

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD POLICY COMMITTEE**

**February 9, 2011 – 1:30 p.m.
155 Bovet Road, 1st Floor Conference Room**

MINUTES

1. Call to Order: 1:30 p.m.

Committee Chair Larry Klein called the meeting to order at 1:33. Nine (9) members of the committee were present, constituting a quorum. A list of the directors present (9) and members of the community attending is attached.

2. Public Comments: There were no public comments.

3. Consent Calendar:

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

Director Anderson made a motion to approve the minutes from the meeting of December 8, 2010, seconded by Director O’Connell. Three directors abstained. The motion passed.

4. 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 20th 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. 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.

5. Brief Status Reports:

BAWSCA Water Supply Management:

- a. 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.
- b. 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 25th. 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.

- c. 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.
- d. 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 1st. Mr. Jensen distributed a list of agencies participating in this and other conservation programs administered by BAWSCA.
- e. 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.

6. 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 25th and that BAWSCA directors should reach out to their staff members after the Feb. 25th 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 25th 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.

7. **Adjournment:** The meeting was adjourned at 2:50pm to the next regularly scheduled meeting on April 13, 2011 at 1:30 p.m. which will be held at 155 Bovet Road, 1st Floor Conference Room, San Mateo.

Respectfully submitted,



Arthur R. Jensen, Chief Executive Officer and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board Policy Committee
February 9, 2010**

Attendance Roster

Committee Members Present:

Larry Klein	City of Palo Alto
Rob Guzzetta	California Water Service Company
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
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Bill Quirk	City of Hayward

BAWSCA Staff Members Present:

Arthur Jensen	Chief Executive Officer
Nicole Sandkulla	Sr. Water Resources Engineer
Anona Dutton	Water Resources Planner
Lourdes Enriquez	Assistant to the CEO/General Manager
Allison Schutte	Legal Counsel, Hanson Bridget, LLP.
Bud Wendell	Management Communications

Guests:

Peter Drekmeier	Tuolumne River Trust
Marilyn Mosher	City of Hayward
Nico Procos	City of Palo Alto
Sharyn Saslafsky	SFPUC
Craig VonBargen	Camp Dresser McKee