

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
May 19, 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-two (22) members of the Board were present, constituting a quorum. A list of directors present (22) and absent (4) is attached.

2. Comments by the Chair: Chair Pierce stated that in addition to ensuring reliable, high-quality water supply at a fair price, BAWSCA must concentrate on its fiscal responsibility to its member agencies and their customers. Under current economic conditions, BAWSCA must maintain a lean staff that can achieve the agency's projected results with minimum costs, and a tight grip on the funds provided by our constituents.

Chair Pierce was pleased to report that the proposed Operating Budget for FY 2011-12 is less than the current year's Operating Budget, and requires no increase in assessments for the 3rd year in a row. BAWSCA achieved savings during the fiscal year that builds back its financial reserves.

The proposed Operating Budget contains no new positions and no salary increases for BAWSCA this year. Chair Pierce noted that in moving forward, the Board must ensure that staff is compensated fairly and commensurate to their achievements.

The proposed Work Plan for FY 2011-12 focuses on the results that are vital for the BAWSCA member agencies and their customers, and is supported by the proposed Operating Budget that the Board will consider.

The CEO and his staff achieved a more realistically-based wholesale water rate from San Francisco. The increase is high but the rates are legitimate. Chair Pierce, other members of the Board leadership and Mr. Jensen testified at the SFPUC meeting on May 10th and was pleased that the Commissioners of the SFPUC included an amendment to their action that directs the SFPUC General Manager to work closely with BAWSCA's CEO. Chair Pierce noted that the amendment initiated by the CEO's queries and independent analysis by his staff speaks to the work the CEO has done and the respect he has from the SFPUC.

Chair Pierce noted that this meeting is the last BAWSCA meeting for some members of the Board whose terms expire on June 30, 2011. On behalf of the Board, Chair Pierce thanked Director Matt Pear for his service and for bringing forward his fact-based opinions that have benefitted the organization.

3. Board Policy Committee Report: Committee Chair Klein reported that all Committee members were present at the April 13th meeting. Chair Klein highlighted the Committee's

discussion on the current general reserve level and potential considerations to change the guidelines from a maximum of 25%, reduce the assessments, or use some of the reserves to fund work that is deemed critical but is currently not in the approved Work Plan. The CEO will report back to the Committee at its June meeting.

The Committee discussed the proposed Operating Budget and Work Plan for FY2011-12 and unanimously voted to recommend adoption of the proposed Board action.

The Committee also discussed and voted unanimously to recommend that the Board authorize the CEO to negotiate and enter a 5-year lease agreement in the existing building for new offices. The new office will provide additional space for little or no additional cost due to current real estate market conditions.

4. Public Comments: There were no public comments.

5. Consent Calendar:

Director O'Mahony made a motion, seconded by Director Quigg, that the recommended actions for items A through E under the consent calendar be approved by the Board. The motion passed unanimously.

6. Action Calendar:

A. FY 2011-12 Results to be Achieved and Proposed Operating Budget: Mr. Jensen noted changes made to the preliminary Operating Budget and Work Plan since it was presented to the Board in March. In the list of results to be achieved with respect to the Long-Term Reliable Water Supply Strategy, Mr. Jensen stated that the wording was clarified to say "Work toward completion of..." instead of "Complete the...".

Changes were also made to the Work Plan to protect the water supply interest in the FERC relicensing process of New Don Pedro Reservoir.

As a result of the Board action taken in March, seven items were added to the list of activities not included in the Work Plan for FY 2011-12. The list now includes the analysis of why water use has dropped in recent years, evaluation of how sub-metering can be implemented, support of agencies forming alliances to comply with 20% by 2020, estimation of water saved by BAWSCA and local conservation efforts, economic and supply impacts of new Delta management, development of alternative wholesale rate structures, and conducting water system tours.

Director Quirk expressed his interest in looking into an analysis of why water use has dropped in recent years as an activity for which some of the reserves may be used.

Director Fergusson agreed, and stated that the development of alternative wholesale rate structures would also be of interest for her.

Mr. Jensen noted that the proposed Operating Budget shows an increase in contingency by \$30,000, and an increase in allowance for temporary, part-time or consultant services by \$20,000. The increase is to allow additional resources and flexibility to manage the workload during an approved six-month leave of absence of one employee. The money will be spent only if necessary.

The Operating Budget includes no salary adjustments, a reduction or deferral of some activities, the anticipated decrease in office lease costs, a budget for replacing a retiring employee, and flexibility to accommodate an authorized leave of absence.

The proposed Operating Budget is \$2,619,705 and will be funded through assessments which remain unchanged for the third year, reimbursement from subscription programs, and a transfer from the reserve of \$38,005.

As discussed by the Board Policy Committee in April, Mr. Jensen presented the comparison of Operating Budgets, assessments and reserves in past years. There have been years where the Operating Budget was slightly underspent and a conscious effort to grow the reserves was made. Mr. Jensen stated that in terms of the current reserve balance, it is appropriate to look into whether the current reserve policy should be changed according to questions the Board Policy Committee asked: a) for what purposes might BAWSCA need a reserve; b) what risks might affect the work load, expenses, and BAWSCA's revenues; and c) what is a reasonable size for BAWSCA's reserve? Mr. Jensen will look into each question and present the findings to the Board Policy Committee in June and to the Board in July or September.

Director Kasten suggested showing the prior year's Operating Budget and actual expenditures so that it can be compared to next year's Operating Budget. He also suggested including the consultants in the organization chart, and to track full time equivalents over time to see what kind of human resources are necessary to support the work of BAWSCA.

Director Kasten made a motion, seconded by the Director Anderson, that the Board approve the proposed Work Plan for FY 2011-12, the proposed Operating Budget of \$2,619,705, no increase in assessments of FY 2011-12, and a possible transfer of \$38,005 from the General Reserve, if needed. The motion passed unanimously.

- B. Priority FY2011-12 Professional Services Contracts: Mr. Jensen reported that there are eleven professional services contracts that need to be in place as of July 1, 2011. They include legal counsel, strategic counsel, engineering support, financial advisors, and consulting services for conservation programs. The agenda packet includes a summary memo as well as a staff memo and scope of work for each professional service contract. Additional contracts will come to the Board during the year.

In response to a question from Director Vella, Mr. Jensen clarified that professional service contracts are included in the Operating Budget because they are needed to achieve the planned results for the fiscal year.

Director O'Mahony asked whether the work between Newkirk Environmental and Terry Roberts Consulting can be combined. Mr. Jensen explained that Newkirk Environmental expertise is in water system engineering and operations, including the San Francisco Regional Water System, and he looks at the scope and design of individual WSIP projects to ensure they will provide necessary functions for the system and its customers. SFPUC has incorporated changes to WSIP projects generated by BAWSCA's work with Newkirk Environmental.

Terry Roberts Consulting does not focus on water system operations. This firm's expertise is in managing multi-billion dollar projects and construction programs. This firm examines the progress of the WSIP, the SFPUC's management systems and capabilities and has contributed to BAWSCA's recommendations that have been embraced by SFPUC staff and the Commission.

Director Klein made a motion, seconded by Director Fergusson, that the Board approve all eleven professional services agreements for legal, engineering, financial, strategic, and water conservation services needing to be in place by July 1, 2011. The motion passed unanimously.

- C. Request for Authority to Pursue Office Lease: Mr. Jensen reported that current market rates provide an opportunity for BAWSCA to negotiate a 5-year lease in the same building for a different office space that provides more room. The cost, including moving costs, would be less than the current expense and is within the proposed Operating Budget. The additional room can accommodate interns, consultants and part-time employees working on site. The 5-year lease would lock in current prices and a modest inflation factor. Mr. Jensen did not have the exact number for the inflation factor, but stated that is it a small number and would be fixed in the lease.

In response to Director Quigg's question, Mr. Jensen explained that expanding the current office space was pursued, but could not be done because adjacent space is already being used by existing tenants.

Director Quigg made a motion, seconded by Director Kasten, that the Board authorize the CEO to negotiate and execute a five-year lease for space in the existing building, at a competitive rate, that can be afforded within the proposed budget. The motion passed unanimously.

SFPUC Report: SFPUC General Manager, Ed Harrington reported that the SFPUC will release the 3rd Quarterly Progress report on the WSIP on May 20th. The report will reference the status of the projects and over \$100M worth of savings as a result of bid responses that were below the engineers' estimates. All major projects of the program are in construction or will be in construction by the end of Summer. Mr. Harrington stated that the WSIP is currently one of the largest public works projects happening in California with \$2.3B worth of projects under construction.

Mr. Harrington talked about the SFPUC's regional efforts in providing job training programs for the people in the service area. The training programs are designed to qualify the trainees for jobs generated by the WSIP projects. An example is a tunnel training program the SFPUC started with the laborer's union. The first training was held in March with a total of 15 people from Alameda, San Mateo and San Francisco Counties. Ten people passed the training and are now currently employed on different projects. Two were hired to work on a wastewater project in San Francisco. A second training class is scheduled for May 23rd with a total 15 people, five from three different counties in the

service area. The SFPUC is also working with Cypress Mandela to job train in San Mateo County.

Mr. Harrington noted that one of the most difficult WSIP projects is the Bay Division Pipeline #5. It goes through several communities in the East Bay, under the Bay, and through a large area of San Mateo County. The project has run into archeological finds, and now must deal with a significant tree in the pipeline right of way.

Mr. Harrington reported that the SFPUC intends to make all precautions to protect the tree as well as the pipelines, and to look at all perspectives; engineering, financial and policy. He looks to the members of the BAWSCA Board for thoughts they may have on the matter.

The SFPUC sent a letter to the San Mateo County Board of Supervisors and to various local officials saying that no action will be taken until June 6th. In the interim, the SFPUC will meet with local officials and arborists to develop a plan for action which will be noticed two weeks prior.

Mr. Harrington reported that wholesale water rate projections and the environmental enhancement surcharge were items on the Commission meeting on May 10th.

The SFPUC has raised its retail water rates by 15% every year for the last six years. Mr. Harrington noted that the rate increases were expected as a result of rebuilding the system. What was unexpected was the dramatic drop in water usage. Conservation, the current state of the economy, and weather are factors that contribute to the decrease in water usage.

Wholesale water purchases from the San Francisco Regional Water System significantly dropped from 173mgd to 164mgd and then to 143mgd. The SFPUC is projecting a wholesale water rate increase of 38% based on a wholesale water sales projection of 140 mgd.

Alternative supply options available to some wholesale customers are also a contributing factor in the decrease of wholesale water sales from the Regional Water System. Agencies are choosing to use lower cost water supplies, and a few have already reached their minimum purchase levels from San Francisco. This will be a continuing issue as San Francisco does not receive subsidized water supplies, as do some other water wholesalers.

Mr. Harrington reported that San Francisco is down to the lowest fund balance in the past 10 years, and cannot issue debt without a reasonable fund balance.

San Francisco has imposed an environmental surcharge that would apply should collective retail and wholesale purchases go over 265mgd between now and 2018. Mr. Harrington noted that given the current low water usage, there is very little reason to believe that combined purchases will exceed 265mgd between now and 2018. However, San Francisco will put the surcharge in place. Mr. Harrington reported that a surcharge of 50% will apply to agencies that go over their allotted amounts by 1mgd, 100% up to 5mgd, and 200% above 5mgd. While the environmental community was recommending higher amounts, the Commission adopted the recommendation made by the SFPUC staff.

In response to Director Weed's question, Mr. Harrington stated that looking at additional customers to expand San Francisco's customer base is a collective decision between all wholesale customers and San Francisco on whether to consider having additional long- or short-term customers.

7. Reports and Discussions:

Board Policy Calendar: The BAWSCA Board Policy calendar for the upcoming fiscal year 2011-12 was presented to the Board. Considerations for the General Reserve Policy, and potential changes to the Rules of the Board will be brought to the Board in July. The CEO's performance review will also be done in July. The scope and schedule review of Phase IIA and policy decisions and schedule of the Long-Term Reliable Water Supply Strategy (Strategy) will be brought to the Board in September. Mr. Jensen noted that the future phases of the Strategy, including implementation of specific projects, would require future Board decisions on the scope and funding of such projects.

Long-Term Reliable Water Supply Strategy – Schedule for Policy Decisions: BAWSCA will be reviewing the updated Urban Water Management Plans (UWMP) submitted to the State by each agency. BAWSCA will look at the internal consistency of the documents and at the consistency of methods used by agencies to ensure that the results can be used as a reliable basis for regional planning. For example, drought reductions should be consistent with what was agreed upon with San Francisco under the WSA.

Mr. Jensen noted that BAWSCA did not plan to review the UWMP's for consistency with external documents, such as city general plans and various projections for population and employment growth.

This work will be done in June and July, and brought to the BPC in August and to the Board in September.

Director Quirk commented that the Strategy must be pursued despite the current low water usage, and hopes that it is not put on hold. The planning phase is necessary because the situation can be very different a few years from now.

Mr. Jensen presented a map of the service area that shows member agency participation in the Landscape Education Program from all three counties. The program is a core conservation program.

SFPUC Wholesale Water Rates – Significance of changes of SFPUC's proposed wholesale water rates and actions taken by the Commission: Mr. Jensen presented the sequential development of the wholesale water rate increase beginning in February, and reported that the Commission adopted an increase of 38.4%, or \$2.63 per ccf. Mr. Jensen reported that both he and Ed Harrington spoke with Congresswoman Speier with regard to her concerns about the rate increase. He presented six questions and answers that reflect concerns and interests that have been expressed by public officials, member agencies and the media.

1) *Are wholesale customers covering costs that retail customers in San Francisco should be paying?* No. Mr. Jensen stated that the Water Supply Agreement (WSA) clearly specifies which costs are to be allocated to the SFPUC's Wholesale customers. John Ummel and BAWSCA's financial consultants provide a thorough review of cost allocations during each year's annual contract compliance audit. The Wholesale Customers delegated that responsibility to BAWSCA in the WSA, and BAWSCA is able to state that the wholesale customers only pay costs associated with the benefits they receive.

- 2) *What factors drove the rates up?* Mr. Jensen explained that the rates were projected to increase because of the cost of rebuilding the system. Additionally, the decreased level of water use and the resulting wholesale revenue underpayments in the last three years require that the rates be increased more than expected.
- 3) *How much of the rate increase is for rebuilding the Regional Water System?* Mr. Jensen noted that the rate increase will continue through 2015 as bonds are issued to pay for the WSIP projects. Those bonds will be paid off over 30 years. The cost breakdown for Operations and Maintenance (O&M), WSIP debt, Capital-Related Expenses and Balancing Account Repayment that makes up the \$2.63/ccf rate for FY 2011-12 was presented to the Board. Mr. Jensen noted that the WSIP accounts for 22% of the water rate, and that O&M expenses account for 45%.
- 4) *What will the impact of this rate increase be for a typical residence outside San Francisco?* Mr. Jensen explained that if the cost of SFPUC water goes up 38%, the typical monthly residential water bill will go up about 15%. The increase would add an average of \$8 per month next year. Mr. Jensen noted that these amounts were averages for the entire BAWSCA area, and that impacts will vary for each of its 26 member agencies.
- 5) *Are customers in San Francisco getting the same rate increase?* The SFPUC will impose a 12.5% increase in retail rates next year.

Mr. Jensen noted that the increase in wholesale costs was anticipated by BAWSCA and its member agencies in 2000 when they encouraged San Francisco to begin the program to rebuild the Regional Water System. The benefit of the wholesale customers' investments in the Regional Water System is a system able to provide water within 24 hours after a major earthquake.
- 6) *Why do rates go up when people use less water?* Mr. Jensen stated that the costs for facilities and operations depend very little on the amount of water served. The facilities and operating costs ensure that the water systems are capable of delivering water for domestic, commercial and fire fighting purposes. While costs are relatively fixed, water utility tradition has been to charge based on the quantity of water used. Many water agencies are looking into how to diversify their revenue sources and structure water rates to remain financially stable and avoid continual and confusing rate adjustments.

SFPUC Water Supply Improvement Program (WSIP) – Update: Ms. Sandkulla reported that BAWSCA will thoroughly review the March Quarterly Progress report the SFPUC will release on May 20th. The report will present the status of the WSIP project scopes and schedules, and budgets. The report will also indicate the changes to the WSIP that the SFPUC expects to propose to the Commission in the summer.

BAWSCA's goal for its review of the progress report is to understand the significance of the anticipated revisions and the impacts to the scopes and schedules and budget. BAWSCA will work closely with Julie Labonte, SFPUC's Director of the WSIP, and her staff to address BAWSCA's concerns, if any, well in advance of the formal process

required for revisions made to the WSIP, and to provide a confident status report to the Board at its meeting in July.

WSIP Project Site Tour – SFPUC Video: The SFPUC will provide members of the BAWSCA Board a tour of the WSIP project sites on June 23rd. A video, produced by Julie Labonte, that talks about the current progress of the WSIP, was presented to the Board.

- 8. Directors' Discussion:** Director Fergusson congratulated Mr. Jensen and his staff for the completion of the Drought Implementation Plan, which was adopted by all 26 member agencies.

Director Wykoff commented that given the rate increases, water remains to be one of the cheapest basic commodities. Foster City will be in the neighborhood of \$2.91 for 748 gallons of water. He believes that it is incumbent upon the elected officials to voice that the water received is worth the money spent, and to explain why the costs increase.

- 9. Date, Time and Location of Next Meeting:** The next meeting is scheduled on July 21, 2011, in the Wind Room, Foster City Community Center.

- 10. Adjournment:** The meeting was adjourned at 8:50 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
May 19, 2011

Attendance Roster

Present:

Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Cyril Bologoff	City of Brisbane
Randy Breault	Guadalupe Valley Water District
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
Kelly Fergusson	City of Menlo Park
Michael Guingona	City of Daly City
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
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District
Rick Wykoff	City of Foster City

Absent:

Armando Gomez	City of Milpitas
Patricia Mahan	City of Santa Clara
Chuck Reed	City of San Jose
Ron Swegles	City of Sunnyvale