

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

BAWSCA Offices, 155 Bovet Road San Mateo, 1st Floor Conference Room
Directions are provided on page 2

February 9, 2011
1:30 p.m.

AGENDA

- 1:30 1. **Call To Order, and Roll Call** (Klein)
Roster of Committee members (*Attachment*)
- 1:35 2. **Comments by Chair** (Klein)
- 1:40 3. **Public Comment** (Klein)
Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.
- 1:45 4. **Consent Calendar**
A. Approval of Minutes from the December 8, 2010 meeting (*Attachment*) (Klein)
- 1:50 5. **Reports and Discussion**
A. Modifications to Board Policy Calendar (*Attachment*) (Jensen)
B. Follow up on Achieving Critical Results with Available Resources (*Attachment*) (Jensen)
C. Planned Achievements and Preliminary Budget Proposal for FY2011-12 (*Attachment*) (Jensen)
Issue: What results need to be achieved next year and what resources will be required to achieve those results?
Information to Committee: Memo and Oral report on the major issues that BAWSCA must address next fiscal year and how the CEO intends to address them during budget development in the Spring.
Committee Action Requested: Discussion of issues that must be addressed during FY 2011-12
- 2:25 6. **Brief Status Reports** (Jensen/Sandkulla)
A. BAWSCA Water Supply Management
1. Long-Term Reliable Water Supply Strategy
2. Annual Water Supply Agreement and AB 1823 Compliance (*Attachment*)
3. DRIP Adoption by Member Agencies

4. Lawn Be Gone Program
5. Water System Improvement Program

3:05 7. Comments by Committee Members

(Klein)

3:15 8. Adjournment to the next meeting on April 13, 2011 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo.

*Upon request, the Board Policy Committee of the Bay Area Water Supply and Conservation Agency (BAWSCA) will provide for written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. Please send a written request, including your name, mailing address, phone number and brief description of the requested materials and the preferred alternative format or auxiliary aid or service at least two (2) days before the meeting. Requests should be sent to: **Bay Area Water Supply & Conservation Agency, 155 Bovet Road, Suite 302, San Mateo, CA 94402** or by e-mail at bawsca@bawsca.org*

*All public records that relate to an open session item of a meeting of the Board Policy Committee that are distributed to a majority of the Committee less than 72 hours before the meeting, excluding records that are exempt from disclosure pursuant to the California Public Records Act, will be available for inspection at **BAWSCA, 155 Bovet Road, Suite 302, San Mateo, CA 94402** at the same time that those records are distributed or made available to a majority of the Committee.*

Directions to BAWSCA

From 101: Take Hwy.92 Westbound towards Half Moon Bay. Exit at El Camino Northbound (move into the far left Lane) Left at the 1st stop light which is Bovet Road (Chase Building will be at the corner of Bovet and El Camino). Proceed West on Bovet Road past Albertson's to two tall buildings to your left. Turn left into the driveway between the two buildings and left again at the end of the driveway to the "Visitor" parking spaces in front of the parking structure.

From 92: Exit at El Camino Northbound and follow the same directions shown above.



BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Committee Roster:

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 (BAWSCA Vice Chair)

Tom Piccolotti, North Coast County Water District

Barbara Pierce, Redwood City (BAWSCA Chair)

Bill Quirk, City of Hayward

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

**December 8, 2010 – 1:30 p.m.
155 Bovet Road, 1st Floor Conference Room**

MINUTES

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

Committee Chair Irene O’Connell called the meeting to order at 1:30. Ten (10) members of the committee were present, constituting a quorum. A list of the directors present (10) and absent (1), 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 August 11, 2010.

M/S/C (Pierce/Wykoff/Unanimous) that the Committee approve the minutes from the meeting of August 11, 2010.

4. Reports and Discussions:

Notes from the October 13, 2010 meeting that did not take place due to lack of a quorum:
Chair O’Connell stated that the notes from the October 13, 2010 meeting, which did not take place due to lack of a quorum were prepared for the file. The “draft” on the header should be removed as it is a document that is not going to be approved by the Committee, and that it should be titled “Notes” as opposed to “Minutes”.

Board Policy Calendar: Mr. Jensen stated that the Board Policy Calendar remains as it was presented at the November Board meeting, designating items as discussion, action, or status reports. Mr. Jensen welcomed suggestions from Committee members for improving the format and clarity of the policy calendar.

Mid-Year 2010-11 Work Plan and Budget Review: Mr. Jensen reported that the work plan for the current fiscal year can be achieved with the approved budget, although adjustments in some areas need to be re-prioritized and re-scheduled as explained in the staff memo. Staff recommendation for the Committee is to support board approval of reallocating \$35,000 in the approved budget from professional fishery consultation, and amend the existing professional services contract with Brown & Caldwell to support the implementation and ongoing support for the water conservation database.

Director Wykoff expressed his concern that, although he recognizes the importance of conservation, there seems to be more and more money and effort put towards conservation, and less on supply reliability. He stated that the \$35,000 is not an issue, but rather the work plan and resources being focused on conservation, Items #5C and 5D.

Director Pear shared Director Wykoff's observations. He commented that he has no concerns over the \$35,000, but hopes that the money being transferred is not taken away from one bucket to another.

Director Craig commented that perhaps there is not enough information provided on the role of conservation in increasing the water supply for BAWSCA member agencies.

Director Guzzetta noted that the significant amount of the current budget allocated towards supply is reflective of the emphasis being put towards supply, as well as the agency's current efforts with the Long-Term Reliable Water Supply Strategy. Director Guzzetta stated that he is comfortable with the transfer of funds recommended.

The Committee voted unanimously to recommend Board approval of the adjustments resulting from the mid-year review of work plan and budget: Reallocate \$35,000 in the approved budget from professional fishery consultation and amend the existing professional services contract with Brown & Caldwell to support the implementation and ongoing support of the water conservation database.

Human Resources Needs: Mr. Jensen reported that additional resources are needed to support and achieve the planned results of the water supply management activities for FY 2010-11 and beyond. This was noted last spring when the Board approved the work plan and budget for FY 2010-11. BAWSCA's water supply management program includes ensuring supply reliability from the San Francisco Regional Water System, as well as ensuring supply reliability to meet current and future water supply needs. Four critical areas of work include monitoring San Francisco's Water System Improvement Program, protecting the agencies' contractual rights for water from San Francisco, administering the Water Conservation Implementation Plan (WCIP) as a near-term solution, and developing and implementing the Strategy as a long-term solution.

Mr. Jensen stated that the WCIP involves the execution of core and subscription-based conservation programs in coordination with BAWSCA member agencies. Both the WCIP and the Strategy are expected to require increased effort and will require additional resources. Nicole Sandkulla and Anona Dutton's time are both currently overcommitted to all four areas of the water supply management program.

Mr. Jensen stated that additional resources could focus on the implementation of the WCIP so that the talents and expertise of Ms. Sandkulla and Ms. Dutton can be focused on the development and implementation of the Water Supply Strategy.

Mr. Jensen noted that BAWSCA is sensitive to the current state of the economy and many of the agencies' financial situations. Alternative ways to provide the needed resources were examined and summarized in the staff memo. They included reduction of BAWSCA's conservation programs, extension of the timeline to complete the Strategy, use of temporary employees, hiring a new employee and the use of outside consultants.

In reviewing the alternatives, Mr. Jensen noted that BAWSCA's core and subscription based conservation programs have proven to be efficient for participating agencies. Cutting back on conservation programs would endanger effectiveness, costs and grant funding opportunities for the agencies.

Additionally, extending the timeline for completing the Strategy would make it less efficient and more costly for the region. The use of temporary employees poses limited hours and can be unreliable. The use of off-site consultants can be more costly and unsuitable for the day-to-day tasks required to support the program.

Mr. Jensen stated that conservation ultimately saves agencies and water customers money. BAWSCA's implementation of the conservation programs saves member agencies administrative time and costs.

The cost of the new position is estimated at about \$129,000 per year, including benefits. Approximately half of the cost would be paid by agencies that participate in the subscription programs.

Director Quirk asked where the money would be coming from, whether this will be an increase in the amount of the administrative cost charged by BAWSCA for the subscription programs, and how much the impact will be on the operating budget.

Director Pierce commented that the City of Redwood City looked at conservation because it was the least expensive way to increase the City's supply. With regards to BAWSCA member agencies, she noted key considerations being whether there is too much focus on conservation, what the remaining potential for conservation is, and its cost effectiveness in comparison to efforts that would provide additional supply. If there are additional costs to agencies, will it be because there is more to be gained. This type of information can be helpful for the Board and member agencies.

Director O'Connell added that having water savings data from the conservation programs would be helpful too.

Director Wykoff noted that he does not oppose conservation and understands that it is a clear source of additional supply. He points out, however, that there is only so much conservation that can be done and time will come when conservation efforts are exhausted.

Director Guzzetta commented that the more demands are hardened, the more important it is to have a reliable supply. He asked if there are enough funds from the subscription programs to fund the position at 100%, and suggested that showing the distribution of hours between the subscription programs and core programs would be helpful.

Director Pear commented on the summary of the alternatives in the staff memo and noted that in contrary to temporary employees' inability to work onsite, many workforces effectively work offsite. He also expressed his concerns with the need for additional resources coming back every year.

Mr. Jensen explained that all of BAWSCA's employees are "at will" employees. In the past, a position was eliminated when it was no longer needed.

In response to Directors' previous comments, Mr. Jensen will make the suggested clarifications and provide additional information including the operating budget for conservation over time as part of the information provided to the Board in January.

The Committee continued its discussion on the cost of the position. Director Quirk requested information on the projected additional funds needed after looking at the cost projected for Ms. Sandkulla's and Ms. Dutton's time for the current year.

Chair O'Connell commented that the benefit of the position should also be looked at. The position will advance the efforts of the Strategy since Ms. Sandkulla's and Ms. Dutton's time, talents and expertise will not be compromised with the time needed to implement the WCIP.

Director Guzzetta noted that the full salary and benefits for the new position will be an additional expenditure added to the budget.

Mr. Jensen stated that he will provide the impact on the operating budget as well as the net impact on the operating budget.

The schedule for action would depend on what the Board chooses to do. If the Board approves both the position and the proposal to fill it during FY 2010-11, this year's planned work will move forward. If the Board does not approve the position, or approves the position but not funding for the position FY 2010-11, the position would be filled after July 1, 2011 and further work plan revisions would be needed during FY 2010-11.

Director Quirk made a motion to present to the Board the staff recommendation with clarification on the advantages of the position as well as the level of the position, how the position will be paid for in the current and coming years, and comparable salary and benefits.

Director Wykoff agreed with Director Quirk's motion provided that it is clearly articulated in the memo to the Board that Ms. Sandkulla and Ms. Dutton will focus on the Strategy, and that the individual hired for the new position will focus on the WCIP.

In response to Director Abrica's question, Chair O'Connell clarified that the item will go to the Board in January as an action item. She stated that members of the Committee can vote no on the current motion if they are not comfortable with it. Further discussion of their concerns can be discussed at, or may be addressed with Mr. Jensen by the time of, the Board meeting.

The Committee voted unanimously to present staff recommendation to the Board with the specific information requested by the Committee.

The Committee adjourned to a five minute break at 2:35pm, and re-adjourned at 2:40pm.

Fiscal Year 2011-12 Work Plan and Budget Preparation: Mr. Jensen reported that a preliminary budget will be presented to the Committee at its February meeting. The development of the work plan and budget will be based on long-term perspective, near-term results to be achieved in FY 2011-12, and resources needed to deliver the vital results. The Committee's input and advice was requested following the presentation.

Mr. Jensen presented the vital results to be achieved in FY 2011-12. They fall under the areas of Water Resources Management, Water System Improvement Program, and maintaining high water quality at a fair price.

Under the Water Resources Management, BAWSCA will continue its work on developing the Long-Term Reliable Water Supply Strategy, its representation of member agencies' interest in the Federal Energy Regulatory Commission's (FERC) relicensing processes for New Don Pedro Reservoir, implementation and tracking of the WCIP, annual submittal of agencies' water purchase projections to the SFPUC as required by the Water Supply Agreement (WSA), support agencies in completing their Urban Water Management Plans (UWMP), and continuing pursuit of grant funding opportunities.

Vital results to achieve for the Water System Improvement Program include BAWSCA's continuing technical review and input on projects, affirmative action to ensure work is completed within the project scopes, budgets, and schedules, as well as monitoring and providing comments on the SFPUC's reports to the State. This work remains vital as the SFPUC enters the last five years of project construction and the most intense period of spending.

Mr. Jensen reported that the SFPUC is scheduled to complete permitting processes required by the California Environmental Quality Act (CEQA) this fiscal year. Planning, design and project construction are expected to peak in FY 2011-12. The program's projected completion is December 31, 2015.

BAWSCA will provide ongoing support of the Joint Water Quality Committee established under the Water Supply Agreement (WSA) to ensure high quality water and ongoing operational coordination.

BAWSCA will provide ongoing administration of the old and new water supply agreements to ensure fair pricing. Mr. Jensen noted that the administration of the new WSA is much simpler because the numeric calculation of the cost allocations is much simpler than the previous agreement. This allows for more time to focus on looking at how the money is spent rather than having to track spending.

Mr. Jensen noted that Phase IIA of the Long-Term Reliable Water Supply Strategy is currently funded by the Water Management Charge and that cost allocation for future phases of the Strategy will be brought to the Board for consideration and action.

The preliminary work plan and budget for FY 2011-12 will be presented to the BPC in February and to the Board in March. Consideration and action on a proposed work plan and budget is scheduled for the Board meeting in May.

Director Pierce noted that knowing when cost allocation for the Strategy will be discussed would be helpful. Mr. Jensen stated that a progress report of the Strategy will be presented to the Board in March 2011 and will include a schedule of policy decisions that would need to be made, including cost allocations.

Follow up to Long-Term Reliable Water Supply Strategy Policy: Mr. Jensen stated that the time between the November Board meeting and the December BPC meeting has not been enough to fully digest the comments made at the Board meeting regarding the discussion of policy decisions. In talking with Chair O'Connell, Mr. Jensen stated that it would be beneficial to hear any additional comments Committee members may have and structure a discussion of those comments for the February BPC meeting.

Because many of the Committee members may be thinking about the comments made, this agenda item allows for Committee members to comment.

Chair O'Connell encouraged Committee members who may not have had the opportunity to comment at the November Board meeting, and have points they would like to make, to voice their comments with the understanding that resolutions and conclusions are not necessarily going to be reached.

Director Wykoff stated that his main concern was that BAWSCA was getting too far ahead in discussing policies before identifying specific projects that would produce additional supplies of water.

Director Quirk stated that his main concern is about a process that will permit all 26 board members to discuss their agency's concerns.

Director Pierce suggested having issues written down for board members' reference and awareness of what is coming up.

5. Special Reports:

SFPUC Interim Supply Allocation: Mr. Jensen reported that the SFPUC needs to establish the Interim Supply Allocation (ISA) in December. The Commission is scheduled to act on the allocation at its meeting on December 14th.

Mr. Jensen noted that the agencies have reserved the right, in the WSA, to contest the allocations and the charges the SFPUC imposes once they have been established.

The SFPUC has met with and presented BAWSCA and member agencies four drafts. The current draft allocates less than 184mgd with a balance held in reserve for future distribution.

Mr. Jensen encouraged Committee members to talk with their staff members if they want more information on the ISA. The SFPUC will make a decision on December 14th, and he expects to see agency representation from staff level and above

BAWSCA's role on the ISA is to track the process to ensure that the SFPUC abides by the agreement. BAWSCA takes no position on the SFPUC's allocation method.

Long-Term Reliable Water Supply Strategy: Mr. Jensen reported that one-on-one meetings with individual agencies have been completed. The meetings were held to identify each agency's expectations for additional supply or drought reliability their customers might need, and to gather available technical data for each agency's potential projects. This effort is an ongoing process between BAWSCA and the agencies.

Staff will focus on the decision timelines and policy matters, and presenting them in a context that will allow for further discussions with the Board.

6. Comments by Committee Members:

Director Quirk stated that the meeting was a good meeting. The Committee had a good discussion, put forth questions, and answers will be provided.

In response to Director Fergusson's question, Mr. Jensen reported that information on the Drought Implementation Plan has gone out to all agencies, and the City of Redwood City was the first agency to adopt the plan under consent. All agencies should consider and act on the plan by March 2011.

Mr. Jensen would caution agencies with their use of the word "agree" in their correspondence to the SFPUC regarding the ISA. It would be in the best interest of agencies to reserve their right to contest the ISA legally and in the court of law. Legal Counsel, Allison Schutte, stated that agencies can make reference to the language in the Water Supply Agreement, section 8.07 subsection D3. Correspondence with the SFPUC should note that your agency is reserving its right to contest the ISA.

Lastly, agencies' correspondence should reflect peer-to-peer relationships. Correspondence coming from a city's Mayor should be addressed to either the Mayor of San Francisco or to the President of the San Francisco Public Utilities Commission

7. Adjournment: The meeting was adjourned at approximately 3:10 to the next regularly scheduled meeting on February 9, 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/General
Manager and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board Policy Committee
December 8, 2010**

Attendance Roster

Committee Members Present:

Irene O'Connell (Chair)	City of San Bruno
Rob Guzzetta (Vice Chair)	California Water Service Company
Ruben Abrica	City of East Palo Alto
Robert Craig	Westborough Water District
John Fannon	Town of Hillsborough
Kelly Fergusson, Chair	City of Menlo Park
Matt Pear	City of Mountain View
Barbara Pierce	City of Redwood City
Bill Quirk, Vice-Chair	City of Hayward
Ron Swegles	City of Sunnyvale
Rick Wykoff	Esterro Municipal Improvement District

BAWSCA Staff Members Present:

Arthur Jensen	Chief Executive Officer/General Manager
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.

Guests:

Bob Anderson	Purissima Hills Water District
Peter Drekmeier	Tuolumne River Trust
Marilyn Mosher	City of Hayward
Sharyn Saslafsky	SFPUC

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Agenda Title: Modifications to Board Policy Calendar for FY 2010-11

At the February 2011 Policy Committee meeting, three modifications to the current Board Policy Calendar for FY 2010-11 will be presented:

- A new item is proposed for May 2011 “Discussion of proposed modifications to the Rule of the Board”;
- The Water Supply Strategy progress report and Policy decision schedule will be delayed to May 2011; and
- The Water Supply Strategy Drought Protection Goals discussion will be delayed to July 2011.

The delay in bringing forth the two Strategy items is related to the need to reschedule current work load based on feedback received to date from the Board as well as a need to allocate sufficient time to discuss the proposed draft budget at the February Policy Committee meeting. The Board Chair and Vice-Chair have expressed support for the proposed delay of the two Strategy items.

Board Policy Calendar for FY 2010-11

Board Meeting	Purpose	Issue or Topic
July	D	Water Supply Strategy – Evaluation criteria
	D&A	Water Supply Strategy – Scope, contracts and funding
	D&A	Regional Financing Authority (RFA) – Budget adoption
September	S&D	SF WSIP - Annual Progress Report and Compliance with AB 1823
	S&D	Water Supply Agreement – Report on first year admin
	D&A	BAWSCA Conflict of Interest Code revisions
	D	Completion of CEO performance review
November	D	Water Supply Strategy – Policy issues overview
	D	Water Supply Strategy – Drought protection goals (Part 1)
January	D&A	BAWSCA Mid-year progress and budget review
	D&A	Resource Needs – Analysis and recommendations
	S&D	Water Supply Strategy progress report
	D	Discussion of results to be achieved during FY 2011-12
March	D	Discussion of preliminary workplan and budget for FY 2011-12
	S&D	Water Supply Agreement - Annual audit results
	D	Water Supply Strategy progress report – Policy decision schedule
May	D&A	Adoption of workplan and budget for FY 2011-12
	D&A	Approval of contracts for FY 2011-12
	D&A	Rules of the Board – Proposed modifications (new)
	D	Water Supply Strategy progress report – Policy decision schedule
	D	Water Supply Strategy – Drought protection goals (Part 2)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Follow Up on Achieving Critical Results with Available Resources**

Summary:

For a variety of reasons, including the current financial stresses on BAWSCA member agencies, the Board, at its January meeting, asked the CEO to consider other alternatives for achieving critically needed results other than increasing the number of permanent staff positions.

This memorandum presents and evaluates alternatives, including some suggested by Board members at the January Board meeting.

To facilitate Committee discussion, the Chair and Vice Chair of the Board advised that the Committee be provided a brief presentation on the origins of the current and anticipated workload, the history of the workload approved by the Board, and alternative solutions and their consequences. This material will be presented at the Committee meeting on February 9, 2011.

Fiscal Impact:

A modified work load can be completed within the existing approved Operating Budget.

Recommended Committee Action:

- 1. Discussion of resource needs and alternative solutions for achieving critical results.**

- 2. That the Committee recommends an acceptable solution to the Board, including any work load modifications and authorizations to implement the recommendation.**

Discussion:

The memorandum to the Board in January described the nature of the current work load and current resource limitations. That material is not repeated here.

The work plans approved each year by the Board of Directors have evolved since BAWSCA's creation in response to actions, or inaction, taken by San Francisco, actions taken by the State legislature, and to requests of member agencies to provide cost-effective, centralized services on a voluntary or other basis.

When the FY2010-11 work plan and budget was presented last spring, existing human resources were insufficient to achieve the necessary results. The board was informed that this would be a long-term problem and that this issue would be analyzed in Fall 2010 and recommendations presented to the Board for consideration in January 2011.

For a variety of reasons, including the current financial stresses on BAWSCA member agencies, the Board, at its January meeting, asked the CEO to consider further alternatives for achieving critically needed results other than increasing the number of permanent staff positions.

At that meeting, the Board also approved mid-year modifications to the work plan for FY 2010-11. Additional work plan modifications will be needed to achieve critical results with existing staff resources. Related modifications to anticipated work for next year are reflected in the preliminary Operating Budget for FY 2011-12.

Background

Staff size has remained constant since FY 2004-05, while the volume of work has increased roughly three-fold. Results have been produced by leveraging staff resources with outside professional services, temporary employees and interns.

The current and projected work load exceeds available staff time for performing work and managing outside services.

Alternative Solutions:

Alternative #1: Focus on developing a reliable water supply strategy by eliminating or reducing regional conservation support.

Because BAWSCA's members are required to implement varying levels of conservation for several reasons:

- To meet projected community needs for water
- To comply with State law and remain eligible for State grant funding for any water supply project including but not limited to conservation and water recycling projects
- To satisfy written commitments made by the agencies to San Francisco in 2004 and to comply with provisions in the 2009 Water Supply Agreement;

wholesale reduction in conservation activities, which is the amount of adjustment that would be needed given the extent of work load imbalance, would not enable agencies to meet these requirements.

Alternative #2: Further reduce and reschedule results to be produced during FY 2010-11 and FY 2011-12.

Some reduction in on-going and planned activities related to conservation can be accommodated. These changes were not recommended in January because they are short-term solutions; BAWSCA's member agencies will need the work to be performed over the long-term.

To produce the most critically important results with the existing staff level, several alternatives were examined, including:

- Eliminating and deferring lower priority work products
- Reducing the scope of selected activities
- Shifting work to using outside professional services
- Reassigning existing staff to perform work within their defined levels of responsibility but outside their normal areas of work

Temporary employees can be hired to back-fill the Office Assistant on a limited time and term basis, so that position can provide administrative support to water conservation activities. Temporary employees can also perform some administrative tasks related to water conservation. The CEO's assistant will continue to provide logistic and public outreach support to selected water conservation activities.

Specific actions to implement this solution are detailed in the last section of this memorandum.

This temporary solution would enable BAWSCA to achieve vital results during FY 2011-12. Long-term, other solutions will be needed in order to support aggressive water conservation programs, develop a long-term water supply strategy for the region, and to implement that strategy in a manner acceptable to the various member agencies and enforce the 2009 Water Supply Agreement. These important results must be achieved while maintaining BAWSCA's ability to effectively address actions, or lack of action, taken by San Francisco, and contend with other matters important to the collective interests of the BAWSCA member agencies.

Other Alternatives

Other alternatives that were considered, and the reasons they were rejected are summarized below.

1. Hire a consultant to manage the water conservation programs: The actual work of a majority of the conservation programs is performed by outside professionals and contractors. Hiring a consultant to manage other consultants is problematic for several reasons:
 - a. The number of BAWSCA's conservation programs requires focused attention. Consultants serve multiple clients and may be less attentive to BAWSCA's agencies and their customers.

- b. BAWSCA staff and management are further removed from the work being performed and less effective at monitoring and addressing performance issues.
 - c. Consultants are more costly, and financial considerations are an important current concern
2. Hire temporary staff to manage the water conservation programs: This alternative would result in a temporary staff person managing conservation programs being implemented by other consultants hired by BAWSCA. Like the utilization of a consultant, this situation is problematic as it further removes BAWSCA staff and management from the work being performed and less effective at monitoring and addressing performance issues. Use of temporary staff, whose longevity for any length of time cannot be guaranteed, for work that requires significant training and knowledge of the agency in order to effectively perform the necessary tasks is problematic. Limitations also exist on the amount of time BAWSCA can effectively utilize a single temporary staff person.
 3. Hire part time employee(s) to perform the water conservation programs: Use of a part-time temporary employee to perform water conservation programs is limited by BAWSCA's current employee handbook that states that temporary employees shall not work for BAWSCA for more than (1) six continuous months, or (2) 1,000 hours during the fiscal year. Estimated work load (over 1,000 hours) and duration (1 year) requires more flexibility than offered by this single alternative.

Implementation

Committee discussion may illuminate other alternatives or considerations.

If the Committee elects to support Alternative #2, Board action would be needed to implement that solution.

Specific changes to the FY 2010-11 and FY 2011-12 work plans would include the following:

1. Work eliminated from the FY 2011-12 work plan would include planned support for the formation alliances of member agencies to comply with Senate Bill 7X more cost-effectively.
2. Work deferred to future years would include estimating water savings that result from BAWSCA and locally-managed water conservation activities. The collection of data on BAWSCA and locally-managed conservation activities will continue, but the estimation of resulting water savings will be left to individual agencies or deferred until the information is needed and resources are available.

3. The schedule for the Long-Term Reliable Water supply Strategy would be extended an estimated 6 to 8 months, enabling existing staff to balance work loads.
4. Work eliminated from the FY 2010-11 work plan included the hiring of a fishery consultant to support the protection of member agency interests in the relicensing of New Don Pedro Reservoir. For FY 2011-12, existing staff would be unable to manage and direct the fishery consultant. Because the work is important, and because the work products will be vital for development of legal work products, the preliminary FY 2011-12 Operating Budget is based on that consultant being hired and managed by BAWSCA's legal counsel.
5. Temporary employees could be hired to back-fill the Office Assistant, so that position can provide administrative support to water conservation activities. Temporary employees can also perform some administrative tasks related to water conservation. If the needs fall outside the discretionary spending authority of the CEO, Board authorization would be requested.
6. The CEO's assistant would continue to provide logistic and public outreach support to selected water conservation activities.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Agenda Title: Planned Achievements and Preliminary Budget Proposal for FY 2011-12

Summary:

Preliminary Operating Budget formation for FY 2011-12 is based on achieving the most vital results needed by the member agencies with a preliminary Operating Budget at or below the current year's budget.

The preliminary Operating Budget estimate is \$2,570,000. This budget could be funded with no increase in assessments for the third year in a row, while maintaining prudent reserves.

This memorandum presents the preliminary results to be achieved, a preliminary Operating Budget estimate, a preliminary assessment of how the work could be funded, and identifies specific budget issues requiring input from the Board of Directors before the budget can be finalized.

BAWSCA's work plan aligns with the agency's legislated authority and its three overarching goals: a reliable supply of high quality water at a fair price.

Five of the 11 major results that must be produced during FY 2011-12 are:

1. Complete Phase 2 of the Long-Term Reliable Water Supply Strategy to meet long-term water needs.
2. Implement the third year of the Water Conservation Implementation Plan to ensure water needs can be satisfied until long-term solutions are justified and in place.
3. Track San Francisco's progress rebuilding the Regional Water System to ensure the Water System Improvement Program remains on scope, schedule and budget.
4. Represent member agency interests in existing water supplies during FERC re-licensing of New Don Pedro Reservoir.
5. Ensure the 2009 Water Supply Agreement is implemented properly.

The first four activities are the corner-stones of BAWSCA that ensure member agencies continue to have a reliable supply of water for residents, businesses and community organizations.

Recommendation:

That the Board Policy Committee provide:

- 1) comments and suggestions concerning the results to be achieved, the preliminary Operating Budget estimate, and issues remaining to be resolved, and**
- 2) suggestions concerning presentation of the preliminary budget to the Board of Directors in March.**

Fiscal Impact:

The preliminary estimate for the operating budget, covering staff, consultants and operating expenses is \$2,570,000 or \$110,000 less than the FY 2010-11 approved budget of \$2,680,394.

Funding for the Operating Budget. The preliminary Operating Budget could be supported with no increase to member agency assessments and with no net reduction in the General Reserve balance.

Funding for Subscription Conservation Programs. As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA's subscription water conservation programs. The staff time to be devoted to those programs during FY 2011-12 is estimated to be 1200 hours. The reimbursement for those hours is estimated to be \$46,000. Agencies participating in subscription programs also pay for associated consultant support and direct expenses. As in prior years, those consultant costs and direct expenses are not included in the Operating Budget.

Funding for the Long-Term Reliable Water Supply Strategy. The Operating Budget does not include the cost of consulting services for developing the Long-Term Reliable Water Supply Strategy, which is being funded through the Water Management Charge authorized by the Board in July 2010.

Value for the Cost. The formula for BAWSCA assessments results in equivalent cost per gallon throughout BAWSCA's members. All BAWSCA costs are ultimately passed on to water customers through the water rates of the local city, district or private utility. The current cost of assessments to residential customers in the BAWSCA area averages about \$6.00 per household per year.

Discussion:

The following sections present:

- A. Status of the FY 2010-11 Operating Budget
- B. Results to be Achieved During FY 2011-12
- C. Overview of the Preliminary FY 2011-12 Operating Budget
- D. Achieving Vital Results During FY 2011-12 With Available Resources
- E. Alternatives for Funding the Operating Budget
- F. Funding of the Water Conservation Subscription Programs
- G. Funding of the Long-Term Reliable Water Supply Strategy

A. Status of the FY 2010-11 Operating Budget:

BAWSCA will complete the year without spending the entire approved budget.

Last May the Board approved a FY 2010-11 Operating Budget of \$2,680,394, approximately \$87,000 lower than the year prior. In January of this year, the mid-year review of work plan and budget status resulted in Board approval of recommended changes to the results to be achieved in FY 2011-12 and the assignment of some work to a consultant. No net increase in the budget was required.

B. Results to be Achieved During FY 2011-12:

As in prior years, a work plan was prepared by examining the past and future external factors that will or may affect water supply reliability, quality and cost for BAWSCA's member agencies.

The list of results to be achieved during FY 2011-12 was formed after identifying the issues BAWSCA will need to address between now and FY2016-17. That information was presented to the Board Policy Committee in December 2009 and to the Board in January. The Operating Budget is developed to make efficient use of existing staff resources and provide any additional resources needed to achieve the results.

Table 1 displays the results to be achieved that have been used to formulate the Operating Budget. BAWSCA's goals remain: to ensure water customers receive a reliable supply of high quality water at a fair price.

The FY2011-12 Operating Budget is based on the results that need to be achieved next fiscal year. The results to be achieved next year are, in turn, based on long-term challenges facing BAWSCA's member agencies, their customers, and the communities they serve.

Table 2 shows activities not addressed by the preliminary Operating Budget. If any of these activities are found to be needed during FY 2011-12, the Operating Budget can be reallocated or additional funding approved to provide necessary staff and consulting resources.

Table 1. Results to be Achieved in FY 2011-12

<p><u>RELIABLE SUPPLY -- WATER SUPPLY MANAGEMENT PROGRAM</u></p> <p><u>1. Long-Term Supply Solutions: Reliable Water Supply Strategy</u> Complete Phase II A of the Long-Term Reliable Water Supply Strategy to provide reliable supplies of water when and where needed through the year 2035.</p> <p><u>2. Near-term Supply Solutions: Water Conservation</u> a. <u>Implement Core Water Conservation Programs</u> - Programs that benefit all customers. b. <u>Implement Subscription Water Conservation Programs</u> - Rebate and other programs that benefit, and are paid for by, agencies that subscribe for these services.</p> <p><u>3. Facility Reliability: Monitor SFPUC Water System Improvement Program</u> Monitor scope, cost and schedule as San Francisco continues an aggressive construction schedule through 2015. Press the SFPUC and the city's political leadership to meet the city's adopted schedule, satisfy the requirements of AB 1823 and respond promptly to BAWSCA's reasonable requests.</p> <p><u>4. Protect Members' Water Supply Interests in FERC Re-licensing of New Don Pedro Reservoir</u></p> <p><u>5. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement</u> Compile and submit updated water demand projections to SFPUC as required by Water Supply Agreement.</p> <p><u>6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts</u></p>
<p><u>FAIR PRICE</u></p> <p><u>7. Administer the 1984 Contract</u> Complete close-out of the 1984 contract with San Francisco to protect interests of members and their customers in a fair price for water purchased from San Francisco.</p> <p><u>8. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement</u> Administer the Water Supply Agreement with San Francisco to protect interests of members and their customers in a fair price for water purchased from San Francisco.</p>
<p><u>HIGH QUALITY WATER</u></p> <p><u>9. Support Member Agencies in Receiving Reliable Communication of Water Quality Events</u> Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs.</p>
<p><u>AGENCY EFFECTIVENESS:</u></p> <p><u>10. Maintain Community Allies and Contacts with Environmental Interests</u> Maintain close relationships with BAWSCA's powerful allies (state legislators, business, labor, local government, water customers, and the media) and activate them if necessary to safeguard the health, safety and economic well-being of residents and communities. Respond to requests from local legislators. Maintain a dialogue with responsible environmental and other groups, who will participate in the project permitting and approval process for rebuilding the system.</p> <p><u>11. Manage the activities of the agency professionally and efficiently.</u></p>

Table 2: Activities Not Included in Preliminary Operating Budget for FY 2011-12

Reliable Supply:

1. Drought-year water purchases and wheeling.
2. Extended or complex application for grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council or other agencies.
3. Introduction of major legislation or supporting or opposing legislation initiated by others. If necessary, the agency would be able respond to major legislative efforts by redistributing resources, use of the contingency budget or accessing the general reserve, subject to prior Board approval.
4. Evaluating how sub-metering of mobile home parks or multi-family dwellings could be implemented to encourage conservation. Other utilities have investigated these opportunities and their information and methods are available to BAWSCA members.

Fair Price:

5. Development of alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to review of SFPUC proposed rate structure modifications.
6. Arbitration of issues related to the 1984 Master Water Sales Contract or the 2009 Water Supply Agreement.
7. Preparation for issuance of bonds.
8. Evaluating potential economic or water supply impacts of State efforts to fix the Delta and other State water management projects.

High Water Quality:

9. Technical work related to water quality and San Francisco's treatment of the water it delivers to the BAWSCA agencies.
10. Major advocacy efforts for changing water quality regulations or the manner in which San Francisco or member agencies treat water for drinking and other purposes.

Agency Efficiency:

11. Agency Staff preparation and support for additional board, board committee or technical committee meetings.
12. Conducting tours of the Regional Water System. The Operating Budget does not include funds to co-sponsor a tour by the California Water Education Foundation.
13. Conducting tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions.

C. Overview of the Preliminary FY 2011-12 Operating Budget:

Table 3 displays expenditures by major category and the differences from the approved Operating Budget for FY 2010-11.

Table 3. Preliminary Operating Budget Estimate by Major Expenditure Category

Cost Category	Approved FY 2010-11 Budget, dollars	Preliminary Estimate FY 2011-12 Budget, dollars	Difference, dollars
Consultants/ Direct Expenditures			
Reliability	975,800	833,930	<141,870>
Fair Pricing	248,000	233,000	<15,000>
Administration	62,000	112,000	50,000
<i>Subtotal</i>	1,285,800	1,178,930	<106,870>
Administration			
Employee Salaries & Benefits	1,057,894	1,075,875	17,981
Rent	100,000	81,000	<19,000>
Other Supplies & Services	178,500	177,900	<600>
BAWUA	1,200	1,100	<100>
<i>Subtotal</i>	1,337,594	1,335,875	<1,719>
Total Operating Expenses	2,623,394	2,514,805	<108,589>
Capital Expenses	8,000	6,000	<2,000>
Budgeted Contingency	47,500	47,500	0
Regional Financing Authority	1,500	1,400	<100>
Grand Total	2,680,394	2,569,705	<110,689>

The preliminary Operating Budget for FY 2011-12 continues work begun in FY 2010-11. The Board-approved FY 2010-11 operating budget provided the staff resources needed to initiate Phase IIA of the Long-Term Reliable Water Supply Strategy. It also provided the resources needed to begin implementing short-term solutions -- the second year of activities in the Water Conservation Implementation Plan.

The results to be achieved during FY 2011-12 build on these efforts.

Five of the 11 major results that must be produced during FY 2011-12 are:

1. Complete Phase 2 of the Long-Term Reliable Water Supply Strategy to meet long-term water needs.
2. Implement the third year of the Water Conservation Implementation Plan to ensure water needs can be satisfied until long-term solutions are justified and in place.
3. Track San Francisco's progress in rebuilding the Regional Water System to ensure the Water System Improvement Program remains on scope, schedule and budget.

4. Represent member agency interests in existing water supplies during FERC re-licensing of New Don Pedro Reservoir.
5. Ensure the 2009 Water Supply Agreement is implemented properly.

Meeting the Water Supply Challenge. BAWSCA and its members must achieve 33 million gallons per day (mgd) of water savings or secure additional water supplies before 2018. An additional 23 mgd of water savings must be achieved and up to 25 mgd of additional water supply must be developed by 2035.

The need for this work stems from San Francisco's decision in the Fall of 2008, at which time San Francisco discarded the plan that had been developed jointly between San Francisco and its wholesale customers over the prior four years, and instead adopted a plan that deferred the decision to provide any additional water supply from the Regional Water System until at least 2018. Through these actions, San Francisco changed the approach to securing additional water supplies that it had been working on with its wholesale customers, and established itself as an unreliable source of water for meeting future needs.

BAWSCA is meeting these challenges with a two-pronged effort. Long-term water supply reliability depends on finding additional sources of water. Viable solutions will likely consist of portfolios of moderate-sized projects, rather than single large projects. BAWSCA's Long-Term Reliable Water Supply Strategy is focused on this specific activity. Because of the time required to plan, permit and construct new facilities, short-term solutions must rely on increased water conservation and use of existing recycled water capacity. BAWCA's Water Conservation Implementation Plan, now in its third year of implementation, is designed to achieve these near term water conservation savings.

To ensure that existing supplies reach customers reliably, San Francisco must continue to complete its Water System Improvement Program (WSIP) on scope, schedule and budget. The WSIP environmental and design activities will be largely completed during FY 2010-11, and construction activities will increase dramatically through 2015. Professional support will continue to be needed to provide input to and track San Francisco's projects as designs are finalized and construction spending accelerates.

Existing supply reliability also requires that existing sources remain available. As its predecessor agency did in the 1990's, BAWSCA will ensure that Wholesale Customer interests are adequately represented during the FERC re-licensing of New Don Pedro Reservoir. All stakeholders are now preparing for this effort, which is to be completed in 2015.

D. Achieving Vital Results During FY 2011-12 With Available Resources:

Staff size has remained constant since FY 2004-05, while the volume of work has increased roughly three-fold. Results have been produced by leveraging staff resources with outside professional services, temporary employees and interns.

The originally projected work load for FY2011-12 exceeded available staff time for performing work and managing outside services.

To produce the most critically important results with the existing staff level, several alternatives were examined, including:

- Eliminating and deferring lower priority work products
- Reducing the scope of selected activities
- Shifting work to using outside professional services
- Reassigning existing staff to perform work within their defined levels of responsibility but outside their normal areas of work

Work eliminated from the work plan includes supporting the formation alliances of member agencies to comply with Senate Bill 7X more cost-effectively.

Work deferred to future years includes estimating water savings that result from BAWSCA and locally-managed water conservation activities. The collection of data on BAWSCA and locally-managed conservation activities will continue, but the estimation of resulting water savings will be left to individual agencies or deferred until the information is needed and resources are available.

The schedule for the Long-Term Reliable Water Supply Strategy can be extended 6 to 8 months, enabling existing staff to balance work loads

Work eliminated from the FY 2010-11 work plan included the hiring of a fishery consultant to support the protection of member agency interests in the relicensing of New Don Pedro Reservoir. For FY 2011-12, existing staff would be unable to manage and direct the fishery consultant. Because the work is important, and because the work products will be vital for development of legal work products, the preliminary Operating Budget is based on that consultant being hired and managed by BAWSCA's legal counsel.

Temporary employees can be hired to back-fill the Office Assistant, so that position can provide administrative support to water conservation activities. Temporary employees can also perform some administrative tasks related to water conservation. The CEO's assistant will continue to provide logistic and public outreach support to selected water conservation activities.

These temporary solutions enable BAWSCA to achieve vital results during FY 2011-12. Long term, other solutions will be needed in order to support aggressive water conservation programs, develop a long-term water supply strategy for the region, and to implement that strategy in a manner acceptable to the various member agencies and enforce the 2009 Water Supply Agreement. These important results must be achieved while maintaining BAWSCA's ability to effectively address actions, or lack of action, taken by San Francisco, and contend with other matters important to the collective interests of the BAWSCA member agencies.

E. Alternatives for Funding the Operating Budget:

BAWSCA’s sources of funds are: 1) the annual agency assessments, 2) the BAWSCA General Reserve, and 3) reimbursements for subscription water conservation programs, and 4) the Water Management Charge.

Assessments. The preliminary Operating Budget could be supported with no increase to member agency assessments and with no net reduction in the General Reserve balance.

Table 4 displays the history of assessments and year-end reserves.

Table 4. Historical Annual Assessments and Year-End Reserves

Fiscal year	Assessments	Year-End Reserves
2003-04	\$1,668,550	\$276,480
2004-05	\$1,641,995	\$246,882
2005-06	\$1,953,998	\$240,000
2006-07	\$2,117,904	\$654,000
2007-08	\$2,117,904	\$691,474
2008-09	\$2,309,000	\$507,474
2009-10	\$2,517,000	\$407,192
2010-11	\$2,517,000	\$653,763
2011-12	\$2,517,000	To be estimated

Funding Alternatives. Because the Operating Budget could be funded, and a prudent reserve of about 15 percent retained without increasing assessments, a series of alternative funding scenarios has not been examined at this time.

For the presentation to the Board of Directors in March, estimates of FY2010-11 year-end savings and year-end reserves will be provided.

During discussion of the preliminary budget with the Board Policy Committee, the Committee may advise that additional information would be useful for the Board of Directors. That information can be developed and reported to the Board in March.

F. Funding of the Subscription Water Conservation Programs

As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA’s subscription water conservation programs.

The subscription conservation programs, offered in response to member agency interest in cost-effective conservation programs that generate economies-of-scale, increased program

effectiveness achieved through regional public outreach, and the ability to leverage limited staff time. The specific programs to be offered next year are listed in this memorandum.

Water Conservation Program Authority, Measures, Funding and Origin

All of the conservation programs offered by BAWSCA respond to requests by member agency staff with whom BAWSCA interacts. Before being offered, each program is evaluated for cost-effectiveness, value added to end customers, and contribution to achieving water savings goals.

BAWSCA's Regional Water Conservation Program offers a "Core Program" and a "Subscription Program":

- The Core Program is funded through the annual BAWSCA Operating Budget and contains those measures that are more effective when implemented regionally and that provide regional benefits, irrespective of individual agency jurisdictions.
- The Subscription Program comprises measures whose benefits are realized within individual water agency service areas. Participation is voluntary. The opportunity to participate is offered to all BAWSCA member agencies. Implementation of these measures is fully funded by the individual agencies that elect to participate.

Authority

Since its inception, both the Core and Subscription Programs are included in the annual work plan approved by the BAWSCA Board of Directors. Board approval of professional services agreements may be needed for consultants or contractors needed to perform the work, and such approval is requested prior to offering the programs to member agencies.

Proposed Program Measures for FY 2011-12

For FY 2011-12, BAWSCA members have asked BAWSCA to provide the following conservation activities as part of its Core and Subscription Programs:

Core Program Measures

- Water Efficient Landscape Education Classes
- *Water-Wise Gardening in the Bay Area* Landscape Educational Tool
- Native Garden Tours and Symposiums
- Public Outreach
- Assistance Obtaining State Grant Funds

Subscription Program Measures

- High-Efficiency Toilet (HET) Rebates
- High-Efficiency Residential Washing Machine Rebates
- Water-Wise School Education Program and Kit Distribution
- Water Conservation School Assembly Program
- Large Landscape Audits
- Lawn Replacement (Lawn Be Gone!) Program
- Grant Administration

Subscription Program Funding

For the proposed Subscription Program, the estimated staff time for FY2011-12 is approximately 1200 hours. Direct salaries for that work would total approximately \$46,000. Actual staff costs for the FY 2011-12 Subscription Program would be reimbursed by the participating agencies resulting in a reduction in the BAWSCA Operating Budget.

Origins of BAWSCA's Water Conservation Assistance Programs

When the SFPUC was preparing its Program Environmental Impact Report (PEIR) for the Water System Improvement Program (WSIP), San Francisco required each agency to submit a written commitment to a level of conservation savings. Each agency was free to decide how aggressive an approach to conservation it wanted to pursue, and how much it wished to invest toward conservation.

Following the publication of the Draft PEIR, it became clear that a plan would be needed to ensure the savings could be achieved. So that BAWSCA could plan and budget appropriately, it was important to determine which measures the agencies would pursue on their own or with other partners, and which measures they wanted BAWSCA's assistance to implement.

In September of 2008, the BAWSCA Board authorized development of the Water Conservation Implementation Plan (WCIP). Only one month later, in October of 2008, San Francisco unilaterally limited the supply it would make available to BAWSCA members until 2018. This limitation would prevent agencies, in aggregate, from meeting their projected needs, and 2018 was too near to permit development of new water supplies. The approach to the WCIP was modified to produce a plan that would enable BAWSCA agencies to stay below the Interim Supply Limitation imposed by San Francisco until 2018.

G. Funding of the Long-Term Reliable Water Supply Strategy

The Long-Term Reliable Water Supply Strategy (Strategy) is funded separately from BAWSCA's Operating Budget.

The Strategy was initiated by the BAWSCA Board of Directors in response to the Interim Supply Limitation imposed by San Francisco. San Francisco's prior planning was based on a goal of meeting member agencies' projected water needs until 2030. When San Francisco imposed the Interim Supply Limitation until at least 2018, BAWSCA agencies had no certainty that long-term water needs for residents and jobs would be met.

In May 2009, the BAWSCA Board authorized preparation of the scope of work for developing a long-term strategy. The resulting scope of work presented phased investments for developing and implementing water supply projects.

In July 2010, the Board authorized contracts totaling \$2.332M to support the development of Phase IIA of the Strategy and the enactment of the Water Management Charge to fund Phase IIA over 18 months, an equivalent of \$129,000 per month for 18 months. The Board also authorized the Water Management Charge for Phase IIA to be allocated to agencies in the same proportions used to allocate the BAWSCA Operating Budget.

The allocation of costs for Phase IIA is not precedent setting. The Board retains authority to allocate the costs of future phases of work in proportion to the benefits desired or other considerations.

All contracts specifically authorized by the Board in July have been executed and work is proceeding according to scope. The authorized contingency of \$100,000 has not been

used to date. Scope or budget changes that would require Board action will be brought forward if and when necessary. No scope or budget changes are anticipated at this time.

H. Budget Details:

The pages which follow present details on the following Operating Budget categories:

- H-1. Preliminary budget for the Bay Area Water Users Association (BAWUA)
- H-2. Preliminary budget for the Regional Financing Authority
- H-3. Allocation of BAWSCA operating budget to goals
- H-4. Salaries and benefits
- H-5. Organization and Staffing
- H-6. Uses of Professional Services
- H-7. Office Lease
- H-8. Budgeted contingency

H-1. Preliminary budget for the Bay Area Water Users Association (BAWUA). The Board will consider a separate action to approve the proposed FY 2011-12 budget for BAWUA of \$1,100. This amount appears in the BAWSCA budget.

H-2. Preliminary budget for the Regional Financing Authority Budget. The BAWSCA Board of Directors agreed to fund nominal administrative costs for the Regional Financing Authority (RFA), at least until it became more actively involved and required significant resources. Assuming a low level of activity in FY 2011-12, the proposed RFA budget is \$1,400. The RFA will formally consider and adopt this budget in July 2011.

H-3. Allocation of BAWSCA Operating Budget to Goals. The proposed operating budget represents the following allocation of staff plus consultant hours toward achieving the identified results. These totals include the staff time that would be spent on the Long-Term Reliable Water Supply Strategy, but not the consultant hours for engineering, legal and strategic support of that effort.

Reliable Supply	57%
Fair Price	13%
Operations and administration	30%

H-4. Salaries and Benefits. The preliminary budget for salaries and benefits is \$1,075,875 or \$17,981 more than the approved budget for FY 2010-11. This amount includes the increased cost of health benefits for the seven existing approved positions, and an allowance for temporary services on an as-needed basis.

The preliminary FY 2011-12 Operating Budget includes no adjustment to the salary for any employee. Salary issues and alternatives will be discussed with Board Policy Committee for input and advice.

The preliminary Operating Budget includes no allowance for merit increases within existing salary ranges.

The preliminary Operating Budget reflects no COLA adjustment to top step salaries and no adjustment in top step salaries to match the median market values for comparable positions in other Bay Area agencies.

There was no COLA adjustment made in the FY 2009-10 approved budget. A 3.01 percent increase to the top step of staff salary ranges was approved by the Board when it approved the FY 2010-11 Operating Budget. Those adjustments were consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose. The current value of that index is 1.8312 percent.

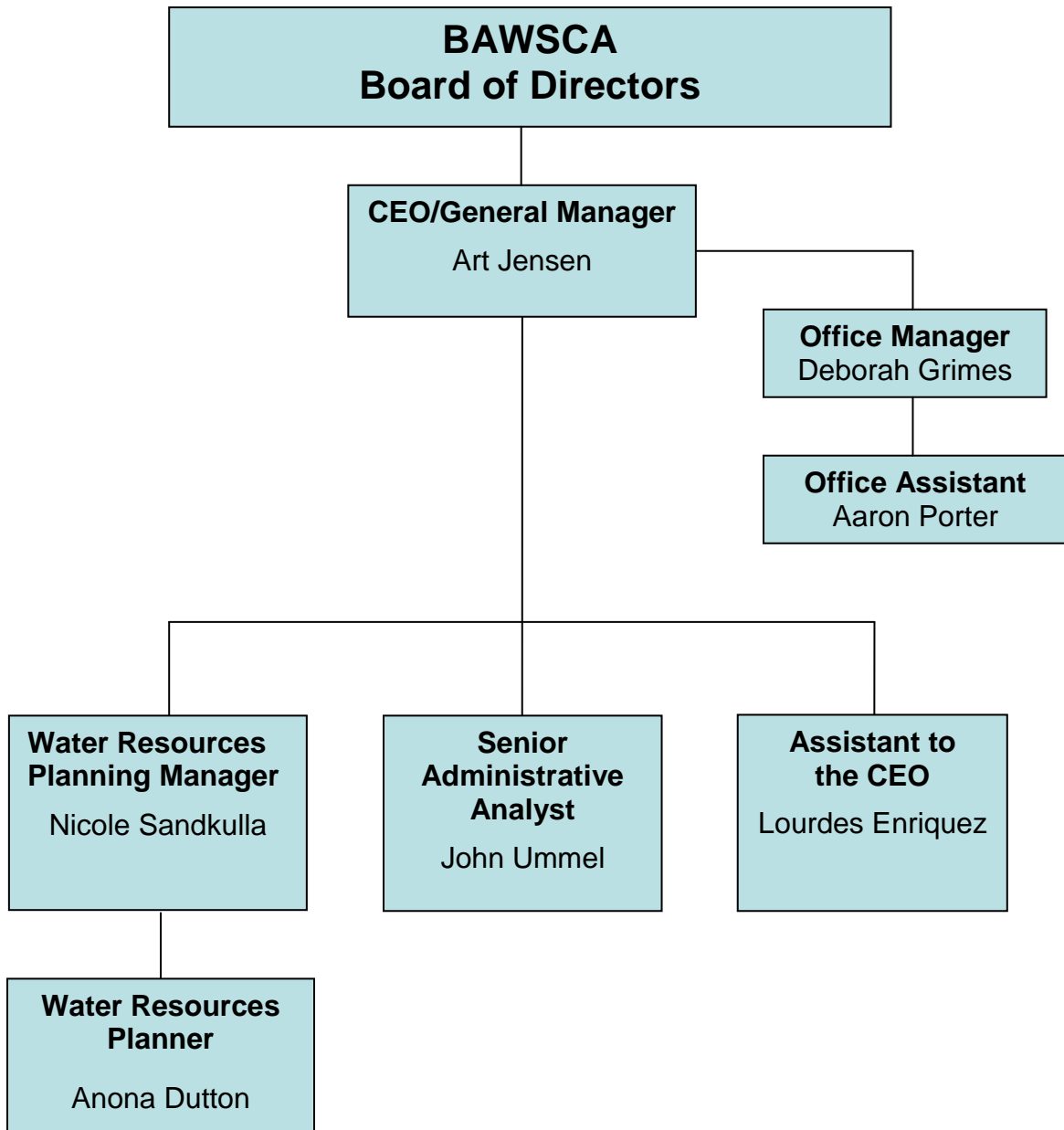
At BAWSCA, adjustments to top step salaries do not automatically result in changes to incumbent employee salaries. Adjustments to the salaries of BAWSCA employees are made on the basis of merit and must be approved by the CEO.

The Senior Administrative Analyst announced that he plans to retire at the end of Calendar Year 2011. The incumbent, Mr. John Ummel, has an exemplary record of reviewing San Francisco costs, cost allocation and rate setting, and has recovered millions of dollars in credits to BAWSCA member agencies. His job requires knowledge of accounting principles, the complexities of San Francisco's accounting procedures, and a thorough knowledge of the Water Supply Agreement. Mr. Ummel's retirement coincides with a busy time of year for that position.

BAWSCA's size does not support a vertical hierarchy that, in larger agencies, provides an opportunity for training replacements. Several alternatives were considered to provide a period of training and oversight for a new employee to fill this position. The preliminary budget provides one month of overlap plus an allowance (\$12,000) so that Mr. Ummel could provide up to 160 hours of as-needed support following his departure.

H-5. Organization and Staffing. Figure 1 represents the current reporting relationships in the organization. No new positions are proposed in the FY 2011-12 Operating Budget. All staff positions are filled at this time.

Figure 1. Organization Chart

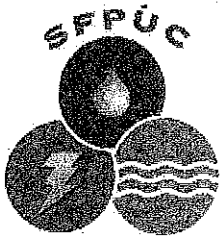


H-6. Uses of Professional Services. Outside professional services are used to provide specialized services and augment staff.

1. Professional engineering services for: a) developing a long-term strategy to ensure a reliable supply of water; b) implementing and tracking water conservation efforts; c) evaluating Water System Improvement Program project scopes during design and construction; d) monitoring project cost estimates, bids and schedules; e) monitoring and assessing San Francisco's performance in implementing the overall program; e) assessing San Francisco's method for cost estimation, application of contingencies and addressing cost inflation during the program; f) providing specific constructive recommendations for keeping the program on or ahead of schedule; and g) analyzing hydraulic records used by San Francisco in setting the wholesale water rates.
2. General legal services for BAWSCA and the RFA; specialized legal services to support administration of the Water Supply Agreement; specialized legal services for addressing matters related to water supply reliability.
3. Strategic counsel for identifying and addressing strategic and political issues associated with maintaining the progress of the Water System Improvement Program, assisting the Board and the CEO in developing and implementing an effective policy making process that supports the development of the Long-Term Reliable Water Supply Strategy, providing legislative and political support, and providing advice to the CEO and the Board on other issues significant to the water customers and the effectiveness of the agency.
4. Financial advisory services to conduct specified capital financing and rate impacts analyses on a task order basis.
5. Accounting/auditing expertise to assist with implementing the new water agreement, as well as an independent auditor to prepare and review annual financial statements.

H-7. Office Lease. The lease for the BAWSCA offices expires in the Fall of 2011. Because commercial lease rates have declined in the region, alternative locations have been investigated. The existing location is convenient to staff, directors and visitors. Because the new lease rate is expected to be lower, the preliminary Operating Budget reflects a reduction in lease expenses. The preliminary budget does include a modest allowance for tenant improvements if needed to accommodate temporary employees or other support.

H-8. Budgeted Contingency. The preliminary FY 2011-12 contingency budget is \$47,500, the same amount that has appeared in the budget for the prior two years.



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Mr. E Dotson Wilson
Chief Clerk of the Assembly
California Legislature
State Capitol, Room 3196
Sacramento, CA 95814

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COMMISSIONER

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COMMISSIONER

ED HARRINGTON
GENERAL MANAGER

January 28, 2011

Dear Mr. Wilson:

In accordance with Assembly Bill 1823, as codified in Chapter 841 of the California Water Code, Section 73504(a), the San Francisco Public Utilities Commission (SFPUC) is herewith reporting on the progress it has made during 2010 on securing supplemental sources of water to augment existing supplies during dry years.

This past year, the SFPUC has continued the planning and design phase of its water supply program of the Water System Improvement Program to meet water demands in the wholesale and retail service area through 2018. The elements of the water supply program adopted by the SFPUC related to securing dry year supply for its customer base include:

- Regional Groundwater Storage and Recovery Project (formerly called the Westside Basin Conjunctive Use Program) – This project will allow the SFPUC, in partnership with three of its wholesale customers, to bank wet year surface water supplies in the Westside groundwater basin for use during dry years. The project includes the installation of new groundwater wells throughout the Westside groundwater basin. In 2010, the SFPUC constructed and sampled nine test wells to assist in project design and operations and completed the 35% design package for all 16 proposed groundwater recovery well stations. The SFPUC released a Notice of Preparation for the Environmental Impact Report in June 2009. Certification of the EIR is expected in September 2012. Construction is expected to begin in May 2013.
- Modesto and Turlock Irrigation District dry-year water transfer – The Program Environmental Impact Report (PEIR) included programmatic environmental review of a water transfer between the SFPUC and its partners on the Tuolumne River. Certification of the PEIR, in October 2008, has allowed the SFPUC to move forward in securing a dry-year water transfer in the Tuolumne River basin.
- Calaveras Dam Replacement project – Calaveras Reservoir is currently at 30 percent of its capacity as a result of a California Division of Safety of Dams order. The reduced capacity significantly affects the ability of the SFPUC to carryover dry-year water supplies from one year to the next and therefore, impacts the SFPUC's dry-year water supplies. In 2010, the SFPUC will release the Final Environmental Impact Report for the project and continued to work with State and Federal regulatory agencies to secure environmental permits for construction. The Final EIR was certified on January 27, 2011. The SFPUC adopted the project on January 27, 2011 and project construction is slated to begin August 2011 with project completion expected by 2015.
- Lower Crystal Springs Dam Improvement project – This project will improve the spillway at Lower Crystal Springs Dam, allowing the SFPUC to carry-over additional

dry-year supply in Crystal Springs Reservoir. In 2010, the SFPUC completed and certified the Final Environmental Impact Report for the project and continued to work with State and Federal regulatory agencies to secure environmental permits for construction. The SFPUC adopted the project on October 15, 2010. The SFPUC received a United States Fish and Wildlife Service Biological Opinion for construction of the project in January 2011. Project construction is slated to begin February 2011 and to be completed in Spring 2012.

These dry-year water supplies will allow the SFPUC to meet at least 80 percent of its customer demand during droughts. The SFPUC will continue to rely on rationing up to no more than 20 percent in any one year of a drought. Continued progress on these projects is paramount to the SFPUC's dry-year water supply program. In adopting the Calaveras Dam Replacement Project and the Lower Crystal Springs Dam Improvements project, the SFPUC committed to providing fishery flows below Calaveras Dam and Lower Crystal Springs Dam as well as bypass flows below Alameda Creek Diversion Dam. These fishery flows slightly increase the SFPUC's dry-year water supply needs. The SFPUC is committed to meeting its delivery reliability goal of no greater than 20 percent rationing in any one year of a drought. The SFPUC will be considering a report at the end of March 2011 that describes how the SFPUC intends to continue meeting its delivery reliability goals.

While the dry-year water supply projects continue to move forward, the SFPUC considers short-term water transfers an available option to avoid or limit rationing in its service area. At the same time, the SFPUC continues to track and monitor the water supply situation in the Sacramento-San Joaquin Delta that is affecting the ability of the State and Federal water projects to divert water supply as a result of biological resource issues. It should also be noted that the SFPUC is experiencing reduced consumption throughout its service area. In 2010, the SFPUC delivered 224.1 mgd to its customers. The firm yield of the system is currently 219 mgd. System firm yield is defined as the average annual water delivery that can be sustained throughout an extended drought. For the purposes of our regional water system planning, the SFPUC uses a design drought that anticipates and plans for a more severe drought than historical events and evaluates the system firm yield assuming the system is experiencing the design drought. The SFPUC's design drought is based on the hydrology of the six years of the worst historical drought (1987-1992) plus the 2.5 years of the 1976-1977 drought, for a combined total of an 8.5 year design drought sequence. With current consumption trends in the SFPUC service area, in the event that this year presents a dry-year, the SFPUC would be able to meet its rationing goals without additional supplemental dry-year water supplies.

In addition to implementing the SFPUC's water supply program of the Water System Improvement Program, the SFPUC has interties with Santa Clara Valley Water District and East Bay Municipal Utility District that enable the SFPUC and EBMUD or SCVWD to transfer, respectively, up to 30 million gallons and 40 million gallons per day of water from their respective systems to one another in the event of an emergency or drought. The SFPUC has continued to participate in feasibility studies for a Regional Desalination Project with Contra Costa Water District, Santa Clara Valley Water District, and EBMUD. Following the institutional analysis conducted this year, the project has gained an additional partner, the Zone 7 Water Agency. The project would produce 20 mgd of

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desalinated water that will help meet water supply needs to its partners. Finally, the SFPUC continues to be active in the Bay Area Integrated Regional Water Management Plan development in an effort to continue working with the Bay Area water agencies to find ways to meet water supply reliability goals collectively.

Cordially,



Steven R. Ritchie
Assistant General Manager, Water Enterprise

CC. Ed Harrington, General Manager
SFPUC Commissioners
Arthur Jensen, General Manager, BAWSCA
Dr. Mark Horton, Director, California Department of Public Health
Gregory Schmidt, Secretary of Senate – California Legislature
State Legislative Analyst Office
Chron. file