

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

**April 13, 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 1:32. Nine (9) members of the committee were present, constituting a quorum. A list of the directors present (9) and members of the community attending is attached.

2. Public Comments: There were no public comments.

3. Consent Calendar:

A. Approval of the Minutes from the February 9, 2011 meeting: The Committee approved the minutes from the meeting of February 9, 2011

B. Authorization to Amend the Contract with KNN Public Finance: The Committee voted unanimously to recommend Board authorization for the CEO to amend the contract with KNN Public Finance and make the following budget adjustments and professional service contract amendments in order to provide analyses and work products needed this fiscal year:

1. Reduce the not-to-exceed amount of the contract with Burr, Pilger and Mayer (Auditing Support Services) by \$15,000, from \$30,000 to \$15,000;
2. Increase the not-to-exceed amount of the contract with KNN Public Finance (Financial Consultants) by \$11,000, from \$44,000 to \$55,000.

Director Quirk made a motion to approve Consent Calendar Items #4A and 4B, seconded by Director Anderson. The motion passed unanimously.

4. Action Calendar:

A. FY 2011-12 Results to be Achieved and Proposed Budget: Mr. Jensen presented the results to be achieved, and the activities not included in the Work Plan for FY 2011-12. The list of activities not included in next year's budget was amended to include the following items discussed with the Policy Committee at its February meeting, and with the Board at its March 17th Meeting:

1. Analysis of why water use has dropped in recent years;
2. Evaluate how sub-metering could be implemented;
3. Support of agencies forming alliances to comply with 20% by 2020;

4. Estimate water savings from BAWSCA and local conservation;
5. Estimate economic & supply impacts of new Delta management;
6. Develop alternative wholesale rate structure alternatives;
7. Conduct water system tours

Mr. Jensen emphasized that the activities' exclusion from the budget does not mean they are not important or that they could not be done. He stated that if a decision is made to perform any of these activities during the year, the Board would be asked to reprogram funds from other budgeted items or augment the Operating Budget from the General Reserve.

While the proposed budget for FY 2011-12 is \$49,705 greater than the preliminary estimate, it is \$60,000 less than the current year's budget. The proposed budget includes no salary adjustments for existing staff, a reduction or deferral of some activities, an anticipated decrease in office lease costs, a small budget for keeping a retiring employee available to assist their replacement, and flexibility to accommodate an authorized leave of absence.

In response to a question about the approved leave of absence, Mr. Jensen explained that it is a legally required leave of absence.

To provide necessary additional resources and flexibility, the contingency budget was increased by \$30,000 from \$47,500 to \$77,500, and the allowance for temporary, part-time or consultant services by \$20,000.

The proposed operating budget can be supported by assessments, reimbursements from the subscription programs, and, if needed, a small transfer from the General Reserve. Mr. Jensen stated that the assessments will remain unchanged for the 3rd year, and that at year-end, the estimated General Reserve balance would be equivalent to 35% of the proposed operating budget. A graph of historical assessments and reserves was presented to the Committee. Mr. Jensen noted that current Board policy sets a budgeting guideline for the General Reserve as 25% of the current operating budget.

The staff recommendation was for the Committee to recommend Board approval of the proposed FY 2011-12 Work Plan and proposed Operating Budget of \$2,619,705, and that the Operating Budget be funded without changing agency assessments and, if needed, a transfer of \$38,005 from the General Reserve.

Following Mr. Jensen's report, Committee members asked questions and offered comments for discussion.

Director Quirk stated that the eleven professional services contracts as of July 1, 2011 is very much a part of the Work Plan and budget. Since there are less legislative activities than have historically been dealt with by Strategic Counsel, he asked whether Mr. Wendell could help with some of the activities excluded from the Work Plan.

Mr. Jensen stated that the contract has remained in the not-to-exceed amount of \$150,000 for several years, during which there has been no shortage of issues to address, including the negotiation of the new Water Supply Agreement, the development of a Long-Term Reliable Water Supply Strategy, and monitoring the SFPUC's progress on the WSIP. BAWSCA stays in contact with the legislature to maintain connection with legislators, connect with new legislators, and stay on top of developing legislation. Mr. Jensen stated that strategic counsel is only paid for hours spent, and traditionally provides more hours of service than are billed.

Director Pierce asked what Committee members think about the projected level of the reserves being 35% of the current budget. She asked if they thought the level of the General Reserve should be left alone for this fiscal year, or used to fund work that otherwise would be deferred, provided that a prudent level of reserves be maintained.

Director Quirk stated if there is something significant that needs to be done out of the list of activities excluded from the Work Plan, he would be in favor funding it from the General Reserve, but hiring a consultant to do the work as opposed to adding a permanent employee. He suggested looking at the General Reserve in light of potential uncertainties in expenditures and revenues, and determining a prudent amount for the agency to have in reserve.

Chair Klein asked how the Board's current General Reserve policy is stated.

In response to Chair Klein's request, Legal Counsel explained that BAWSCA's General Reserve policy is stated as a guideline for budgeting purposes and defines the guideline as a General Reserve minimum of 20% of the Operating Budget and maximum of 25%. Last year was the first year BAWSCA had a General Reserve of 25%.

Chair Klein suggested the following three options to address the projected General Reserve balance being above the policy guideline: The Board could consider 1) changing the General Reserve guideline, 2) reducing the assessments for FY 2011-12 and use the General Reserve to augment what is needed to fund the budget, or 3) allocate a portion of the General Reserve towards significant activities the Board would like to add to the Work Plan.

Director Guzzetta stated that BAWSCA should focus on preserving the enterprise, and determine how it will be able to respond if something significant affects the operation of the agency. That would be one way to set the size of the General Reserve to keep the agency moving forward.

In response to Director Piccolotti's question, Legal Counsel explained that BAWSCA does not use its reserve for the purpose of covering money owed to staff for vacation.

Mr. Jensen said he will look at the risks that might reduce the ability to collect revenues and at activities that might arise that would require significant unplanned expenditures, consider how the agency could react to such event expenditures, and suggest what level of reserves might be appropriate. He will bring that information back to the Committee for discussion prior to taking the matter to the Board for discussion and possible action.

Director Guzzetta requested that the CEO also look into how the reserve can be used as a stabilization fund, should health costs, for example, increase.

Under the direction of Committee Chair Klein, Mr. Jensen will agendize further discussion of how the projected level of the General Reserve should be addressed, with further information on the risks to revenues and expenditures, as well as how the reserve can act as a stabilization fund.

- B. Priority FY 2011-12 Professional Services Contracts: The Committee also discussed the eleven contracts for legal, engineering, financial, strategic, and water conservation services that needs to be in place by July 1, 2011.

Director O’Connell made a motion, seconded by Director Breault, that the committee recommend action items B and C; that the Board approve of the proposed FY 2011-12 Work Plan and the proposed Operating Budget of \$2,619,705, and that the Operating Budget be funded without changing agency assessments and, if needed, a transfer of \$38,000 from the General Reserve, and that the Board approve the eleven contracts for legal, engineering, financial, strategic, and water conservation services needing to be in place by July 1, 2011. The motion passed unanimously

- C. Request for Authority to Pursue Office Lease: Mr. Jensen reported that the current lease for the BAWSCA office space expires in October 2011. There is an opportunity to improve the office location and space within the proposed budget, which anticipated lower lease costs for the existing space during FY 2011-12.

Alternative locations were examined to ensure that an informed decision about office location could be made and to obtain comparable lease rates to assist in negotiating a new lease for the existing location. Staff learned that an alternative, larger space is available in the current building. The space could accommodate interns, part-time employees and consultants that will be needed to perform the Work Plan.

Mr. Jensen reported that he would be hesitant to sign a lease for 3 or more years with the current location because it does not have sufficient space. The office on the 6th floor is larger, and a longer-term lease would have a lower annual cost than BAWSCA is currently paying.

The favorable lease conditions result from the current state of the market for commercial office space, and those are expected to change within the next year or two. The new lease plus the cost of moving could be covered within the proposed Operating Budget.

Art will provide the square footage information, as requested by Director Anderson, in the staff memo for the Board meeting in May.

Director O’Connell made a motion, seconded by Director Pierce, that the Board Policy Committee recommend Board authorization for the CEO to negotiate and execute a five-year lease for space in the existing building, at a competitive rate, that can be afforded within the proposed Operating Budget. The motion passed unanimously.

5. Brief Status Reports:

Board Policy Calendar Revisions: Revisions to the Board Policy Calendar were handed out to the Committee.

Long-Term Reliable Water Supply Strategy: Ms. Sandkulla reported that the schedule extension for the Strategy was discussed with the Committee in January, and with the Board in March, to accommodate resources constraints. The proposed schedule revision was an extension of six months, with a new completion date in January 2013.

Ms. Sandkulla reported that delaying the strategy will not have severe consequences because current low water use minimizes the risks associated with meeting near-term water needs. The schedule extension would have no cost impacts, and the change could be addressed in the consultant contract with CDM.

Technical work continues with the development of project-level information for potential local agency and regional water supply projects. BAWSCA is meeting with specific agencies as needed to understand potential local agency projects and exchange information.

Mr. Jensen has begun his briefings with the Board leadership with regard to future policy decisions and the schedule on which they may be needed. The current schedule is for a presentation on the Strategy and the policy decisions to be provided to the Committee in June and to the Board in July.

Director Quirk brought up the point of how the use of alternative sources by some agencies because of rising costs is decreasing Hetch Hetchy water use, and suggested an analysis of how much of that factor is contributing to low water usage as opposed to water conservation.

Ms. Sandkulla reported that the issue has come up in the rate discussions and in the SFPUC's review of possible rate methods for next year. Ms. Sandkulla noted that for planning purposes, several agencies look at managing their mix of supplies. Ms. Sandkulla noted that while cost is a factor, it's not the only factor because source reliability, quality and other factors can be significant.

Ms. Sandkulla added that some agencies have minimum-take requirements on more than one of their water sources. Because water use in their areas has decreased, some agencies are not meeting their minimum take, or are barely close to it. This can result in an agency having to pay for the contractual minimum amount of water even if it does not use it. She recommended producing numerical brackets on how significant the use of alternative supplies might be to individual agencies and to the customers of the San Francisco system.

SFPUC Water System Improvement Program: Mr. Jensen presented a map of the BAWSCA service area and the faults that lie within it to re-emphasize why the WSIP is so important to the region.

At the groundbreaking ceremony for WSIP projects in the Peninsula held on March 30th, Mr. Jensen reported that SFPUC's talk emphasized the program's importance for operational flexibility and seismic reliability. To bring the level of importance to the lay public, BAWSCA focused on the system's capability to deliver drinking water, water for sanitation, and water to fight fires in an event of major earthquake. The economic downside of a major earthquake was estimated at \$28B several years ago, not counting loss of property due to fire because of lack of water or loss of life.

Mr. Jensen reported that the program is currently within scope, schedule and budget. The major projects beginning on the peninsula include the Lower Crystal Springs Dam Improvements, Crystal Springs Pipeline #2, Crystal Springs/San Andreas Transmission System Upgrade, and the Harry Tracy Water.

The SFPUC will begin their budget and schedule re-alignment process in June, and complete it in July. The SFPUC will provide the revised project information as part of their progress report to the State in September, as required by AB1823.

There will be some changes to the program, and BAWSCA will be reviewing the report when it is released to analyze the changes and their significance. The report will be sent to the State and reviewed by the California Department of Public Health and California Seismic Safety Commission, to determine whether the changes significantly increase risks to the public health and safety.

Mr. Jensen presented a graph showing the overall progress of the program at 35% complete as of December 2010.

Drought Implementation Plan – Course of action now that all agencies have approved the plan: The Drought Implementation Plan has been adopted by all BAWSCA member agencies. BAWSCA will send a formal notification to the SFPUC, member agencies and Board members. The mechanics of what BAWSCA and the agencies need to do in the event of a drought are in place.

Water Conservation Grant Application – Update: Ms. Sandkulla reported that BAWSCA is a partner in a Prop. 84 Regional Grant application that has been submitted to the State. The grant request is for \$8.95M and BAWSCA's potential share is \$863,000. The grant would provide funding for a portion of rebates in BAWSCA's washing machine, high-efficiency toilet, and lawn replacement rebate programs, as well as partial funding for outside water-efficient landscaping education. Grant award notifications are expected during the Month of April and good news is expected. The money could be available by next fiscal year.

SFPUC Wholesale Water Rate Proposal – Status of agency comments and schedule of consideration by the SFPUC Commission: Mr. Jensen reported that the SFPUC is not moving forward with the rate structure alternatives presented in its February 3rd letter to wholesale customers and BAWSCA. The SFPUC presented and will consider on May 10th, a 47.4% increase in wholesale water rates that translates to \$2.80 per ccf.

The SFPUC is also proposing a potential rate adjustment mid-year which includes an increase to \$2.90 if projected wholesale purchases drop below 130mgd.

The SFPUC presented that they needed the rate increase to pay for the WSIP and to cover the revenue shortfall due to low water use in the last several years. Each year the SFPUC estimates how much water the wholesale customers will purchase, and sets their rates accordingly. If less water is used, the SFPUC does not collect sufficient revenue. The same is true for BAWSCA's member agencies and some agencies are experiencing revenue impacts.

The proposed rate increase will be considered by the Commission on May 10th. Agencies have the opportunity, and are encouraged to express their concerns and suggestions with the SFPUC in writing.

BAWSCA member agencies have \$50-\$60M owed to San Francisco for a variety of reasons including lower than expected water purchases. At a meeting with agency appointed Water Supply Management representatives, each agency had a preferred way of addressing the money owed to San Francisco. Mr. Jensen noted that BAWSCA's role is limited because agencies differ in their preferred approach to addressing SFPUC's proposed rate setting.

Mr. Jensen, however, requested the Commission to direct staff to provide justification for the extremely low projected FY 2011-12 water purchases on which the proposed rates are based, and to present clear alternatives so that agencies and the Commission can better understand the reasoning behind the proposed wholesale rate.

Mr. Jensen pointed out to the Commission that the agencies want San Francisco to be financially stable for good bond ratings. Equally important, BAWSCA agencies need to be financially stable because the same bond rating agencies are rating their bonds.

Information received from the SFPUC will be distributed to Water Supply Management representatives.

Director Pierce inquired about the possibilities for water banking and water wheeling to bump up San Francisco's water sales as an immediate and short-term solution. Mr. Jensen explained that low water consumption is a broader phenomenon that goes beyond the service area.

Mr. Jensen noted that the new rate proposal is to recover two components of the balancing account, one over 2 years, and the other over 4 years. Legal Counsel, Allison Schutte, noted that while the SFPUC is allowed a quick recovery of the balancing account, an alternative available to the Commission, and a potential area for agency comments, is to spread the balancing account over a period of time.

Director Pierce said that another concern is that additional rate increases will result in even lower consumption which could worsen the situation rather than improve it. Mr. Jensen agreed and stated that the issue has caught the media's attention. BAWSCA will provide factual information for Board members and member agency representatives to use in response to media inquiries, and advised that Board members stay in touch with their staff regarding media inquiries.

Mr. Jensen noted comments made by some elected officials that the proposed rate increase is unfair, and clarified that the Wholesale Customers are not being asked to cover any costs that

should be paid by San Francisco's Retail Customers. In that sense, while the increase is unwelcome, it is not unfair.

Schedule for Annual Review of BAWSCA Investment Policy, and other administrative matters: Hanson Bridgett has been reviewing BAWSCA's administrative documents and some updates are expected. Changes will be reported to the Board for both information and for action, if needed. Documents being reviewed include the Investment Policy, Rules of the Board, the personnel handbook, and the General Reserve.

WSIP Video: The Committee was presented with the video produced by Julie Labonte, Director of the WSIP, summarizing the progress of the program.

6. **Comments by Committee Members:** There were no further comments from the members of the committee.

7. **Adjournment:** The meeting was adjourned at 2:50pm to the next regularly scheduled meeting on June 8, 2011 at 1:30 p.m. which will be held at 155 Bovet Road, 1st Floor Conference Room, San Mateo.

Respectfully submitted,



Arthur R. Jensen, Chief Executive Officer and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board Policy Committee
April 13, 2010**

Attendance Roster

Committee Members Present:

Larry Klein	City of Palo Alto
Rob Guzzetta	California Water Service Company
Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Randy Breault	City of Brisbane/GVMID
Irene O'Connell	City of San Bruno
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Bill Quirk	City of Hayward

BAWSCA Staff Members Present:

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

Guests:

Peter Drekmeier	Tuolumne River Trust
Nan Barton	City of Hayward
Sharyn Saslafsky	SFPUC