

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
November 18, 2010 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

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

Vice Chair Barbara Pierce, called the meeting of the BAWSCA Board of Directors to order. Art Jensen, CEO/General Manager and Secretary of the Board, called the roll. Nineteen (19) members of the Board were present, constituting a quorum. A list of directors present (19) and absent (7) is attached.

2. Comments by the Chair: Vice Chair Pierce referenced Chair Fannon's letter regarding his absence at the meeting. She reported that Chair Fannon will attend the January Board meeting, which will be his last meeting as a member of the BAWSCA Board. He will be retiring from Hillsborough's Town Council, and will not continue to be on the BAWSCA Board. She hopes that board members can thank Director Fannon for his leadership on the Board at the meeting in January.

Vice Chair Pierce noted that the changes to the format of the agenda reflect the comments from the board members and specific suggestions by Director Irene O'Connell. Consent and Action items have been moved to the top of the agenda so that directors can focus on decisions first. The CEO's items for discussion have been moved to the end of the agenda to allow more time for discussion and to fully explore subjects.

Vice Chair Pierce thanked Mr. Jensen for taking the time to meet with each board member. Although it took a lot of time, what was learned from the meetings will be helpful moving forward.

3. Board Policy Committee Report: Committee Chair O'Connell reported that the October 13th Board Policy Committee could not be held due to the lack of a quorum. The committee members who were present listened to the presentation Mr. Jensen prepared, but there was no discussion of the material.

Director O'Connell referenced the Board Policy Committee summary report which states that upcoming activities will be outlined so that members of the Board will have the opportunity to provide input on policy decisions in the next 18 months.

4. Public Comments: Public Comments were heard from Tom Chambers, Director of Westborough Water District; Josh Sonnenfeld, Campaign Manager of Save the Bay; and Wynn Grcich of A.T.O.W.N.

5. Consent Calendar:

M/S/C (Quigg/Guingona/Unanimous) that the Minutes of the September 16, 2010 meeting be approved, the Monthly Budget Status Report, Quarterly Investment Report, and Directors' Reimbursement Report for period ending September 30th, 2010, and the Audit Reports for BAWSCA and BAWUA for FY 2009-10 be received and filed.

6. Action Calendar:

Authorization to Negotiate and Execute a Contract with PG&E for Washing Machine Rebate Program: Ms. Sandkulla stated that the recommended action secures administrative services from PG&E to administer the Washing Machine Rebate Program (WMRP). The WMRP is one of the subscription programs offered by BAWSCA and is included in the adopted workplan for the current FY 2010-11. It was the first and has been one of the most successful subscription programs since it was offered in FY 2001-02. The program has issued over 24,000 rebates to date with a savings of 152 million gallons per year.

The current WMRP expires on December 31, 2010. The current contract with PG&E anticipates a 6-month close out period for the current program, and therefore expires on June 30, 2011. Participating member agencies have expressed an interest to continue the joint WMRP with PG&E. The new contract with would allow continuation of the WMRP from January 1, 2011 through December 31, 2011. A few minor changes in the program will include modification on the rebate levels as explained in the staff report.

Ms. Sandkulla noted that 15 member agencies participate in BAWSCA's program, and that the remaining agencies either administer independent programs, or participate through Santa Clara Valley Water District's program. This past year, the Town of Hillsborough made the decision to focus on outdoor water conservation, and suspended participation in this program. However, Hillsborough has indicated an interest in future participation, particularly if grant funds to support the program are secured.

Ms. Sandkulla noted alternatives to contracting with PG&E include using a different rebate administrator, in-house administration, or not offering the program at all. Contracting with PG&E makes the process very easy for the customer because it results in only one application for both water and energy rebates. Participating agencies benefit from the program promotion paid for by PG&E. Additionally, the regional collaboration with other water agencies such as East Bay Municipal Utility District and Contra Costa Water District lowers the overall cost.

There being no questions from members of the Board, Vice Chair Pierce called for a motion to approve.

M/S/C (Pear/Fergusson/Unanimous) That the Board authorize the Chief Executive Officer/General Manager to:

- 1. Negotiate and execute a contract with PG&E, subject to legal counsel's final review, for administrative and rebate processing services through June 30, 2012 associated with implementation of the Washing Machine Rebate Program from January 1 through December 31, 2011, and**

2. Offer participation in the program to BAWSCA member agencies through December 31, 2011.

7. Chief Executive Officer's Reports:

Board Policy Calendar –Mr. Jensen presented a modified version of the Board Policy Calendar which identifies whether an item is for discussion, action, or a status report. Mr. Jensen noted that status reports will provide an opportunity for Board discussion of items including the Strategy on tonight's agenda, and upcoming activities such as the mid-year work plan and budget assessment and preliminary budget and work plan for FY 2011-12. Mr. Jensen welcomes suggestions from board members as to how the policy calendar might be made clearer and more valuable for their use.

8. SFPUC Report: SFPUC General Manager, Ed Harrington, addressed the Board and reported on the progress of the Water System Improvement Program (WSIP) and Delta water issues, noted the appointment of a new member of the Commission, commented on wholesale water rate projections, and discussed the SFPUC's credit rating.

The WSIP is in the construction phase for many of its projects. There are projects totaling \$1.6 million under construction and another \$250K will be under construction by the end of December.

The Environmental Impact Report (EIR) for the Harry Tracy Water Treatment Plant Upgrades was certified on October 14th, and a notice to proceed with construction for that project is expected in April 2011. The EIR for rebuilding Calaveras Dam is expected to go to the Planning Commission in January, and a notice to proceed with construction is expected in August 2011.

The bidding environment continues to be favorable. Construction bids continue to come at least 15% under the engineers' estimates. The savings provide for some of the additional costs needed to address unexpected expenses, such as the Bay Division Pipeline Project encountering an archeological site.

Independent peer reviews on the administration of the WSIP continue on a regular basis, as recommended by the peer review implemented earlier in 2010. The review panel is comprised of both national and international experts who are not otherwise under contract to the SFPUC. The review states that the SFPUC has a great systems for managing the projects, tracking change order requests and looking at performance trends and program risks.

With regard to Delta water issues, Mr. Harrington reported that, as a manager of a major water supply, the SFPUC takes a measure of responsibility for the stewardship of natural resources. He stated that the SFPUC does not believe it has the "...responsibility to take water from an area that is extraordinarily efficient in its water use and transport that water to people who are less efficient in the state of California."

Mr. Harrington noted that the San Francisco Regional Water System takes less than 1% of water that would otherwise flow into the Delta. That amount takes care of 7% of the

population of California who uses two, three, or four times less water per capita than people in other parts of the State.

Mr. Harrington reported that discussions will continue on how the costs for Delta improvements will be paid. He stated that beneficiaries paying for the improvements to the water systems from which they benefit has been part of the history of water systems in California. The SFPUC believes that if improvements to water delivery systems for the rest of the State are necessary, the beneficiaries of those systems should pay for those improvements.

Art Torres was sworn in by Mayor Newsom as a new member of the SFPUC. Mr. Torres was an Assembly Member, served in the State Senate, and was head of the Democratic party for several years. He is currently Vice-Chair of the Stem Cell Research Institute in San Francisco. Mr. Torres' first meeting as a Commissioner will be on November 23rd.

Wholesale water rate projections will be going up as expected due to the debt issuances for the WSIP. Mr. Harrington reported that the combination of the WSIP activities and the decrease in water use will increase rates sooner than expected.

Wholesale water customer use has dropped from 173 mgd in FY 2007-08 to 149 mgd in FY 2009-10. Operating costs are fixed, and therefore, when water use goes down, rates have to go up. SFPUC is working closely with BAWSCA staff to provide complete information on rate projections.

San Francisco's double-A bond rating was reaffirmed by Standard and Poor, Fitch, and Moody. The SFPUC continues to get good rates on its borrowing, and has been authorized to borrow an additional \$650 million in the next month. Mr. Harrington stated that the SFPUC will move forward if there are good rates, otherwise, additional debt activities can wait until next Spring or Summer.

In response to Director Guzzetta's question, Mr. Harrington reported that change orders are being tracked closely and that the amounts coming through are acceptably low, at only 2-3% of total project cost.

9. Special Reports:

Vice-Chair Pierce stated that the special reports from the CEO require no actions from the Board, but offer opportunities for board members to discuss and ask questions about policy issues, particularly about the water supply management item.

A. SFPUC Water System Improvement Program – Status Report:

1. **BAWSCA Comments on SFPUC's Annual Report to the State and SFPUC's Response to BAWSCA's Concerns and Recommendations:** BAWSCA reviewed the SFPUC's annual report on the WSIP to the State and made recommendations that focused on the program completion within scope, schedule and budget.

Specifically, BAWSCA addressed project schedule compression as there are more projects in the last year of construction than originally scheduled. The SFPUC's independent review panel is also looking at the schedule compression issue and will be providing their assessment and recommendations. The SFPUC will provide a written response to BAWSCA's recommendations and the Board will receive a copy of as soon as it is received.

Mr. Jensen reported that the SFPUC formally adjusted project contingencies at its meeting on November 9th.

2. Lower Crystal Springs Dam Project – Resolution of BAWSCA concerns: Mr. Jensen reported that BAWSCA appealed to the SFPUC and to Ed Harrington regarding the wording of a draft SFPUC resolution for approving the Lower Crystal Springs Dam Project. The Resolution implied that downstream fish flows negotiated by the SFPUC would prevent them from meeting their water supply and reliability goals. The Commission changed its resolution and directed SFPUC staff to provide a report stating how the water supply goals will be met. The report is due by the end of March 2011.

B. BAWSCA Water Supply Management

1. Long-Term Reliable Water Supply Strategy – Overview of Policy Issues and Timeline for Addressing Them: Mr. Jensen noted that his presentation will initiate discussion of policy issues associated with developing a long-term reliable water supply strategy. Mr. Jensen presented the graphic of the Phased Strategy and noted that in July, the Board approved moving forward with Phase II-A, which will be an 18-month process.

Over the 18-month period and beyond, a variety of policy issues will be articulated, board member input requested, and alternatives evaluated. Mr. Jensen noted that not all the work will be done at the end of Phase II-A. Policy decisions will have consequences or implications for one or more agencies; therefore, a major portion of the policy development will take place between now and January 2012.

Mr. Jensen stated that while the WSIP deals with how the system will hold up to potential disaster that can happen at any time, the Strategy deals with growth which takes place slowly. The current low water use buys the agencies time to identify solutions that will require construction of facilities and take years to implement.

The potential water supplies being evaluated include groundwater, brackish groundwater desalination, desalination, recycled water, and water transfers. The Board will receive basic technical background information, public policy implications for individual agencies and the region, plus the alternatives and their relative advantages and disadvantages.

Board members will have the opportunity to request information from their local agency staff, additional information from BAWSCA staff, and discuss policy implications with other board members and agency staff.

Mr. Jensen presented the projected future need for water in normal years and the need for additional reliability in drought years. He noted that at least ten agencies will need more water to meet normal year needs by 2035. Some agencies need additional supplies immediately. Some agencies have sufficient supplies and are interested in producing water and making it available to other agencies in the region.

Some potential policy issues for normal and dry year supplies include cost allocation; the ability for agencies to opt in or out of the benefits and costs; under what circumstances might economically disadvantaged communities be supported;

who finances, owns and operates projects; and what agreements are needed to protect beneficiaries and ensure cost recovery. Board members were encouraged to ask questions and contribute their ideas..

Two members of the Board suggested contingency water supplies be examined in case the entire San Francisco Regional Water System fails. Others noted the connection between water supply and local and regional community planning, the importance of the quality of water, and the water quality needs of certain industries.

Director Quirk commented that there should be a process to ensure that everyone is able to contribute to the issues, and that BAWSCA's values be identified to address differing opinions.

Director Klein commented that there needs to be a continuing dialogue on how much agencies are willing to pay for the security of water supply, and whether agencies who are not interested in additional supply should continue to pay a proportionate share of costs.

In response to Director Klein's second comment, Mr. Jensen explained that the cost allocation for Phase II-A does not extend beyond that phase. The Board will consider and decide upon the allocation of costs for future phases of work before those phases begin.

Mr. Jensen noted the importance of formalizing agency decisions whether or not to participate in new supplies or drought reliability. He also noted that agreements will be needed to protect beneficiaries and ensure cost recovery.

Vice-Chair Pierce stated that the comments expressed by the members of the Board support the need for continuing discussions to address the policy questions. She stated that San Mateo County was the only county in the State that reallocated its regional housing numbers by working out cooperative agreements which allowed the trading of housing units and land use. This offers an opportunity and may answer the question of whether or not agencies choose to participate.

2. Drought Protection Goals – Policy Considerations (Part 1): Mr. Jensen reported that the SFPUC's 20% system wide reduction in a given dry year can be as high as nearly 50% for some agencies. In 2007, the economic impact of 20% system-wide shortages was estimated to be over \$7.5 billion per year. The affects on commercial, residential, and industrial activities can be significant.

Significant questions include how much are agencies willing to invest in additional drought protection; if not all agencies want more drought protection, will there be the ability to opt in or out; and how can the investments of agencies that do participate be protected?

Director Quirk expressed his appreciation for encouraging and devoting time for Board discussion on both the Strategy and Drought Protection goals. He restated the need for identifying values on which to base policy decisions.

Mr. Jensen stated that a draft timeline of when decisions will be presented at the March Board meeting. The discussion will continue at future meetings and comments made tonight will be taken given full consideration.

10. Directors' Discussion: Director O'Connell suggested putting a policy in place where the Chair and Vice Chair of the Board Policy Committee can serve as alternates to the Board Chair and Vice-Chair should they become unavailable to run the meeting.

Vice Chair Pierce agreed. She stated that she flew back for the September Board Policy from the League of California Cities' Conference, not only to run the meeting on behalf of Chair Fannon, but also to have a quorum.

Director O'Connell also suggested changing the name tags to include the names of the board members in the back for everyone's reference.

In reference to risks, Director O'Connell noted what she recently learned from San Bruno's Glenn View fire disaster. She noted that cities insured under ABAG who typically have coverage for \$25 million, should look into the cost of the next \$25 million. It is cost-effective and can provide the assistances cities may need in the event of a disaster.

11. Date, Time and Location of Next Meeting: The next meeting is scheduled on January 20, 2011, in the Wind Room, Foster City Community Center.

12. Adjourn to next meeting scheduled for September 16, 2010: The meeting was adjourned at 8:15pm.

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer/General Manager and Secretary

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Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
November 18, 2010**

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Cyril Bologoff	City of Brisbane
Ken Coverdell	Coastside County Water District
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
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

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Absent:

Ruben Abrica	City of East Palo Alto
Randy Breault	Guadalupe Valley Water District
Robert Craig	Westborough Water District
John Fannon	Town of Hillsborough
Patricia Mahan	City of Santa Clara
Chuck Reed	City of San Jose
Ron Swegles	City of Sunnyvale