencies have a water savings goal of 34 mgd to be achieved by 2018. The current low water use is due to a variety of other reasons other than conservation, and its long-term significance is uncertain.

Core Programs for FY 2011-12 will include Landscape Education Classes, Grand Funding, Regional Water Conservation Saving Estimation, Regional Conservation Material Development, and Public Outreach. Subscription programs will include the new Lawn Be Gone turf replacement program, and will continue with the Washing Machine Rebates, High-Efficiency Toilet Rebate, School Education Water Wise Kits, School Assembly Program, and Large Landscape Audits.

- C. Water System Improvement Program: Mr. Jensen reported that a system shutdown is in progress with the Crystal Springs Bypass tunnel and it is going well. As reported by Mr. Harrington, the Calaveras Dam EIR certification is scheduled for January 27<sup>th</sup>.
- D. Announcements: Mr. Jensen reminded members of the Board of their requirement to file their Conflict of Interest Form 700 by April 1, 2011.

## **11. Directors' Discussion:**

Director Pierce thanked the Board for their vote of confidence in her as Chair, and thanked John Fannon for his leadership.

Director Swegles noted that his absence in the past several meetings has been due to chemo treatments, and he is happy to report that he is now in remission.

Director Fergusson reported that the progress being made in Menlo Park on the Bay Division Tunnel and Pipeline #5 project is very exciting to watch. Despite the grief of road closures and heavy construction, it is reassuring to see tangible progress being made.

Director Breault commented that his vote against Item #9B is not an indication of his lack of support or respect for the work that the CEO and the Water Supply Management

staff does. It is based on the budget issues that we have at the local, regional, state and federal level. He expressed his high respect and appreciation of the work the CEO and the Water Supply Management staff does.

Director Quirk supported Director Breault's comments, and stated his full confidence that the CEO will come back with a workable alternative.

Mr. Jensen thanked the Board for their comments. He said that recent media reports sighted public agency benefit costs in San Mateo County increasing by a factor of three over the last ten years. He was pleased to report that by comparison BAWSCA's benefits costs have increased only 75% over the last seven years since the agency was formed.

**12. Date, Time and Location of Next Meeting:** The next meeting is scheduled on March 17, 2010, in the Wind Room, Foster City Community Center.

**13. Adjournment:** The meeting was adjourned at 9:04 pm.

Respectfully submitted,

Arthur R. Jensen,  
Chief Executive Officer

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**  
**Board of Directors Meeting**  
**January 20, 2011**

**Attendance Roster**

Present:

Robert Anderson	Purissima Hills Water District
Cyril Bologoff	City of Brisbane
Randy Breault	Guadalupe Valley Water District
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
John Fannon	Town of Hillsborough
Kelly Fergusson	City of Menlo Park
Armando Gomez	City of Milpitas
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Larry Klein	City of Palo Alto
Marty Laporte	Stanford University
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
Barbara Pierce	City of Redwood City
Tom Piccolotti	North Coast County Water District
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Ron Swegles	City of Sunnyvale
John Weed	Alameda County Water District

Absent:

Ruben Abrica	City of East Palo Alto
Chuck Reed	City of San Jose
Louis Vella	Mid-Peninsula Water District
Rick Wykoff	City of Foster City



**Bay Area Water Supply & Conservation Agency**

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 San Mateo, California 94402  
 (650) 349-3000 tel. (650) 349-8395 fax

**TO:** Arthur R. Jensen, Chief Executive Officer

**FROM:** Deborah Grimes and John Ummel

**DATE:** March 11, 2011

**SUBJECT:** Budget Status Report as of January 31, 2011

This memorandum shows fiscal year budget status for FY 2010-11. It includes major areas of spending, provides an assessment of the overall budget, and summarizes reserve fund balances. This report covers the budget and expenses for BAWSCA. The BAWSCA budget includes necessary resources for the RFA and BAWUA.

**Summary:**

For the seven month period ending January 31, total expenses were \$1,255,363 or 47% of the total budget of \$2,680,394.

**Table 1. Budget Summary as of January 31, 2011**

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
<b>Consultants /Direct Expenditures</b>			
Reliability	975,800	294,542	30%
Fair Pricing	248,000	91,563	37%
Administration	62,000	101,383	164%
<b>Subtotal</b>	<b>1,285,800</b>	<b>487,488</b>	<b>38%</b>
<b>Administration and General</b>			
Salary & Benefits	1,057,894	635,068	60%
<b>Other Expenses</b>			
BAWSCA	278,500	132,807	47%
BAWUA	1,200	0	0%
<b>Subtotal</b>	<b>2,623,394</b>	<b>1,255,363</b>	<b>48%</b>
<b>Capital Expenses</b>	8,000	0	0%
<b>Budgeted Contingency</b>	47,500	0	0%
<b>Regional Financing Authority</b>	1,500	0	0%
<b>Grand Total</b>	<b>2,680,394</b>	<b>1,255,363</b>	<b>47%</b>

**Overview:**

Overall expenditures are tracking as expected.

**Consultants**

The \$255,000 budget for technical review and tracking of the SFPUC's WSIP was 29% expended. Strategic counsel's budget, for work other than the Long-Term Reliable Water Supply Strategy, was 72% expended. The \$366,000 legal budget was 35% expended. The \$325,800 budget for water management and conservation-related activities including public information, regional program and materials, water supply planning, data base development and landscape classes was 43% expended.

**Administration**

Salary/fringe costs were 60% expended.

**Other Expenses**

Other Expenses were 47% expended.

**Use of Reserve Fund Balance:**

In accordance with the adoption of the annual budget in May 2010, \$163,394 of the BAWSCA reserve account was transferred *from* the reserve to BAWSCA to pay eligible expenses during FY 2010-2011. The January balance shown below reflects this transfer as well as a transfer of unspent funds remaining from last fiscal year in the amount of \$409,965 *to* the reserve.

**Table 2. Reserve Fund Balances**

<b>Fund</b>	<b>Account Balance (As of 11/30/10)</b>	<b>Account Balance (As of 1/31/11)</b>
RESERVE	\$407,192	\$653,763
<b>Total</b>	\$407,192	\$653,763

**Long-Term Reliable Water Supply Strategy and Use of Water Management Charge:**

Phase 2 of the Long-Term Reliable Supply Strategy (Strategy) began this fiscal year. Funding is provided through the Water Management Charge, approved by the Board in July 2010. As of January 31, 2011, Water Management Charge revenue totaling \$636,802 has been collected by and received from the SFPUC. To date, consultant invoices totaling \$326,704 have been paid.



**Bay Area Water Supply & Conservation Agency**

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**MEMORANDUM**

**TO: BAWSCA Board of Directors**

**FROM: Arthur R. Jensen, Chief Executive Officer**

**DATE: March 9, 2011**

**SUBJECT: Quarterly Investment Report for the Period Ending January 31, 2011**

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In February 2004, the board adopted an investment policy consistent with the Government Code that requires a quarterly report on the Agency's investments be provided to the Board within 30 days after the close of each quarter. The Board reviewed and revised the investment policy at the July 15, 2010 Board meeting. This report presents fund management in compliance with the investment policy.

Local funds in excess of \$250,000 are deposited in the BAWSCA LAIF account throughout the year to ensure compliance with BAWSCA's investment policy at that time.

BAWCSA's prior and current period local agency investment (LAIF) account balances are shown below.

<u>12/31/10</u>	<u>01/31/11</u>
\$1,802,900	\$1,144,685

Of the total in the BAWSCA LAIF account as of January 31, \$653,763 represents BAWSCA's Reserve Fund, equivalent to approximately 15% of this year's budget. The remaining amount consists of Subscription Conservation Program funds, Water Management funds and unrestricted funds.

Recent historical quarterly interest rates for LAIF deposits are shown below:

<u>09/30/10</u>	<u>12/31/10</u>
0.51%	0.46%

# Board Policy Calendar for FY 2010-11

Board Meeting	Purpose	Issue or Topic
July	D D&A D&A	Water Supply Strategy – Evaluation criteria Water Supply Strategy – Scope, contracts and funding Regional Financing Authority (RFA) – Budget adoption
September	S&D S&D D&A D	SF WSIP – Annual Progress Report and Compliance with AB 1823 Water Supply Agreement – Report on first year admin BAWSCA Conflict of Interest Code revisions Completion of CEO performance review
November	D	Water Supply Strategy – Policy issues overview
January	D D&A D&A S&D D	Water Supply Strategy – Drought protection goals (Part 1) BAWSCA Mid-year progress and budget review Resource Needs – Analysis and recommendations Water Supply Strategy progress report Discussion of results to be achieved during FY 2011-12
March	D S&D	Discussion of preliminary workplan and budget for FY2011-12 Water Supply Agreement – Annual audit results
May	D&A D&A D&A D	Adoption of workplan and budget for FY 2-11-12 Approval of contracts for FY2011-12 Rules of the Board – Proposed modifications (new) Water Supply Strategy progress report – Policy decision schedule
July	S&D	SFPUC WSIP bid update

**Key: D = Discussion, A = Action, S = Status Report**

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

**Agenda Title: Follow Up on Achieving Critical Results with Available Resources**

**Summary:**

For a variety of reasons, including the current financial stresses on BAWSCA member agencies, the Board, at its January meeting, asked the CEO to consider other alternatives for achieving critically needed results other than increasing the number of permanent staff positions.

This memorandum presents and evaluates alternatives, including some suggested by Board members at the January Board meeting.

**Fiscal Impact:**

A modified work load can be completed within the existing approved Operating Budget.

**Board Policy Committee Action:**

At the suggestion of the Board Chair and Vice Chair, the Committee received a brief presentation on the origins of the current and anticipated workload, the history of the workload approved by the Board, and alternative solutions and their consequences. This material will be presented at the Board meeting on March 17, 2011.

The Committee discussed alternatives for addressing current and anticipated workloads, and voted unanimously to recommend Alternative #2, which reprioritizes and reschedules some work identified for FY2010-11 and FY 2011-12.

**Recommended Board Action:**

**The Board Policy Committee recommends that the Board accept Alternative #2 and direct the CEO to modify the Work Plans for FY 2010-11 and FY 2011-12 as follows:**

- 1. Eliminate support for agencies in forming alliances to comply with Senate Bill 7X (20% by 2020).**
- 2. Defer estimating the volume of water savings that result from BAWSCA and local agency water conservation activities.**
- 3. Extend the schedule for completion of Phase IIA of the Long-Term Reliable Water Supply Strategy by 6 to 8 months with no increase in cost for CDM.**
- 4. Defer hiring a fisheries consultant until FY 2011-12, and at that time have the consultant work under the direction of legal counsel.**

- 5. As needed, use temporary employees to perform water conservation activities or to backfill existing staff when they are used to support water conservation activities.**
- 6. On a temporary basis, continue assigning the Assistant to the CEO to provide logistics, administrative support and coordination with agencies and instructors to produce BAWSCA's water conservation education classes.**

**Discussion:**

The memorandum to the Board in January described the nature of the current work load and current resource limitations. That material is not repeated here.

The work plans approved each year by the Board of Directors have evolved since BAWSCA's creation in response to actions, or inaction, taken by San Francisco, actions taken by the State legislature, and to requests of member agencies to provide cost-effective, centralized services on a voluntary or other basis.

When the FY2010-11 work plan and budget was presented last Spring, it was noted that existing human resources were insufficient to achieve the necessary results. The board was informed that this would be a long-term problem and that this issue would be analyzed in Fall 2010 and recommendations presented to the Board for consideration in January 2011.

For a variety of reasons, including the current financial stresses on BAWSCA member agencies, the Board, at its January meeting, asked the CEO to consider further alternatives for achieving critically needed results other than increasing the number of permanent staff positions.

At that meeting, the Board also approved mid-year modifications to the work plan for FY 2010-11. Additional work plan modifications will be needed to achieve critical results with existing staff resources. Related modifications to anticipated work for next year are reflected in the preliminary Operating Budget for FY 2011-12.

**Background**

Staff size has remained constant since FY 2004-05, while the volume of work to achieve Water Management objectives has increased roughly three-fold. Results have been produced by leveraging staff resources with outside professional services, temporary employees and interns. In FY 2005-06, the two professional Water Management positions performed technical and administrative work as well as managed the work of 9 consultants, staff and outside service providers. In FY 2010-11, the same two positions managed 14 firms and individuals in addition to producing technical work and performing necessary administrative functions. (See Figure 1)

These two positions have no capacity to perform any further expansion of their work load or to effectively manage additional outside consultants. Because the current and projected work load exceeds available staff time for performing work and managing outside services, solutions must include the reduction or deferral of portions of the current and projected workloads.

**Alternative Solutions:**

Alternative #1: Focus on developing a reliable water supply strategy by eliminating or reducing regional conservation support.

Because BAWSCA's members are required to implement varying levels of conservation for several reasons:

- To meet projected community needs for water
- To comply with State law and remain eligible for State grant funding for any water supply project including but not limited to conservation and water recycling projects
- To satisfy written commitments made by the agencies to San Francisco in 2004 and to comply with provisions in the 2009 Water Supply Agreement;

wholesale reduction in conservation activities, which is the amount of adjustment that would be needed given the extent of work load imbalance, would not enable agencies to meet these requirements.

Alternative #2: Further reduce and reschedule results to be produced during FY 2010-11 and FY 2011-12.

Some reduction in on-going and planned activities related to conservation can be accommodated. These changes were not recommended in January because they are short-term solutions; BAWSCA's member agencies will need the work to be performed over the long-term.

To produce the most critically important results with the existing staff level, several alternatives were examined, including:

- Eliminating and deferring lower priority work products
- Reducing the scope of selected activities
- Shifting work to using outside professional services
- Reassigning existing staff to perform work within their defined levels of responsibility but outside their normal areas of work

Temporary employees can be hired to back-fill the Office Assistant on a limited time and term basis, so that position can provide administrative support to water conservation activities. Temporary employees can also perform some administrative tasks related to water conservation. The CEO's assistant will continue to provide logistic and public outreach support to selected water conservation activities.

Specific actions to implement this solution are detailed in the last section of this memorandum.

This temporary solution would enable BAWSCA to achieve vital results during FY 2011-12. Long-term, other solutions will be needed in order to support aggressive water conservation programs, develop a long-term water supply strategy for the region, and to implement that strategy in a manner acceptable to the various member agencies and enforce the 2009 Water Supply Agreement. These important results must be achieved while maintaining BAWSCA's ability to effectively address actions, or lack of action, taken by San Francisco, and contend with other matters important to the collective interests of the BAWSCA member agencies.

**Other Alternatives**

Other alternatives that were considered, and the reasons they were rejected are summarized below.

1. Hire a consultant to manage the water conservation programs: The actual work of a majority of the conservation programs is performed by outside professionals and contractors. Hiring a consultant to manage other consultants is problematic for several reasons:
  - a. The number of BAWSCA's conservation programs requires focused attention. Consultants serve multiple clients and may be less attentive to BAWSCA's agencies and their customers.
  - b. BAWSCA staff and management are further removed from the work being performed and less effective at monitoring and addressing performance issues.
  - c. Consultants are more costly, and financial considerations are an important current concern.
2. Hire temporary staff to manage the water conservation programs: This alternative would result in a temporary staff person managing conservation programs being implemented by other consultants hired by BAWSCA. Like the utilization of a consultant, this situation is problematic as it further removes BAWSCA staff and management from the work being performed and less effective at monitoring and addressing performance issues. Use of temporary staff, whose longevity for any length of time cannot be guaranteed, for work that requires significant training and knowledge of the agency in order to effectively perform the necessary tasks is problematic. Limitations also exist on the amount of time BAWSCA can effectively utilize a single temporary staff person.
3. Hire part time employee(s) to perform the water conservation programs: Use of a part-time temporary employee to perform water conservation programs is limited by BAWSCA's current employee handbook that states that temporary employees shall not work for BAWSCA for more than (1) six continuous months, or (2) 1,000 hours during the fiscal year. Estimated work load (over 1,000 hours) and duration (1 year) requires more flexibility than offered by this single alternative.

**Implementation**

Board discussion may illuminate other alternatives or considerations.

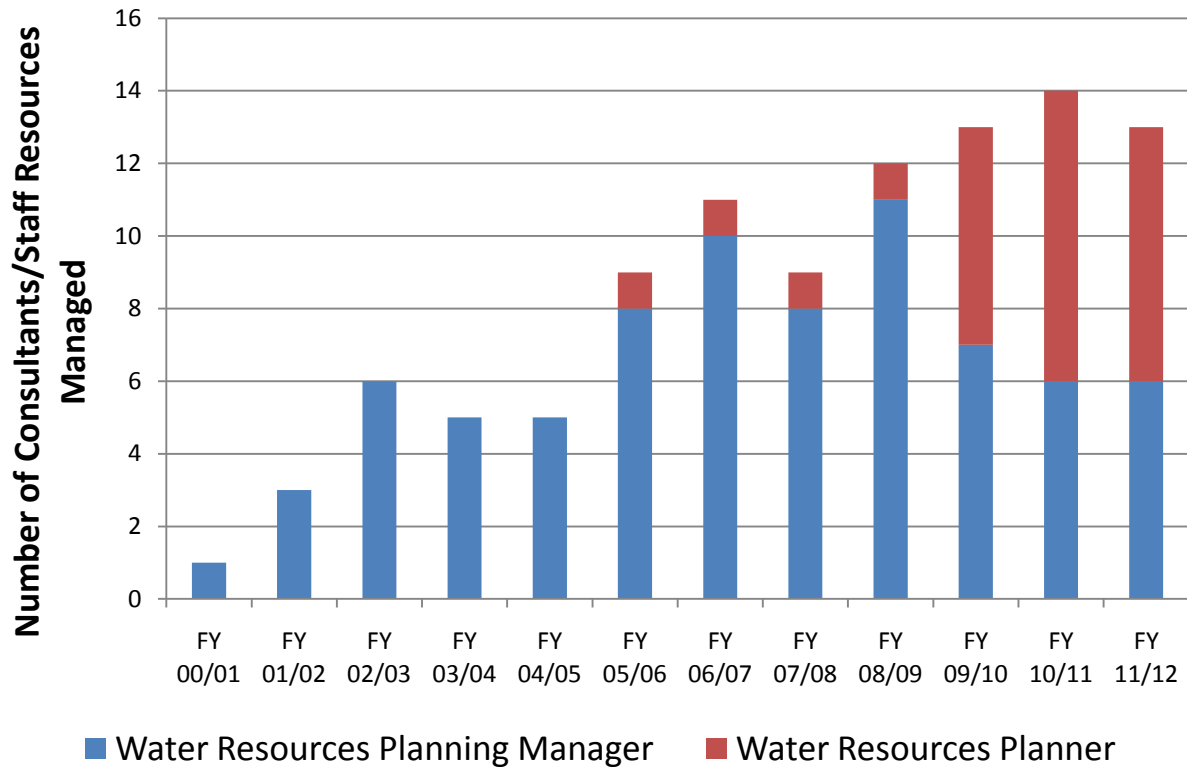
If the Board elects to support Alternative #2, Board action would be needed to implement that solution.

Specific changes to the FY 2010-11 and FY 2011-12 work plans would include the following:

1. Work eliminated from the FY 2011-12 work plan would include planned support for the formation alliances of member agencies to comply with Senate Bill 7X more cost-effectively.

2. Work deferred to future years would include estimating water savings that result from BAWSCA and locally-managed water conservation activities. The collection of data on BAWSCA and locally-managed conservation activities will continue, but the estimation of resulting water savings will be left to individual agencies or deferred until the information is needed and resources are available.
3. The schedule for the Long-Term Reliable Water supply Strategy would be extended an estimated 6 to 8 months, enabling existing staff to balance work loads.
4. Work eliminated from the FY 2010-11 work plan included the hiring of a fishery consultant to support the protection of member agency interests in the relicensing of New Don Pedro Reservoir. For FY 2011-12, existing staff would be unable to manage and direct the fishery consultant. Because the work is important, and because the work products will be vital for development of legal work products, the preliminary FY 2011-12 Operating Budget is based on that consultant being hired and managed by BAWSCA's legal counsel.
5. Temporary employees could be hired to back-fill the Office Assistant, so that position can provide administrative support to water conservation activities. Temporary employees can also perform some administrative tasks related to water conservation. If the needs fall outside the discretionary spending authority of the CEO, Board authorization would be requested.
6. The CEO's assistant would continue to provide logistic and public outreach support to selected water conservation activities.

**Figure1. Water Management Professional Staff Leverage Their Time with Consultants and Staff Resources**



**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**BOARD OF DIRECTORS MEETING**

**Agenda Title: Planned Achievements and Preliminary Budget Proposal for FY 2011-12**

**Summary:**

Preliminary Operating Budget formation for FY 2011-12 is based on achieving the most vital results needed by the member agencies with a preliminary Operating Budget at or below the current year's budget.

The preliminary Operating Budget estimate is \$2,570,000. This budget could be funded with no increase in assessments for the third year in a row, while maintaining prudent reserves.

This memorandum presents the preliminary results to be achieved, a preliminary Operating Budget estimate, a preliminary assessment of how the work could be funded, and identifies specific budget issues requiring input from the Board of Directors before the budget can be finalized.

BAWSCA's work plan aligns with the agency's legislated authority and its three overarching goals: a reliable supply of high quality water at a fair price.

Five of the 11 major results that must be produced during FY 2011-12 are:

1. Complete Phase 2 of the Long-Term Reliable Water Supply Strategy to meet long-term water needs.
2. Implement the third year of the Water Conservation Implementation Plan to ensure water needs can be satisfied until long-term solutions are justified and in place.
3. Track San Francisco's progress rebuilding the Regional Water System to ensure the Water System Improvement Program remains on scope, schedule and budget.
4. Represent member agency interests in existing water supplies during FERC re-licensing of New Don Pedro Reservoir.
5. Ensure the 2009 Water Supply Agreement is implemented properly.

The first four activities are the corner-stones of BAWSCA that ensure member agencies continue to have a reliable supply of water for residents, businesses and community organizations.

**Board Policy Committee Action:**

The Board Policy Committee discussed the preliminary work plan and the results that would be produced and those that would not be budgeted or deferred. They also discussed the preliminary budget and the basis for budgeting salaries and benefits. The Committee voted unanimously to express its concurrence with the proposed results to be achieved and the preliminary Operating Budget, subject to discussion with the board and further refinement.

**Recommendation:**

**The Board Policy Committee concurred with the preliminary work plan and operating budget for FY 2011-12 and recommends the Board of Directors provide comments on the results to be achieved and the preliminary Operating Budget.**

**Fiscal Impact:**

The preliminary estimate for the operating budget, covering staff, consultants and operating expenses is \$2,570,000 or \$110,000 less than the FY 2010-11 approved budget of \$2,680,394.

Funding for the Operating Budget. The preliminary Operating Budget could be supported with no increase to member agency assessments and with no net reduction in the General Reserve balance.

Funding for Subscription Conservation Programs. As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA's subscription water conservation programs. The staff time to be devoted to those programs during FY 2011-12 is estimated to be 1200 hours. The reimbursement for those hours is estimated to be \$63,700. Agencies participating in subscription programs also pay for associated consultant support and direct expenses. As in prior years, those consultant costs and direct expenses are not included in the Operating Budget.

Funding for the Long-Term Reliable Water Supply Strategy. The Operating Budget does not include the cost of consulting services for developing the Long-Term Reliable Water Supply Strategy, which is being funded through the Water Management Charge authorized by the Board in July 2010.

Value for the Cost. The formula for BAWSCA assessments results in equivalent cost per gallon throughout BAWSCA's members. All BAWSCA costs are ultimately passed on to water customers through the water rates of the local city, district or private utility. The current cost of assessments to residential customers in the BAWSCA area averages about \$6.00 per household per year.

**Discussion:**

The following sections present:

- A. Status of the FY 2010-11 Operating Budget
- B. Results to be Achieved During FY 2011-12
- C. Overview of the Preliminary FY 2011-12 Operating Budget
- D. Achieving Vital Results During FY 2011-12 With Available Resources
- E. Alternatives for Funding the Operating Budget
- F. Funding of the Water Conservation Subscription Programs
- G. Funding of the Long-Term Reliable Water Supply Strategy

**A. Status of the FY 2010-11 Operating Budget:**

BAWSCA will complete the year without spending the entire approved budget.

Last May the Board approved a FY 2010-11 Operating Budget of \$2,680,394, approximately \$87,000 lower than the year prior. In January of this year, the mid-year review of work plan and budget status resulted in Board approval of recommended changes to the results to be achieved in FY 2011-12 and the assignment of some work to a consultant. No net increase in the budget was required.

As of March 10, 2011, expenditures at year-end are estimated to be approximately \$250,000, or 10% of the FY 2010-11 approved Operating Budget. Any unspent funds would be returned to the General Reserve.

**B. Results to be Achieved During FY 2011-12:**

As in prior years, a work plan was prepared by examining the past and future external factors that will or may affect water supply reliability, quality and cost for BAWSCA's member agencies.

The list of results to be achieved during FY 2011-12 was formed after identifying the issues BAWSCA will need to address between now and FY2016-17. That information was presented to the Board Policy Committee in December 2010 and to the Board in January. The Operating Budget is developed to make efficient use of existing staff resources and provide any additional resources needed to achieve the results.

Table 1 displays the results to be achieved that have been used to formulate the Operating Budget. BAWSCA's goals remain: to ensure water customers receive a reliable supply of high quality water at a fair price.

The FY2011-12 Operating Budget is based on the results that need to be achieved next fiscal year. The results to be achieved next year are, in turn, based on long-term challenges facing BAWSCA's member agencies, their customers, and the communities they serve.

Table 2 shows activities not addressed by the preliminary Operating Budget. If any of these activities are found to be needed during FY 2011-12, the Operating Budget can be reallocated or additional funding approved to provide necessary staff and consulting resources.

**Table 1. Results to be Achieved in FY 2011-12**

<p><b><u>RELIABLE SUPPLY -- WATER SUPPLY MANAGEMENT PROGRAM</u></b></p> <p><b><u>1. Long-Term Supply Solutions: Reliable Water Supply Strategy</u></b></p> <p>Complete Phase II A of the Long-Term Reliable Water Supply Strategy to provide reliable supplies of water when and where needed through the year 2035, including review and compilation of projected population and water demands from member agency Urban Water Management Plans.</p> <p><b><u>2. Near-term Supply Solutions: Water Conservation</u></b></p> <p>a. <u>Implement Core Water Conservation Programs</u> - Programs that benefit all customers.</p> <p>b. <u>Implement Subscription Water Conservation Programs</u> - Rebate and other programs that benefit, and are paid for by, agencies that subscribe for these services.</p> <p><b><u>3. Facility Reliability: Monitor SFPUC Water System Improvement Program</u></b></p> <p>Monitor scope, cost and schedule as San Francisco continues an aggressive construction schedule through 2015. Press the SFPUC and the city's political leadership to meet the city's adopted schedule, satisfy the requirements of AB 1823 and respond promptly to BAWSCA's reasonable requests.</p> <p><b><u>4. Protect Members' Water Supply Interests in FERC Re-licensing of New Don Pedro Reservoir</u></b></p> <p><b><u>5. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement</u></b></p> <p>Compile and submit water purchase projections to SFPUC as required by Water Supply Agreement.</p> <p><b><u>6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts</u></b></p>
<p><b><u>FAIR PRICE</u></b></p> <p><b><u>7. Administer the 1984 Contract</u></b></p> <p>Complete close-out of the 1984 contract with San Francisco to protect interests of members and their customers in a fair price for water purchased from San Francisco.</p> <p><b><u>8. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement</u></b></p> <p>Administer the Water Supply Agreement with San Francisco to protect interests of members and their customers in a fair price for water purchased from San Francisco.</p>
<p><b><u>HIGH QUALITY WATER</u></b></p> <p><b><u>9. Support Member Agencies in Receiving Reliable Communication of Water Quality Events</u></b></p> <p>Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs.</p>
<p><b><u>AGENCY EFFECTIVENESS:</u></b></p> <p><b><u>10. Maintain Community Allies and Contacts with Environmental Interests</u></b></p> <p>Maintain close relationships with BAWSCA's powerful allies (state legislators, business, labor, local government, water customers, and the media) and activate them if necessary to safeguard the health, safety and economic well-being of residents and communities. Respond to requests from local legislators. Maintain a dialogue with responsible environmental and other groups, who will participate in the project permitting and approval process for rebuilding the system.</p> <p><b><u>11. Manage the activities of the agency professionally and efficiently.</u></b></p>

**Table 2: Activities Not Included in Preliminary Operating Budget for FY 2011-12**

**Reliable Supply:**

1. Drought-year water purchases and wheeling.
2. Independent analysis of why water use is down in recent years.
3. Extended or complex application for grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council or other agencies.
4. Introduction of major legislation or supporting or opposing legislation initiated by others. If necessary, the agency would be able respond to major legislative efforts by redistributing resources, use of the contingency budget or accessing the general reserve, subject to prior Board approval.
5. Evaluating how sub-metering of mobile home parks or multi-family dwellings could be implemented to encourage conservation. Other utilities have investigated these opportunities and their information and methods are available to BAWSCA members.

**Fair Price:**

6. Evaluating potential economic or water supply impacts of State efforts to fix the Delta and other State water management projects.
7. Development of alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to review of SFPUC proposed rate structure modifications.
8. Arbitration of issues related to the 1984 Master Water Sales Contract or the 2009 Water Supply Agreement.
9. Preparation for issuance of bonds.

**High Water Quality:**

10. Technical work related to water quality and San Francisco's treatment of the water it delivers to the BAWSCA agencies.
11. Major advocacy efforts for changing water quality regulations or the manner in which San Francisco or member agencies treat water for drinking and other purposes.

**Agency Efficiency:**

12. Agency Staff preparation and support for additional board, board committee or technical committee meetings.
13. Conducting tours of the Regional Water System. The Operating Budget does not include funds to co-sponsor a tour by the California Water Education Foundation.
14. Conducting tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions.

**C. Overview of the Preliminary FY 2011-12 Operating Budget:**

Table 3 displays expenditures by major category and the differences from the approved Operating Budget for FY 2010-11.

**Table 3. Preliminary Operating Budget Estimate by Major Expenditure Category**

Cost Category	Approved FY 2010-11 Budget, dollars	Preliminary Estimate FY 2011-12 Budget, dollars	Difference, dollars
<b>Consultants/ Direct Expenditures</b>			
Reliability	975,800	833,930	<141,870>
Fair Pricing	248,000	233,000	<15,000>
Administration	62,000	112,000	50,000
<i>Subtotal</i>	1,285,800	1,178,930	<106,870>
<b>Administration</b>			
Employee Salaries & Benefits	1,057,894	1,075,875	17,981
Rent	100,000	81,000	<19,000>
Other Supplies & Services	178,500	177,900	<600>
BAWUA	1,200	1,100	<100>
<i>Subtotal</i>	1,337,594	1,335,875	<1,719>
Total Operating Expenses	2,623,394	2,514,805	<108,589>
<b>Capital Expenses</b>	8,000	6,000	<2,000>
<b>Budgeted Contingency</b>	47,500	47,500	0
<b>Regional Financing Authority</b>	1,500	1,400	<100>
<b>Grand Total</b>	2,680,394	2,569,705	<110,689>

The preliminary Operating Budget for FY 2011-12 continues work begun in FY 2010-11. The Board-approved FY 2010-11 operating budget provided the staff resources needed to initiate Phase IIA of the Long-Term Reliable Water Supply Strategy. It also provided the resources needed to begin implementing short-term solutions -- the second year of activities in the Water Conservation Implementation Plan.

The results to be achieved during FY 2011-12 build on these efforts.

Five of the 11 major results that must be produced during FY 2011-12 are:

1. Complete Phase 2 of the Long-Term Reliable Water Supply Strategy to meet long-term water needs.
2. Implement the third year of the Water Conservation Implementation Plan to ensure water needs can be satisfied until long-term solutions are justified and in place.
3. Track San Francisco's progress in rebuilding the Regional Water System to ensure the Water System Improvement Program remains on scope, schedule and budget.

4. Represent member agency interests in existing water supplies during FERC re-licensing of New Don Pedro Reservoir.
5. Ensure the 2009 Water Supply Agreement is implemented properly.

Meeting the Water Supply Challenge. BAWSCA and its members must achieve 33 million gallons per day (mgd) of water savings or secure additional water supplies before 2018. An additional 23 mgd of water savings must be achieved and up to 25 mgd of additional water supply must be developed by 2035.

The need for this work stems from San Francisco's decision in the Fall of 2008, at which time, San Francisco discarded the plan that had been developed jointly between San Francisco and its wholesale customers over the prior four years, and instead adopted a plan that deferred the decision to provide any additional water supply from the Regional Water System until at least 2018. Through these actions, San Francisco changed the approach to securing additional water supplies that it had been working on with its wholesale customers, and established itself as an unreliable source of water for meeting future needs.

BAWSCA is meeting these challenges with a two-pronged effort. Long-term water supply reliability depends on finding additional sources of water. Viable solutions will likely consist of portfolios of moderate-sized projects, rather than single large projects. BAWSCA's Long-Term Reliable Water Supply Strategy is focused on this specific activity. Because of the time required to plan, permit and construct new facilities, short-term solutions must rely on increased water conservation and use of existing recycled water capacity. BAWSCA's Water Conservation Implementation Plan, now in its third year of implementation, is designed to achieve these near term water conservation savings.

To ensure that existing supplies reach customers reliably, San Francisco must continue to complete its Water System Improvement Program (WSIP) on scope, schedule and budget. The WSIP environmental and design activities will be largely completed during FY 2010-11, and construction activities will increase dramatically through 2015. Professional support will continue to be needed to provide input to and track San Francisco's projects as designs are finalized and construction spending accelerates.

Existing supply reliability also requires that existing sources remain available. As its predecessor agency did in the 1990's, BAWSCA will ensure that Wholesale Customer interests are adequately represented during the FERC re-licensing of New Don Pedro Reservoir. All stakeholders are now preparing for this effort, which is to be completed in 2015.

**D. Achieving Vital Results During FY 2011-12 With Available Resources:**

Staff size has remained constant since FY 2004-05, while the volume of work has increased roughly three-fold. Results have been produced by leveraging staff resources with outside professional services, temporary employees and interns.

The originally projected work load for FY2011-12 exceeded available staff time for performing work and managing outside services.

To produce the most critically important results with the existing staff level, several alternatives were examined, including:

- Eliminating and deferring lower priority work products
- Reducing the scope of selected activities
- Shifting work to using outside professional services
- Reassigning existing staff to perform work within their defined levels of responsibility but outside their normal areas of work

Work eliminated from the work plan includes supporting the formation alliances of member agencies to comply with Senate Bill 7X more cost-effectively.

Work deferred to future years includes estimating water savings that result from BAWSCA and locally-managed water conservation activities. The collection of data on BAWSCA and locally-managed conservation activities will continue, but the estimation of resulting water savings will be left to individual agencies or deferred until the information is needed and resources are available.

The schedule for the Long-Term Reliable Water Supply Strategy can be extended 6 to 8 months, enabling existing staff to balance work loads

Work eliminated from the FY 2010-11 work plan included the hiring of a fishery consultant to support the protection of member agency interests in the relicensing of New Don Pedro Reservoir. For FY 2011-12, existing staff would be unable to manage and direct the fishery consultant. Because the work is important, and because the work products will be vital for development of legal work products, the preliminary Operating Budget is based on that consultant being hired and managed by BAWSCA's legal counsel.

Temporary employees can be hired to back-fill the Office Assistant, so that position can provide administrative support to water conservation activities. Temporary employees can also perform some administrative tasks related to water conservation. The CEO's assistant will continue to provide logistical and public outreach support to selected water conservation activities.

These temporary solutions enable BAWSCA to achieve vital results during FY 2011-12. Long term, other solutions will be needed in order to support aggressive water conservation programs, develop a long-term water supply strategy for the region, and to implement that strategy in a manner acceptable to the various member agencies and enforce the 2009 Water Supply Agreement. These important results must be achieved while maintaining BAWSCA's ability to effectively address actions, or lack of action, taken by San Francisco, and contend with other matters important to the collective interests of the BAWSCA member agencies.

**E. Alternatives for Funding the Operating Budget:**

BAWSCA's sources of funds are: 1) the annual agency assessments, 2) the BAWSCA General Reserve, and 3) reimbursements for subscription water conservation programs, and 4) the Water Management Charge.

Assessments. The preliminary Operating Budget could be supported with no increase to member agency assessments and with no net reduction in the General Reserve balance.

Table 4 displays the history of assessments and year-end reserves.

**Table 4. Historical Annual Assessments and Year-End Reserves**

Fiscal year	Assessments	Year-End Reserves
2003-04	\$1,668,550	\$276,480
2004-05	\$1,641,995	\$246,882
2005-06	\$1,953,998	\$240,000
2006-07	\$2,117,904	\$654,000
2007-08	\$2,117,904	\$691,474
2008-09	\$2,309,000	\$507,474
2009-10	\$2,517,000	\$407,192
2010-11	\$2,517,000	\$653,763
2011-12	\$2,517,000	\$900,000 (est.)

Funding Alternatives. Because the Operating Budget could be funded, and a prudent reserve of about 15 percent retained without increasing assessments, a series of alternative funding scenarios has not been examined at this time.

A portion of Operating Budget expenditures are reimbursed by the Subscription Water Conservation Program. That program reimburses direct salaries for time spent supporting those programs, as well as consultant costs, direct expenditures or other expenses that pass through BAWSCA's accounts. Table 5 demonstrates that for FY 2011-12, an estimated \$63,700 of the Operating Budget will be spent on Subscription Conservation Programs and that the agency will be reimbursed by the agencies participating in those programs.

**Table 5. The Subscription Conservation Program  
Reimburses the Operating Budget**

Revenue or Expense	FY 2011-12 Preliminary Estimate, Dollars	
<u>Operation Budget</u>		
Total Revenue		\$2,581,700
Assessments	\$2,517,000	
Subscription conservation reimbursement	\$63,700	
Interest & misc. revenue	\$1,000	
Operating Expenses (Preliminary Budget)		\$2,569,705
Projected Net Operating Revenue/(Loss)		\$11,995
<u>Subscription Program</u>		
Total Revenue		\$1,263,700
Participant billings	\$1,263,700	
Subscription Program Expenses		\$1,263,700
Direct program expenses	\$1,200,000	
Operating Budget expense	\$63,700	
Projected Net Subscription Revenue (Loss)		\$0

**F. Funding of the Water Conservation Subscription Programs**

As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA's subscription water conservation programs.

The subscription conservation programs, offered in response to member agency interest in cost-effective conservation programs that generate economies-of-scale, increased program effectiveness achieved through regional public outreach, and the ability to leverage limited staff time. The specific programs to be offered next year are listed in this memorandum.

Water Conservation Program Authority, Measures, Funding and Origin

All of the conservation programs offered by BAWSCA respond to requests by member agency staff with whom BAWSCA interacts. Before being offered, each program is evaluated for cost-effectiveness, value added to end customers, and contribution to achieving water savings goals.

BAWSCA's Regional Water Conservation Program offers a "Core Program" and a "Subscription Program":

- The Core Program is funded through the annual BAWSCA Operating Budget and contains those measures that are more effective when implemented regionally and that provide regional benefits, irrespective of individual agency jurisdictions.
- The Subscription Program comprises measures whose benefits are realized within individual water agency service areas. Participation is voluntary. The opportunity to participate is offered to all BAWSCA member agencies. Implementation of these measures is fully funded by the individual agencies that elect to participate.

**Authority**

Since its inception, both the Core and Subscription Programs are included in the annual work plan approved by the BAWSCA Board of Directors. Board approval of professional services agreements may be needed for consultants or contractors needed to perform the work, and such approval is requested prior to offering the programs to member agencies.

**Proposed Program Measures for FY 2011-12**

For FY 2011-12, BAWSCA members have asked BAWSCA to provide the following conservation activities as part of its Core and Subscription Programs:

**Core Program Measures**

- Water Efficient Landscape Education Classes
- *Water-Wise Gardening in the Bay Area* Landscape Educational Tool
- Native Garden Tours and Symposiums
- Public Outreach
- Assistance Obtaining State Grant Funds

**Subscription Program Measures**

- High-Efficiency Toilet (HET) Rebates
- High-Efficiency Residential Washing Machine Rebates
- Water-Wise School Education Program and Kit Distribution
- Water Conservation School Assembly Program
- Large Landscape Audits
- Lawn Replacement (Lawn Be Gone!) Program
- Grant Administration

**Subscription Program Funding**

For the proposed Subscription Program, the estimated staff time for FY2011-12 is approximately 1200 hours. Direct salaries for that work would total approximately \$63,700. Actual staff costs for the FY 2011-12 Subscription Program would be reimbursed by the participating agencies resulting in a reduction in the BAWSCA Operating Budget.

**Origins of BAWSCA's Water Conservation Assistance Programs**

When the SFPUC was preparing its Program Environmental Impact Report (PEIR) for the Water System Improvement Program (WSIP), San Francisco required each agency to submit a written commitment to a level of conservation savings. Each agency was free to decide how aggressive an approach to conservation it wanted to pursue, and how much it wished to invest toward conservation.

Following the publication of the Draft PEIR, it became clear that a plan would be needed to ensure the savings could be achieved. So that BAWSCA could plan and budget appropriately, it was important to determine which measures the agencies would pursue on their own or with other partners, and which measures they wanted BAWSCA's assistance to implement.

In September of 2008, the BAWSCA Board authorized development of the Water Conservation Implementation Plan (WCIP). Only one month later, in October of 2008, San Francisco unilaterally limited the supply it would make available to BAWSCA members until 2018. This limitation would prevent agencies, in aggregate, from meeting their projected needs, and 2018 was too near to permit development of new water supplies. The approach

to the WCIP was modified to produce a plan that would enable BAWSCA agencies to stay below the Interim Supply Limitation imposed by San Francisco until 2018.

**G. Funding of the Long-Term Reliable Water Supply Strategy**

The Long-Term Reliable Water Supply Strategy (Strategy) is funded separately from BAWSCA's Operating Budget.

The Strategy was initiated by the BAWSCA Board of Directors in response to the Interim Supply Limitation imposed by San Francisco. San Francisco's prior planning was based on a goal of meeting member agencies' projected water needs until 2030. When San Francisco imposed the Interim Supply Limitation until at least 2018, BAWSCA agencies had no certainty that long-term water needs for residents and jobs would be met.

In May 2009, the BAWSCA Board authorized preparation of the scope of work for developing a long-term strategy. The resulting scope of work presented phased investments for developing and implementing water supply projects.

In July 2010, the Board authorized contracts totaling \$2.332M to support the development of Phase IIA of the Strategy and the enactment of the Water Management Charge to fund Phase IIA over 18 months, an equivalent of \$129,000 per month for 18 months. The Board also authorized the Water Management Charge for Phase IIA to be allocated to agencies in the same proportions used to allocate the BAWSCA Operating Budget.

The allocation of costs for Phase IIA is not precedent setting. The Board retains authority to allocate the costs of future phases of work in proportion to the benefits desired or other considerations.

All contracts specifically authorized by the Board in July have been executed and work is proceeding according to scope. The authorized contingency of \$100,000 has not been used to date. Scope or budget changes that would require Board action will be brought forward if and when necessary. No scope or budget changes are anticipated at this time.

**H. Budget Details:**

The pages which follow present details on the following Operating Budget categories:

- H-1. Preliminary budget for the Bay Area Water Users Association (BAWUA)
- H-2. Preliminary budget for the Regional Financing Authority
- H-3. Allocation of BAWSCA operating budget to goals
- H-4. Salaries and benefits
- H-5. Organization and Staffing
- H-6. Uses of Professional Services
- H-7. Office Lease
- H-8. Budgeted contingency

H-1. Preliminary budget for the Bay Area Water Users Association (BAWUA). The Board will consider a separate action to approve the proposed FY 2011-12 budget for BAWUA of \$1,100. This amount appears in the BAWSCA budget.

H-2. Preliminary budget for the Regional Financing Authority Budget. The BAWSCA Board of Directors agreed to fund nominal administrative costs for the Regional Financing Authority (RFA), at least until it became more actively involved and required significant resources. Assuming a low level of activity in FY 2011-12, the proposed RFA budget is \$1,400. The RFA will formally consider and adopt this budget in July 2011.

H-3. Allocation of BAWSCA Operating Budget to Goals. The proposed operating budget represents the following allocation of staff plus consultant hours toward achieving the identified results. These totals include the staff time that would be spent on the Long-Term Reliable Water Supply Strategy, but not the consultant hours for engineering, legal and strategic support of that effort.

<b>Reliable Supply</b>	<b>57%</b>
<b>Fair Price</b>	<b>13%</b>
<b>Operations and administration</b>	<b>30%</b>

**H-4. Salaries and Benefits.** The preliminary budget for salaries and benefits is \$1,075,875 or \$17,981 more than the approved budget for FY 2010-11. This amount includes the increased cost of health benefits for the seven existing approved positions, and an allowance for temporary services on an as-needed basis.

The preliminary FY 2011-12 Operating Budget includes no adjustment to the salary for any employee. Salary issues and alternatives will be discussed with Board Policy Committee for input and advice.

The preliminary Operating Budget includes no allowance for merit increases within existing salary ranges.

The preliminary Operating Budget reflects no COLA adjustment to top step salaries and no adjustment in top step salaries to match the median market values for comparable positions in other Bay Area agencies.

There was no COLA adjustment made in the FY 2009-10 approved budget. A 3.01 percent increase to the top step of staff salary ranges was approved by the Board when it approved the FY 2010-11 Operating Budget. Those adjustments were consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose. The current value of that index is 1.8312 percent.

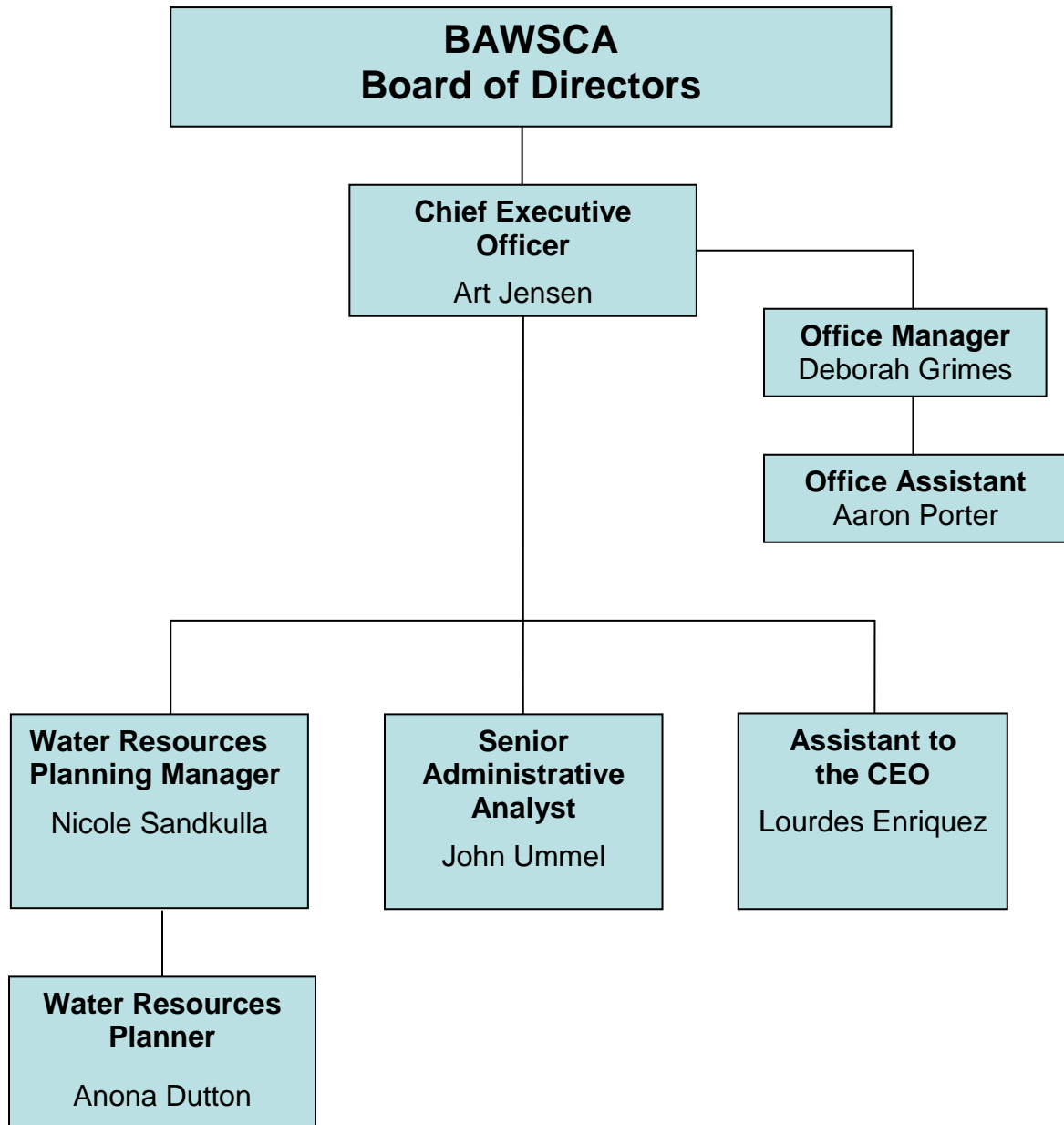
At BAWSCA, adjustments to top step salaries do not automatically result in changes to incumbent employee salaries. Adjustments to the salaries of BAWSCA employees are made on the basis of merit and must be approved by the CEO.

The Senior Administrative Analyst announced that he plans to retire at the end of Calendar Year 2011. The incumbent, Mr. John Ummel, has an exemplary record of reviewing San Francisco costs, cost allocation and rate setting, and has recovered millions of dollars in credits to BAWSCA member agencies. His job requires knowledge of accounting principles, the complexities of San Francisco's accounting procedures, and a thorough knowledge of the Water Supply Agreement. Mr. Ummel's retirement coincides with a busy time of year for that position.

BAWSCA's size does not support a vertical hierarchy that, in larger agencies, provides an opportunity for training replacements. Several alternatives were considered to provide a period of training and oversight for a new employee to fill this position. The preliminary budget provides one month of overlap plus an allowance (\$12,000) so that Mr. Ummel could provide up to 160 hours of as-needed support following his departure.

**H-5. Organization and Staffing.** Figure 1 represents the current reporting relationships in the organization. No new positions are proposed in the FY 2011-12 Operating Budget. All staff positions are filled at this time.

**Figure 1. Organization Chart**



**H-6. Uses of Professional Services.** Outside professional services are used to provide specialized services and augment staff.

1. Professional engineering services for: a) developing a long-term strategy to ensure a reliable supply of water; b) implementing and tracking water conservation efforts; c) evaluating Water System Improvement Program project scopes during design and construction; d) monitoring project cost estimates, bids and schedules; e) monitoring and assessing San Francisco's performance in implementing the overall program; e) assessing San Francisco's method for cost estimation, application of contingencies and addressing cost inflation during the program; f) providing specific constructive recommendations for keeping the program on or ahead of schedule; and g) analyzing hydraulic records used by San Francisco in setting the wholesale water rates.
2. General legal services for BAWSCA and the RFA; specialized legal services to support administration of the Water Supply Agreement; specialized legal services for addressing matters related to water supply reliability.
3. Strategic counsel for identifying and addressing strategic and political issues associated with maintaining the progress of the Water System Improvement Program, assisting the Board and the CEO in developing and implementing an effective policy making process that supports the development of the Long-Term Reliable Water Supply Strategy, providing legislative and political support, and providing advice to the CEO and the Board on other issues significant to the water customers and the effectiveness of the agency.
4. Financial advisory services to conduct specified capital financing and rate impacts analyses on a task order basis.
5. Accounting/auditing expertise to assist with implementing the new water agreement, as well as an independent auditor to prepare and review annual financial statements.

**H-7. Office Lease.** The lease for the BAWSCA offices expires in the Fall of 2011. Because commercial lease rates have declined in the region, alternative locations have been investigated. The existing location is convenient to staff, directors and visitors. Because the new lease rate is expected to be lower, the preliminary Operating Budget reflects a reduction in lease expenses. The preliminary budget does include a modest allowance for tenant improvements if needed to accommodate temporary employees or other support.

**H-8. Budgeted Contingency.** The preliminary FY 2011-12 contingency budget is \$47,500, the same amount that has appeared in the budget for the prior two years.



To: BAWSCA Board of Directors  
From: Art Jensen, Chief Executive Officer  
Date: March 11, 2011  
Subject: Analysis of and Conclusions about SFPUC Proposed Structure of Wholesale Water Rates

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The SFPUC distributed to BAWSCA and its member agencies a memorandum dated February 3, 2011 and titled, "Fiscal Year 2011-12 Wholesale Water Rate Structure Alternatives & SFPUC's Proposal to Move to a Known Deliveries Approach." The SFPUC provided an oral presentation of this material at the February 25 Annual Meeting with Wholesale Customers.

BAWSCA's consultant, Hilton Farnkopf & Hobson (HF&H), analyzed the potential implications of a change in rate structure methodology and discussed its findings with Water Management Representatives appointed by each member agency on Thursday, March 3, 2011.

The HF&H analysis showed that problematic impacts result from the Known Annual Deliveries approach. This analysis, as well as other concerns voiced by certain member agencies, resulted in the Water Management Representatives concurring that San Francisco should continue to use the historical rate setting methodology to achieving its financial objectives while avoiding the impacts to and objections from member agencies.

This memo summarizes the results and conclusions of the analysis, identifies our immediate objective in working with San Francisco, and outlines the course of action BAWSCA will follow to achieve this objective on behalf of its members.

**Analyses Performed:**

HF&H produced a spreadsheet that modeled the amount each agency would pay for water between 2010 and 2035 under both the SFPUC's historical method for setting rates and the SFPUC's proposed Known Annual Deliveries approach.

**Underlying Data and Assumptions:**

To represent SFPUC costs, the analysis uses the SFPUC's estimates for the annual Wholesale Revenue Requirement through FY 2019-20; thereafter, the Wholesale Revenue Requirement was projected using a nominal increase of 2% per year. The near-term results are independent of this assumption.

To represent future water purchases from the SFPUC, the spreadsheets use the projections provided by the BAWSCA agencies and that are published in a report titled BAWSCA Long-Term Reliable Water Supply Strategy Phase I Scoping Report (CDM, May 2010). These projections will be superseded by the projections agencies are preparing for their respective Urban Water Management Plan Updates. This updated information will be available by June 30, 2011.

As such, the purchase projections used in the HF&H spreadsheet (1) do not reflect the recent downturns in the economy and regional water use, (2) contain certain characteristics that are not consistent with current agency plans or contractual provisions, and (3) do not reflect limitations associated with Individual Supply Guarantees and Interim Supply Limitations.

Lastly, these projections were made for the purpose of long-term planning, not rate setting.

In spite of these qualifications, these projected purchases are suitable for comparing the overall characteristics of the historical method and proposed Known Annual Deliveries approach for

wholesale water rates, and the results and conclusions obtained from the analysis would likely be observed regardless of the refinement of the data.

### **Results:**

The results are not at all intuitive, and some of them are alarming.

Overall, compared to the historical method, the Known Annual Deliveries approach affects different agencies in different ways and to differing degrees:

- The differences between agencies do not necessarily disappear over time and in some cases increase over time.
- Agencies with purchases trending upward at an above-average rate would pay a reduced share of total costs.
- Agencies with purchases trending downward at an above-average rate would pay an increased share of total costs.
- The Known Annual Deliveries approach creates a disincentive for agencies to conserve water, use alternative supplies or develop new supplies.
- The results for agencies with multiple sources are even more varied and dramatic than those for agencies 100% dependent on SFPUC supplies.

### **Conclusions from Analysis:**

The results raise numerous questions about the equity of cost allocations, and there is no known and tested precedent for the Known Annual Deliveries approach.

- In any one year, no two agencies would experience the same cost for purchasing identical amounts of water.
- There has been no analysis of the equity of cost allocation during or after voluntary or mandatory rationing.
- There has been no analysis of the equity of cost allocations during or following a disruption of deliveries because of seismic, water quality or other incidents.

These results do not, by themselves, support rejection of possible future changes in the wholesale rate structure, but the results do support careful application of the general methodology contained in the 2009 Water Supply Agreement.

### **Conclusions After Meeting With Water Management Representatives:**

Specifically, upon review of the proposed rate structure alternative:

- The Wholesale Customers support San Francisco's desire to maintain bond ratings, secure low bond interest rates, and maintain appropriate reserves.
- Possible changes in rate structure require more extensive analysis prior to being considered for adoption, including the "estimated financial effect on individual Wholesale Customers or classes of customers." [Section 6.04.B]
- The SFPUC should meet with and explore the interests and financial planning constraints of the individual Wholesale Customers.

Continuing with the historical method would permit the SFPUC to meet its three goals for financial stability while avoiding the impacts of the Known Annual Deliveries approach and potential contests over its introduction.

### **Course of Action:**

BAWSCA transmitted the analyses and these results and conclusions to the SFPUC on March 9, 2011. We will work with SFPUC management to ensure the Commission adopts Wholesale Water Rates using a method that conforms to the Water Supply Agreement and does not result in troublesome, unresolved questions. We will keep the BAWSCA member agencies and the Board of Directors informed, and will involve the leadership of the Board as necessary to achieve results.

**Bay Area Water Supply and Conservation Agency  
and Regional Financing Authority**

**Meeting Schedule through December 2011**

<b>Schedule for BAWSCA Board Meetings (Meetings are held from approx. 7:00 – 9:00 p.m.)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Thursday – May 19, 2011	Wind Room, Foster City Community Center
Thursday – July 21, 2011	Wind Room, Foster City Community Center
Thursday – September 15, 2011	Wind Room, Foster City Community Center
Thursday – November 17, 2011	Wind Room, Foster City Community Center

<b>Schedule for RFA Board Meetings (Meeting time will be announced)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Thursday – July 21, 2011	Wind Room, Foster City Community Center

<b>Schedule for BAWSCA Board Policy Committee Meetings (Meetings held from 1:30-4:00 p.m.)</b>	
<b><u>Date</u></b>	<b><u>Location</u></b>
Wednesday – April 13, 2011	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – June 8, 2011	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday – August 10, 2011	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday, October 12, 2011	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.
Wednesday, December 14, 2011	155 Bovet Rd., San Mateo – 1 <sup>st</sup> Floor Conf. Rm.