

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

**March 17, 2011 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

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

BAWSCA Chair, Barbara Pierce, called the meeting to order. Art Jensen, called the roll. Twenty (20) members of the Board were present, constituting a quorum. A list of directors present (20) and absent (6) is attached.

2. Comments by the Chair: Chair Pierce, acknowledged this meeting as her first since being elected chair, and stated her understanding of her responsibilities to the member agencies and their customers as Chair of the BAWSCA Board. She looks forward to working with Vice-Chair Irene O’Connell.

She said the next chapter of BAWSCA’s history will focus on sufficient and reliable water supply and water conservation to protect the health and safety, and economic well-being of the agency’s constituents. The Board should not wait for the inevitable supply shortage as a result of drought and population growth. The CEO is currently addressing this critical issue, and Chair Pierce will work closely with him to ensure that the Board is informed and engaged.

BAWSCA’s regional conservation program earned a prestigious award in the Government Agency category from the Silicon Valley Water Conservation Awards. Among this year’s winners are BAWSCA Director Ken Coverdell and his wife Sally Coverdell for their conservation efforts. Board members are invited to attend the Award Ceremony on World Water Day, March 22nd, where Ira Ruskin, former BAWSCA Board Chair and BAWSCA advocate during his terms in the legislature, will be the keynote speaker. Director Pierce publicly thanked Director Quirk for nominating BAWSCA.

3. Board Policy Committee Report: Director Klein, Chair of the Board Policy Committee reported that the meeting on February 9th was attended by all nine members of the Committee. Several members are new, and Director Klein expressed his appreciation for their contribution to the discussion.

The Committee acted on two items that had an underlying theme of how BAWSCA can do more with less resource, how to make the tough choices of what activities BAWSCA can’t do during the next fiscal year, and how BAWSCA operates efficiently.

The Committee voted unanimously to recommend to the Board, what was discussed as, Alternative #2 to achieve BAWSCA’s critical results with its available resources during FY 2011-12. The Committee also concurred with the proposed results to be achieved and the preliminary Operating Budget, subject to further refinement and discussion with the Board. Both items are on tonight’s agenda for Board discussion.

4. **Public Comments:** Public comments were heard from Wynn Grcich and Peter Drekmeier.
5. **Consent Calendar:** Mr. Jensen noted a change on page 7 of the Draft January 20th Board minutes, to clarify that the motion made by Director Quirk and seconded by Director Pierce for item #8B, passed. Mr. Jensen also noted that Table 1 of the Budget Status Report that shows the percent of year-to-date expenses for administration will be corrected on the next budget report that the board will receive.

Director Quigg made a motion, seconded by Director O'Mahony, that the minutes of the January 20, 2011 Board meeting be approved, and the Budget Status Report and Investment Report for periods ending January 31, 2011 be received and filed. Two directors abstained. The motion passed.

6. **SFPUC Report:** Steve Ritchie, Assistant General Manager of SFPUC's Water Enterprise, addressed the BAWSCA Board in Ed Harrington's absence. Mr. Ritchie reported that the water supply outlook for the year is positive, with Hetch Hetchy precipitation at 164% of normal to date, and at 120% for the entire year.

With regard to the WSIP, the San Francisco Board of Supervisors approved the Calaveras Dam Improvement Project. This is the single largest project in the program and is a significant milestone for SFPUC's progress with the WSIP. Bids for the project are due April 21st, and its construction schedule is expected to begin in late Summer or early Fall.

The wholesale water rates for FY 2011-12 are scheduled to be considered and adopted by the Commissioners of the SFPUC on May 10th. The SFPUC has been working closely with both BAWSCA and individual agencies on the potential rate increases.

The SFPUC is aware of the disastrous situation in Japan, and with concerns about whether contamination from Japan's nuclear power plants will reach California. With regard to the risks to San Francisco's water supplies, the SFPUC has conferred with the San Francisco Health Department and State Department of Public Health and no additional precautions or monitoring are required at this time. SFPUC will continue to follow the situation to ensure the safety of the regional water system's reservoirs and supplies.

7. **Report and Discussion:**

- A. Revisions to the Board Policy Calendar: Mr. Jensen reported that revisions to the Policy Calendar include the deferral of some items so that staff can focus on priority issues. The deferred items will be brought to the Board later in the year.

Additional items reported and discussed with the Board Policy Committee at its meeting on April 13th included the SFPUC's compliance with the Water Supply Agreement and AB 1823. A settlement agreement was reached regarding FY 2007-08 expenditures which resulted in a \$2.4 million credit to Wholesale Customers. BAWSCA Administrative Analyst, John Ummel, works closely with the SFPUC staff and achieves these results for the member agencies. Questions about SFPUC expenses during FY 2008-09 were sent to the SFPUC for their review and response. Resolution of these

items is expected in the next few months. Additionally, the compliance audit for FY 2009-10 is due to be received by the end of March.

The transition from the old agreement to the new Water Supply Agreement with San Francisco involved a change in the way capital expenditures were charged to the Wholesale Customers and resulted in a balance of \$397 million owed on investments that San Francisco had made in past years. Under the new agreement, agencies will repay the remaining balance to San Francisco over a period of 25 years. An agreement has been reached on the balance that is now due.

In response to Directors Guzzetta and O'Mahony's questions, Mr. Jensen clarified that the \$397 million is not related to the SFPUC's under collection of revenue during the last three years, or the balancing account, and that it is included by the SFPUC in rate setting calculations.

Mr. Jensen reported that 23 agencies have adopted the Drought Implementation Plan with no significant issues. Adoption by the three remaining agencies is expected to go smoothly.

A new regional subscription conservation program called "Lawn Be Gone!" was launched on February 1st. The program provides rebates to water customers who replace visible front lawns with water-efficient landscaping. The program is offered to both residential and commercial customers. Six member agencies are participating in the program.

- B. Follow up on Achieving Critical Results with Available Resources: In examining the ways BAWSCA can achieve critical results with existing staff, Mr. Jensen reported that the Board Chair and Vice-Chair asked him to provide a history of how the agency's Work Plan has evolved over time.

A Work Plan is approved by the Board every year, and it is developed based on the various challenges to which the agency must respond. Mr. Jensen presented a graph showing the budget development beginning in FY 1994-95 when the first three permanent staff members were hired.

With leadership provided by the Bay Area Water Users Association (BAWUA), BAWSCA's predecessor organization, many of the member agencies' elected officials testified before the SFPUC for the adoption of a capital improvement program (CIP) to rebuild the seismically prone regional water system. When the SFPUC failed to adopt the CIP in 2000, Assembly Member Lou Papan pursued a legislative solution to protect public health and safety. BAWUA provided major support for that effort, and elected officials organized to support the legislation. In 2002, AB 1823 passed, the SFPUC approved its CIP, now called the Water System Improvement Program, and BAWSCA was formed under its enabling legislation, AB2058.

In passing AB2058, the legislature noted the lack of, and the need for representative governance to develop and implement reliable water supply and conservation programs on a regional basis. Mr. Jensen noted that BAWSCA was formed for the purpose of developing and implementing plans for regional conservation and water supply development, recycled water to the extent that the Board of Directors decides to do so.

Over 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. The legislation states the importance of the WSIP, and BAWSCA does monitor 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.

As part of the SFPUC's success in producing a sound Program Environmental Impact Report (PEIR) for the WSIP, the SFPUC asked each BAWSCA agency to estimate how much water it planned to purchase in the future, and how much it planned to conserve in the future, and to sign a document committing to those planning estimates. A plan was needed to achieve those conservation estimates, and that became the basis of BAWSCA's regional water conservation program. The agencies needed BAWSCA's help in developing coordinated centralized programs that are cost-effective and can achieve the conservation commitments. In FY 2007-08, the BAWSCA Board approved the Water Conservation Implementation Plan.

In 2008, the SFPUC decided to limit how much water it would provide to the region until at least 2018. This unilateral decision by San Francisco was in stark contrast to the prior years of planning with San Francisco to meet projected purchases to the year 2030. The decision created a number of challenges for the agencies, including increased uncertainty about how the water needs of future residents and businesses would be met. As a result, the Board has added activities and budget for developing the Long-Term Reliable Water Supply Strategy (Strategy) to BAWSCA's Work Plan. In 2010, the Board approved the enactment of the Water Management Charge under the new WSA to fund Phase IIA of the Strategy.

The staffing level started at three persons in 1995, increased to seven full time employees in FY 2004-05, and has remained at that level for the last seven years.

More consultants are being used and the bulk of outside services are used in the area of WSIP oversight, water conservation and supply. In response to Director Guzzetta's inquiry about how the level of consultant use relates to staff size, Mr. Jensen presented a graph showing the use of consultants relative to the two staff positions working in these three areas. Each of the two staff persons is currently managing up to seven consultants. The consultant to staff ratio is now at the limit of what can be managed effectively.

Mr. Jensen explained that ongoing conservation is necessary to achieve the 13mgd of active conservation by 2030 that agencies committed to San Francisco in 2004, to stay

within San Francisco's Interim Supply Limitation that requires an additional 8mgd of conservation, and to satisfy the State legislation 20x2020.

Despite current low water use, Mr. Jensen emphasized that conservation efforts and the Strategy remain critical.

The agencies' updated Urban Water Management Plans (UWMP) due to the State in June 2011 will provide further information for evaluating needs for water conservation and future water supplies. Under state law, agencies must demonstrate viable water conservation programs to maintain grant fund eligibility.

The Strategy remains important because agencies find it necessary for additional supply during normal years and drought years, and for increased supply diversity. It is also important because the Federal Energy Regulatory Commission's (FERC) relicensing of New Don Pedro Reservoir on the Tuolumne River may have an impact on supplies from the SFPUC.

Mr. Jensen stated that the current low water use buys time. Projects that produce additional supplies have long lead times. In addition, significant delays in developing projects increase costs and result in lost opportunities. Mr. Jensen also noted that uncertainty in the availability of water can impact residential and business development, and drought shortages can result in significant economic impacts.

Three alternatives for achieving critical results with BAWSCA's existing resources were detailed in the staff memo provided to the Board. The recommendation is Alternative #2 which modifies the Work Plans for both FY 2010-11 and FY 2011.

Director Wykoff asked what effects would result from extending the schedule of the Strategy's Phase IIA by six to eight months, and whether Mr. Jensen recommends the schedule extension.

Mr. Jensen supports the extension and explained that it will even out the work load and would allow staff to get the most critical work done. The extension will have no effect on cost and will actually improve results because it would provide more time for the consultants and staff to review the UWMP's from the agencies in July. The original schedule had a very compressed period of time to review the documents and to consider the comparability and consistency of the data from the 26 agencies.

In response to Director Quigg's inquiry about the agencies' ability to comply with 20x2020 and the effects of an increase in water use, Mr. Jensen stated that it is the responsibility of each agency to look into those factors. Contiguous agencies that share a common supply, such as BAWSCA's member agencies, can respond as a group to create equity with larger agencies, such as East Bay Municipal Utilities District (EBMUD). In its Work Plan this year, BAWSCA prepared a preliminary analysis of how agencies might benefit by working together to comply with 20x2020. That information has been provided to the member agencies. Alternative #2 eliminates

further support from BAWSCA. However Mr. Jensen noted that agencies are not prohibited from forming their own alliances.

Director Weed asked whether there are projections of what the workload will be beyond next fiscal year. Mr. Jensen reported that in January, a 15-year outlook was presented to the Board which included the anticipated issues with the FERC relicensing process, the SFPUC's supply limitations up to 2018, the expiration of the DRIP in 2018, and the progressive implementation of the Strategy between now and 2030. The workload will vary and will continue to respond to things that can't now be foreseen.

Director Weed stated that he is comfortable with the extension because with the current status and events, agencies are nowhere near the 184mgd. Mr. Jensen stated that Alameda County Water District is a good example of an agency that has historically anticipated its needs for water. It has diversified its supplies with State Water, SFPUC, and brackish desalination, and it did not get that status by waiting until the last minute. BAWSCA needs to look forward and use the time to its advantage.

Director Klein expressed his concerns with consistency between the 2010 Census and Association of Bay Area Government (ABAG) projections and asked how those data are being utilized by agencies for their projections. Ms. Sandkulla stated that agencies make their own determination of how to utilize that information.

BAWSCA will review the agencies' UWMP's to look at the comparability of the agencies different approach, consistency with local land use plans and planning, and whether the collective data form a strong basis for the Strategy. As part of the Strategy, BAWSCA's consultant will review the agencies' UWMP's.

A motion was made by Director Quirk, seconded by Director Vella, 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.

The motion passed unanimously.

- C. Planned Achievements and Preliminary Budget Proposal for FY 2011-12: Mr. Jensen noted a correction on page 3, third paragraph of the staff memo to say "...expenditures at year-end are estimated to be approximately \$250,000, or 10% under the approved budget" instead of "10% of the approved budget".

The key things for the Board's attention include Table 1, Results to be Achieved in FY 2011-12, and Table 2, Activities not Included in the Preliminary Operating Budget for FY 2011-12. The tables do not reflect the changes the Board just adopted under Item#7B. When the memo is re-produced for the BPC in April, and the Board in May, the tables will reflect the Board's action accordingly.

The preliminary Operating Budget for FY 2011-12 is \$110,000 below the current budget. Key factors that contribute to the decrease in budget include no salary adjustments for merit or COLA, a reduction and deferral of some activities as discussed under Item #7B, and a decrease in the office lease.

Mr. Jensen noted that the office lease is up in October, and that comparable properties are being assessed. A slight increase in the health premiums is included in the budget, as well as a budget for replacing a retiring employee, John Ummel, and an overlap of his services to train and orient the new individual.

The preliminary budget can be funded with no changes to the assessments for the 3rd year, and retains a prudent General Reserve balance. Reimbursement from subscription-based conservation programs is a portion of funding the budget, and Mr. Jensen reported that a transition to fund accounting is being made to provide more transparency with the different sources of revenue.

The Board was requested to comment and ask questions on the preliminary budget, Work Plan and results to be achieved for FY 2011-12, which will be brought back to the BPC in April, and the Board in May for final approval.

In response to Director Wykoff's question about the fishery expert, Mr. Jensen explained that a fishery expert will be hired and managed by legal counsel at the estimated and Board-approved cost of \$35,000. This provides several advantages because Hanson Bridgett is experienced with the nature of the work, and the work contributes to legal work products.

Mr. Jensen explained that Table 3 of the budget memo only shows the Operating Budget. The transition to fund accounting will allow visibility of the subscription programs and the water management charges.

Director Guzzetta asked how the system tours are funded. Mr. Jensen stated that during BAWUA's coordination of the tour, participants are charged a fee according to the cost of the tour. Under the Water Education Foundation, participants are charged a fee in addition to the SFPUC's and BAWSCA's sponsorship to help subsidize the tour.

Chair Pierce noted that the tours are highly educational, and that perhaps the Board can reconsider the tour if there is significant interest from members of the Board. Item #7C is not an action item, and there being no further discussion, Chair Pierce thanked the members of the Board for their questions and comments.

- D. Analysis of and Conclusion about the SFPUC's Proposed Structure of Wholesale Water Rates: Mr. Jensen reported that BAWSCA had Hilton Farnkopf Hobson analyze specific aspects of the SFPUC's proposed change in structure for Wholesale Water Rates and the results indicated significant, varying impacts for different agencies. The analysis and conclusions were discussed with the staff of member agencies. The analysis and conclusions, as well as the discussions with member agencies were communicated to Ed Harrington.

Mr. Jensen stated that BAWSCA's goal is to ensure that SFPUC's actions address the financial interests of both the SFPUC and the Wholesale Customers. Mr. Harrington is interested in an approach that is acceptable to everyone.

BAWSCA and SFPUC staff are working together to find an alternative to the proposed methodology and achieve an outcome that is beneficial for everyone.

Commission action is expected on May 10th. BAWSCA will keep agency staff informed, and will work with the leadership of the Board if testimony at the hearing is required.

Director O'Mahony expressed her concern with the differences of impacts among the agencies. Director Pierce stated that while it is reassuring that there will be discussion on finding an alternative to the proposed method, she asked what the Board can do to comment and support the alternative.

Mr. Jensen stated that it would be in the agencies' best interest to give the alternative a fair and objective hearing. However, if it creates more questions that can't be answered in the short amount of the time remaining, it is best for the SFPUC to stay with the historical method. Mr. Jensen emphasized that BAWSCA is not opposed to a change in rate structure, but that such a change must be considered deliberately and thoughtfully.

Director Guzzetta noted that working with San Francisco in better estimating consumption and having conservative numbers may be one simple solution to the issues with the balancing account. Mr. Jensen concurred. However, he noted that the consumption estimates are off, in part, due to a regional and statewide low-water use phenomenon that no one could have anticipated.

San Francisco can use prudently low consumption estimates to ensure rates produce the revenue needed to run and rebuild the regional water system.

Mr. Jensen will continue to work directly with Ed Harrington, and will keep the Board leadership and members of agency staff fully informed of further developments and the opportunity to testify, if required.

Director Weed stated that ACWD would object to the concept of monthly rate reset where water rates would be adjusted monthly. Mr. Jensen reported that no agencies were in favor of that method.

- 8. Directors' Discussion:** Director Quirk complemented the new room setup done by Aaron Porter, and appreciated the level of discussion of the agenda items, particularly Item #7D.

Director Coverdell would like to add storm-water management and storm-water recycle as a viable water source moving forward. He recognizes the staff's over commitment, and appreciates the modifications to get the critical work done. He is very curious and would appreciate any data from staff of the potential supply that would be in an average rainfall in the Bay Area.

Director Pear would encourage looking at the storm-water runoff potential from a regional perspective, as done with regional sewer facility for gray water, and not on a project-by-project basis. It is difficult to meet the requirements in terms of underground storage facilities, which significantly affects small developers.

Director Fergusson appreciates the new agenda structure.

In light of the Japan earthquake and tsunami, Director Weed reported that California Water Agency Response Network (CalWARN) allows mutual aide among agencies from FEMA in events of natural disasters. There are no membership costs. All but five BAWSCA member agencies are members.

- 9. Date, Time and Location of Next Meeting:** The next meeting is scheduled on May 19, 2011, in the Wind Room, Foster City Community Center.

- 10. Adjournment:** The meeting was adjourned at 8:37 pm.

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer

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Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
March 17, 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
Kelly Fergusson	City of Menlo Park
Armando Gomez	City of Milpitas
Rob Guzzetta	California Water Service Company
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
Marty Laporte	Stanford University
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Matthew Pear	City of Mountain View
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District
Rick Wykoff	City of Foster City

Absent:

Ruben Abrica	City of East Palo Alto
Michael Guingona	City of Daly City
Patricia Mahan	City of Santa Clara
Tom Piccolotti	North Coast County Water District
Chuck Reed	City of San Jose
Ron Swegles	City of Sunnyvale