

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

**October 12, 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 1:32pm. Eight members of the committee were present, constituting a quorum. A list of the directors present (8) and absent (1) and members of the community who attended is attached.

2. Public Comments: There were no public comments.

3. Consent Calendar:

Approval of the Minutes from the August 10, 2011 meeting: Director O’Connell made a motion, seconded by Director Anderson, to approve the minutes from the meeting of August 10, 2011. The motion carried unanimously

4. Action Calendar:

Authorization to Negotiate and Execute a Contract with PG&E for the Washing Machine Rebate Program (WMRP): Ms. Sandkulla reported that the recommendation for this action item is to renew the contract with PG&E for the implementation of the Washing Machine Rebate Program for FY 2012-2013. The current contract with PG&E for administrative services for the WMRP will expire June 30, 2012.

The WMRP is included in the FY 11-12 Work Plan adopted by the Board. The program is offered on a subscription basis and is paid for by the participating agencies.

The administrative services provided by PG&E link water and energy efficiency programs in one rebate application, which has been well-received by customers.

Discussions about administrative changes were initiated one year ago by BAWSCA and other Bay Area water agencies. Program changes expected for 2012 includes an increased level of efficiency for qualifying machines.

The WMRP was the first conservation program offered by BAWSCA beginning in FY 2001-02. It has been highly successful ever since, issuing 12,441 rebates between FY2011-02 and FY 2008-09.

Grant funding of \$37.50/rebate is expected as of July 2012 as a result of the Prop 50 grant award. Ms. Sandkulla noted that the Prop 50 Grant will also offset rebate costs of the Lawn Be Gone and the High Efficiency Toilet Replacement Programs. It is a significant grant of nearly \$900,000 for the BAWSCA agencies.

Alternatives to the recommendation would be using a different program administrator, or not offering the program.

Director Breault made a motion, seconded by Director Pierce, to recommend that the Board authorize the CEO to negotiate and execute a contract with PG&E for rebate processing services through June 30, 2013, and offer participation to member agencies through December 31, 2012. The motion carried unanimously.

Amendment to Policies and Procedures for the Purchase of Equipment and Supplies/Award of Contracts: Mr. Jensen presented the recommendation to amend the Procurement Policy to increase the CEO's discretionary spending authority. Legal counsel had reviewed this and BAWSCA's other administrative policies to ensure conformance with existing laws and agency needs.

Legal counsel's review showed that other Bay Area public entities have limits of \$25,000-\$50,000 depending on the size and nature of the agencies. BAWSCA's existing policy adopted in 2004 has a limit of \$10,000. Many of the comparison agencies have higher numbers of employees and may have large expenses for equipment and supplies. By comparison, the "equipment" that BAWSCA must be able to access is consultants. Considering those needs helped determine the recommended discretionary spending limit.

Mr. Jensen reported his use of discretionary spending authority in FY10-11 was to amend or enter into consultant contracts. A summary was presented.

The KNN contract amendment demonstrated a problem that could be avoided by amending the existing policy. When the SFPUC was in the process of setting wholesale water rates last Spring, KNN, BAWSCA's financial advisor, reviewed the SFPUC's projected revenue needs and found that adjustments were needed. KNN's continued assistance was necessary. The CEO authorized an amendment to KNN's contract of \$4,000, the limit of his discretionary spending authority; 10% of the contract amount. The total estimate for KNN's support through the end of that fiscal year was \$15,000. Board authorization was sought and was received for the additional \$11,000 needed.

The process was awkward, but was necessary to accomplish what needed to be done in the best interest of the member agencies.

The recommended increase in discretionary spending from \$10,000 to \$25,000, would provide the CEO the latitude to respond to reasonable needs in a timely manner.

Alternatives to the recommendation are to make no change, or to make a greater or smaller change.

In response to Director Pierce, Mr. Jensen stated that in the future, the use of the discretionary spending authority will be reported in the bi-monthly budget report provided to the Board through the Board agenda packet.

Director Breault supported the change and this method of reporting. Director Breault noted that the Policy's Section VI requires an annual adjustment of the limit based on the Cost of Living Index that may create unnecessary accounting work. Mr. Jensen concurred and said that if that had been done since 2004, the change would amount to less than \$2000. Director Breault suggested Section VI be removed from the proposed policy.

In response to a question, Mr. Jensen said the revised policy would continue to contain the percentage limitation: the revised policy would include a spending limit of \$25,000, or ten percent of the original contract amount, whichever is less.

Director Breault made a motion, seconded by Director O'Connell, to recommend that the Board adopt the resolution revising the Procurement Policy to:

1. Increase the CEO's discretionary spending authority to \$25,000 for purchases of equipment and supplies and services, while retaining the existing limit of \$10,000 for construction expenses;
2. Increase the limits for formal solicitation of bids for purchases of equipment and supplies;
3. Remove Section VI, Adjustment of Amounts.

The motion carried unanimously.

5. **Discussion item:** Mr. Jensen reported that Sharyn Saslafsky, who serves as SFPUC's official BAWSCA Liaison, has announced her retirement. Ms. Saslafsky regularly attends BAWSCA's Board and Policy Committee meetings and contributes substantially to the effective communications between the SFPUC and BAWSCA.

Long-Term Reliable Water Supply Strategy – Policy Issues: Ms. Sandkulla reported the Strategy's progress to date, and the upcoming policy decisions upon which the Board will be asked to act.

Ms. Sandkulla noted that the Strategy is being done under the auspice of the Board and consistent with the authorities granted to BAWSCA by the legislation that enabled BAWSCA's formation.

As intended, the Strategy has sought practical solutions to the problem of how much water is needed when and where, in both normal years and dry years. The Strategy has identified specific water supply projects for possible implementation. The professional services contract with CDM in completing Phase IIA of the Strategy is approximately 40% complete.

The current decrease in water use, and decrease in projected water needs, was recognized last Spring as a changed condition that required a reassessment of the scope and schedule of the Strategy.

The Strategy was originally based on the agencies' 2004-05 water demand projections used in the development of the Program Environmental Impact Report for the SFPUC's Water System Improvement Program (WSIP). The agencies' projections for additional water supply needs and a greater desire for drought reliability, as well as the long-lead times needed to complete projects drove the aggressive timeline for the Strategy.

The Strategy was authorized by the Board in July 2010. Shortly thereafter, agencies had to update their water demand projections by June 2011 in compliance with the Urban Water Management Planning Act. Early indications of lower water projections lead to a decision to reassess the amount and timing of water supply needs based on the updated Urban Water Management Plans (UWMPs) from the agencies. As of September, new information is now available for an informed revision to the scope and schedule of the Strategy.

Ms. Sandkulla reported that the total projected demand in the year 2035 has dropped from 343 mgd to 315 mgd, a difference of 28 mgd. Taking into account existing and anticipated water supplies as well as water conservation, the need for additional normal year supplies in 2035 has dropped from a range of 14 to 23 mgd to a range of 4 to 13 mgd. The low end of the range is

the amount needed to be developed if San Francisco elects to meet the future needs of San Jose and Santa Clara. The high end of the range is the amount needed if San Francisco elects not to meet the future needs of those two cities.

There are three agencies that need additional normal year supply in the near-term. They are Daly City, East Palo Alto, and Purissima Hills Water District. All three agencies have a combined need of an additional 3 mgd by 2015.

There are four more agencies that need additional normal year supply by 2035. They are Cal Water, Stanford, San Jose and Santa Clara. All seven agencies have a combined projected need of 4 to 13 mgd. Again, the need for 13 mgd results if San Francisco elects not to provide a permanent future supply to Santa Clara and San Jose.

Ms. Sandkulla stated that the current projections demonstrate no immediate need for a regional investment for additional normal year water supply. However, because water need projections are influenced by uncertainty in factors such as population growth, economic conditions, and conservation savings, there are risks to deferring developing new supplies. She stated it would be prudent to do a region-wide reassessment of the water demand projections within the next five years beginning next year. Doing so would provide the following benefits: 1) projections adjusted by changes in the factors introducing the greatest uncertainty, 2) consistency in projection methodology, 3) defensible water demand projections that would be robust enough to supporting regional investments in water supply reliability and 4) support the agencies' development of their UWMP updates which will be due in 2015.

BAWSCA member agencies continue to desire increased drought reliability. The supply need during drought years represents how much water agencies would need if they were to entirely eliminate deficiencies in the water supply received from San Francisco.

The projections made in 2005 showed a drought deficiency of 77 mgd in the year 2035. The current projections show a drought deficiency of 58 mgd in 2035.

The SFPUC's goal for drought reliability is no more than 20 percent deficiencies system-wide in any drought year. During the development of the SFPUC's goal, BAWSCA advocated that the goal should be for deficiencies of no more than 10 percent during drought years to avoid costly economic impacts.

Reducing drought deficiencies to zero is probably not practically or politically attainable. Even if new drought supplies were created to cut the currently projected deficiency of 58 mgd in half, reflecting a 10 percent system-wide reduction, the service area would still need to invest in a drought supply up to 29 mgd, which is still a significant amount.

Ms. Sandkulla stated that more information is needed about both dry year risks and the costs of possible solutions.

BAWSCA is working with San Francisco's staff to answer two of the questions: Under the reduced projections of future water demand, what future level of drought shortage can be expected? How frequently would such drought conditions occur? The results from these analyses are expected shortly.

BAWSCA is also looking at the potential economic impact of water supply shortages, and at what level of investment might make sense to create additional supply reliability. Ms. Sandkulla stated that information will be available at a later time.

Unlike normal year supplies, there is a shorter timeline for securing access to certain dry year supplies because available supplies and conveyance opportunities may be seized by other agencies. BAWSCA will determine critical timelines, what decisions are needed and the potential consequences of not moving forward.

Through its review of possible water supply projects, BAWSCA identified over 65 water projects in the Phase 1 Scoping Report, reviewed project information with individual agencies, and completed preliminary technical evaluations. The result of the analysis is a shortlist of potentially feasible projects which include expansion of recycled water projects, water transfers from outside the service area, desalination, rainwater harvesting, stormwater capture, and graywater reuse.

Ms. Sandkulla presented a preliminary list of policy decisions that the Board will need to consider next Spring. The Board's decisions will lead to formal modification of the scope and schedule for the balance of Phase II of the strategy. Some activities may affect the Work Plan and Operating Budget for FY 2012-13.

The Board will also be asked to consider a recommendation for next year's Work Plan to collaborate with the member agencies to develop and implement a common method for developing updated agency water demand projections. The result would be useful for all agencies, serve as a sound basis for regional water supply planning and local planning, and support BAWSCA's continued examination of pursuing additional dry year supplies.

In response to Director Breault's question, Ms. Sandkulla stated that there are seven agencies that have a need for additional supplies in normal years, and all but one agency has a need for additional supplies in drought years. Director Breault commented that the need by one third of the agencies as opposed to all agencies may prevent the Board to move forward in providing assistance to find additional supply during normal years. Ms. Sandkulla stated that the recommendation would probably be to not pursue regional investments in normal year supplies. If BAWSCA could add value to those agencies that need to pursue normal year supplies, and those agencies desired BAWSCA's assistance, alternatives for allocating the costs of such assistance would be presented to the Board for its consideration.

Director O'Connell asked whether BAWSCA is looking at projects that can help the agencies in need as well as the membership as a whole, if necessary. Ms. Sandkulla said yes, and explained that for projects such as brackish groundwater desalination, some information is available about how the project could provide both dry year and normal year benefits. The Committee discussed the possibilities and implications of interagency cooperation to address regional housing allocations and local water supply availability. One question was whether it would be possible for an agency to take on a portion of another agency's housing allocation in exchange for a portion of that agency's unused contractual water supply guarantee. Mr. Jensen noted that nothing prevented willing parties to enter such agreements, but that there may or may not be a shared interest in solving housing allocation problems, and that BAWSCA's possible role in such arrangements was unclear at this time. Initially, BAWSCA would need to determine whether there are actions BAWSCA could take that would be beneficial for the region as a whole.

Ms. Sandkulla noted that the idea of having updated information has helped moved things along as far as looking at what partnerships are possible.

A refined list of policy decisions will be presented to the Board in November. A report to the Board in January will include a schedule for policy decisions in context of the FY 2012-13 Work Plan and Operating Budget. Modifications to the Strategy's scope and schedule will be discussed with the Board in March and May.

Director Pierce asked if the cities served by water districts are forthcoming with information on their housing and employment planning. Ms. Sandkulla stated that cities, water districts and water companies are required by law to collaborate in the development of Urban Water Management Plans. Although the degree and nature of collaboration varies from jurisdiction to jurisdiction, it has improved significantly over the years.

Chair Klein asked whether the graph presenting the water supply needs during normal years overstates the problem, because some agencies may have contractual rights to water that they could make available to agencies that need more water. Mr. Jensen said that such arrangements could occur, that the graph did not assume such arrangements would necessarily occur, and that the graph should be modified to avoid confusion about those points.

Director Guzzetta pursued this concept and asked if this inter-agency transfers are being looked at in the study. Ms. Sandkulla stated that the information provided by the study helps identify which agencies have water they may be willing to sell and which agencies have a need for water and may be in the market for such transfers. The study has not assumed that BAWSCA necessarily has a role in developing transfers between agencies.

Mr. Jensen explained that the effort should not assume such transfers would occur or put pressure on agencies to give up a portion of their supply guarantees.

Director Breault appreciated BAWSCA's sensitivities to putting pressure on the agencies and noted that agencies that have or do not have sufficient supply are aware of it, and that transfers require the willingness of agencies to come to the table for discussion. He observed that the market for inter-agency transfers is still in a state of flux.

Mr. Jensen appreciated the discussion and thanked the Committee members for their input.

SFPUC Water System Improvement Program – Status Report: Mr. Jensen reported that BAWSCA made several recommendations to the Commission at its July 12th hearing to adopt proposed changes to the WSIP. The Commission incorporated BAWSCA's recommendations into the resolution it adopted that day. One of BAWSCA's recommendations was for the SFPUC staff to provide a report on how the SFPUC would achieve the Level of Service (LOS) goals for water supply and supply reliability. A staff report was provided to the Commission on September 9th. BAWSCA is currently analyzing that report.

At a meeting in August, the Commission discussed water related issues, including potential water supply shortfalls, potential projects for addressing the shortfalls, priorities for meeting the needs of the Wholesale Customers, and SFPUC's future regional role.

The SFPUC anticipates that water supply shortfalls might occur for a variety of reasons. The list of known or possible shortfalls includes: 1) predicted 2 mgd shortfall noted in the final PEIR for the Water System Improvement Program; 2) project permits that require 7.4 mgd of additional reservoir releases to maintain fisheries downstream from Lower Crystal Springs Dam and Calaveras Dam; 3) uncertainty in whether the SFPUC will be able to implement all of its planned water supply projects inside San Francisco, which could result in shortfalls of up to

11.8 mgd; 4) and the possibility that the SFPUC might need to contribute to flows that the Federal Energy Regulatory Commission (FERC) may require downstream from New Don Pedro Reservoir on the Tuolumne River.

In addition, the SFPUC must make a decision by 2018 on whether it will meet the long-term water supply needs of San Jose and Santa Clara of up to 9 mgd. Also in 2018, the SFPUC must decide whether it will meet any of the increased needs of Wholesale Customers and whether, in doing so, it will increase the Supply Assurance above 184 mgd.

To meet its water supply reliability level-of-service (LOS) goals, the SFPUC has been trying to develop a groundwater conjunctive use project that involves San Francisco, Daly City, San Bruno and Cal Water. The project would provide a regional benefit of providing dry year water supply which BAWSCA members are paying for. San Francisco is also looking at water transfers with irrigation districts, recycled water inside and outside San Francisco, and local and regional desalination.

BAWSCA will complete its review of the report and share any issues of substance with the Board. BAWSCA will continue to meet with SFPUC staff and management, and ensure that the provisions of the Water Supply Agreement are followed. Mr. Jensen noted that the LOS goals for the WSIP are incorporated in the Water Supply Agreement.

BAWSCA will continue to insist that water supply LOS goals should be explicitly addressed. Mr. Jensen reported that BAWSCA was concerned when San Francisco decided that the need to release additional water downstream was not an issue because of the recent down-turn in water demand. Mr. Jensen noted that had BAWSCA simply been indifferent, there would be no clarity in what goals the SFPUC was going to meet and what actions it would take to achieve them.

The report states that staff will come back to the Commission in January 2012 with further report on how it will meet the LOS goals. BAWSCA will continue to track and comment on the SFPUC's progress.

Federal Energy Regulatory Commission (FERC) Process – Update: Mr. Jensen explained that the Modesto and Turlock Irrigation Districts jointly own and operate the New Don Pedro Reservoir which is licensed by FERC. The existing 50-year license will expire in 2016 and the process for scoping studies for the environmental analyses has already begun. FERC can require changes to releases below the dam in order to support fish populations.

Due to prior agreements between San Francisco and the irrigation districts, San Francisco may have responsibilities for a portion of any increase flows required by FERC. Increased flow could impact the reliability of water supplies for San Francisco and its wholesale customers.

BAWSCA, through Hanson Bridgett, is actively engaged in the relicensing process by monitoring the scoping meetings, reviewing documents, providing comments on the scope of investigations and other matters.

No Board action is needed at this time. Staff will continue to monitor the activities and bring forward to the Board Policy Committee and the Board any policy issues that may need to be addressed.

Landscape Education Program: Ms. Sandkulla reported that BAWSCA's Fall 2011 Landscape Education Program received positive media attention in the San Jose Mercury News and Union

City Patch. Ten more classes are scheduled for this season, and a report to the Board in November will be timely.

A total of 19 classroom lectures and 7 hands-on workshops are scheduled this season. Both formats have been well-attended with a high attendance average of 32 people.

Three of the hands-on workshops created a demonstration garden in the community of the host agencies. The City of Palo Alto hosted a Parent/Child CA. Native workshop on September 24th where more than 20 children attended with their parents. BAWSCA and Palo Alto collaborated with the City's Green Team, Acterra and BayFriendly.org.

The City of Sunnyvale hosted two hands-on workshops that also created a demonstration garden in front of City Hall. The workshops targeted adult participation and focused on the hands-on experience so that participants can come away with the knowledge and confidence of implementing the process in their own spaces.

The program is part of BAWSCA's core conservation plan. It has been primarily managed by Lourdes Enriquez, as part of the agency's reallocation of resources to achieve results included in the fiscal year's work plan.

Board Policy Calendar: Mr. Jensen reported that the November Board agenda will include the Board's discussion of the water supply strategy and the Board's action on the procurement policy. The CEO's performance evaluation will also be on the agenda.

Discussion of the preliminary Work Plan for FY 2012-13, and modifications to the scope and schedule of the Strategy will be on the March Board Agenda.

Comments by Committee Members: Director Anderson announced that the Los Altos History Museum is currently running its water exhibit until April 2012. Several water districts contributed to the effort. A public opening ceremony is scheduled for October 15th.

Adjournment: The meeting was adjourned at 2:45pm.

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
October 12, 2011**

Attendance Roster

Committee Members Present:

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
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City

Committee Members Absent:

Bill Quirk	City of Hayward
------------	-----------------

BAWSCA Staff Members Present:

Arthur Jensen	Chief Executive Officer
Nicole Sandkulla	Water Resources Planning Manager
Lourdes Enriquez	Assistant to the CEO
Allison Schutte	Legal Counsel, Hanson Bridget, LLP.

Guests:

Peter Drekmeier	Tuolumne River Trust
Sharyn Saslafsky	San Francisco Public Utilities Commission
Nico Procos	City of Palo Alto
Craig Von Bargaen	Camp Dresser McKee