

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

**August 10, 2011 – 1:30 p.m.
155 Bovet Road, 1st Floor Conference Room**

MINUTES

1. Call to Order: 1:32 p.m.

Committee Chair Larry Klein called the meeting to order at 1:32pm. All members of the committee were present, constituting a quorum. A list of the directors present (9) and members of the community who attended is attached.

2. Public Comments: There were no public comments.

3. Consent Calendar:

Approval of the Minutes from the June 8, 2011 meeting: By roll call vote, the Committee approved the minutes from the meeting of June 8, 2011. Directors O'Connell and Breault abstained.

4. Action Calendar:

Recommendation for Potential Uses for the General Fund: Mr. Jensen noted that in June, the Committee advised that the CEO: 1) provide at the September Board meeting, any one-time value-added work product that could be added to the Work Plan and budget and performed in FY 2011-12, and 2) present to the Board at mid-year, the projected year-end balance and alternatives for managing it.

Mr. Jensen presented an analysis of the current and projected size of the General Reserve. Although the current approved budget is within two percent of the level of assessments, the General Reserve balance can be expected to grow because actual expenditures historically average about 14 percent less than the approved budget, and unspent funds are deposited in the General Reserve following the close of each fiscal year. The General Reserve balance as of July 1, 2011 is \$1.05 M. If expenditures are at 86% during FY 2011-12, the projected General Reserve balance on July 1, 2012 will be between \$1.25 and \$1.40M.

Mr. Jensen then presented several alternatives for managing the General Reserve balance.

One alternative is to reduce the potential growth in the Reserve balance by decreasing the amount of unspent budget. Under-spending of the Operating Budget is typically in the areas of as-needed consultants, not using the entire contingency budget and an aggregate of savings across individually small budget items. An alternative for budgeting as-needed consultants was presented and received considerable discussion by the Committee. The ability to, and the advisability of fine-tuning the budget is limited by the relatively small size of the agency budget, the inherent uncertainty in the resources needed to achieve results and the low frequency of Board meetings at which modifications to the approved budget could be presented and considered.

Another alternative to reduce the growth in the Reserve balance would be to reduce the size of annual assessments. Mr. Jensen noted that if the option of reducing the assessments is considered, it should be planned and moderated to minimize variations in assessments from year to year.

A third alternative for managing the size of the Reserve balance would be to send agencies a refund. Refunding the agencies the excess reserve balances would provide sufficient reserves and mitigate fluctuations in assessments. But Mr. Jensen noted that it should be done as an exception, and not on a regular basis.

A fourth alternative would be to invest in one-time, value-added studies or services, provided sufficient resources are available to manage the additional work. Mr. Jensen noted that the current reserve balance will remain sizeable even if there is a one-time expenditure for a value-added project of \$200K. Ultimately, assessments must be decreased if future work plans do not require more budget resources. Investment in a one-time study should provide BAWSCA member agencies true value. However, such investments do not solve the long-range issue of managing the General Reserve balance. Mr. Jensen noted that a recommendation for a one-time study is included on the Committee meeting agenda as a separate item for the Committee's consideration. It was reviewed in the annual Work Plan for FY 2011-12 but was not included due to staff resources limitations at the time the budget was considered.

A fifth alternative would be to let the balance exceed the guidelines temporarily "provided there is: 1) a compelling reason to do so, and 2) a plan to reduce the balance on a specified schedule."

Mr. Jensen recommended a combination of actions be brought to the Committee and the Board at Mid-year for consideration. Potential measures that might be included are: reducing the size of the budget by creating a contingency pool for a portion of the budget devoted to as-needed consulting support; reducing assessments gradually to avoid wide fluctuations; consider evolving issues and the resources that might be needed to address them; and presenting a plan that projects the Reserve balance for a range of potential budget and spending levels.

Detailed Committee discussion ensued to understand how a contingency pool from each as-needed consultant might be developed and used, and how the current General Reserve balance could be reduced.

Director Abrica expressed his support to lower the assessments for one year and clearly stating that assessments would go back to the same level the following year.

Director Quirk concurred and stated that lowering the assessments is symbolic and the right thing to do.

Director O'Connell agreed and noted to clarify the amount.

Director Pierce expressed her support to gradually make changes to the assessments because of the unexpected nature of the needs of the agency. Additionally, Director Pierce said that staff compensation should be considered as it has remained unchanged over the last few years, the replacement of a retiring staff member will be needed, as well as the potential need for additional staff.

Director Piccolotti commented on whether the Work Plan is overambitious and whether the year's Work Plan will push expenditures closer to the budget.

Director Klein noted that refunding the agencies and lowering the assessments, although it may be a small amount, is valuable to the agency because it demonstrates the agency's responsibility and credibility.

Following in-depth discussion on details of a motion, the Committee, by roll call, voted on two separate motions.

Director Klein moved, seconded by Director Piccolotti, that the Board, at its meeting in September, consider refunding the agencies the surplus amount of the Reserve above the Board's newly adopted 35% guideline. The amount will be confirmed following the FY 10-11 Audit to be finalized in November. The motion passed by roll call vote.

Director Klein moved, seconded by Director O'Connell, to advise the CEO to report to the Board at mid-year his analysis of how much assessments can be reduced. Director Breault added to the motion that the CEO also include in his report a review of the budget and the Committee's suggested target guideline of reducing assessments by 8%, and to include in the budget a pooled contingency amount from the as-needed consultants that the CEO will have available to use at his discretion. He noted that the projected spending level, the projected Reserve balance, considerations for modification to the existing Work Plan and Operating Budget, as well as a discussion of factors that should be considered during preparation of the FY 2012-13 Work Plan, Operating Budget, and funding plan are factors the CEO regularly reports at mid-year, and should also be included. The motion passed by roll call vote. Director Guzzetta abstained.

Professional Services Contract with Camp Dresser and McKee CDM): As a result of the Committee's recommendation and acceptance by the Board in July, staff was asked to look into critical projects that could be done using a portion of the existing BAWSCA reserve balance, including the investigation of factors affecting current water use, and addressing current efforts to drain Hetch Hetchy reservoir.

Mr. Jensen emphasized that the consideration of possible projects was not done with an eye toward merely spending money, but was approached on the basis of creating added value for the member agencies and their customers.

The project recommended for consideration was considered by the Board in March and May 2011, but was placed on the list of activities not included in the Work Plan for FY 2011-12 due to staff resource constraints at the time the budget was formed. If undertaken, the project would develop a statistical tool to examine causes of water demand suppression by CDM. Additional comments made by directors at the July Board meeting were addressed in the staff memo.

Investigating the factors affecting current water use can provide a better understanding of the unprecedented reductions in water demand throughout California and the Bay Area. As agencies approach decision-making on long-term water supply planning, the information can avoid under-or over-estimating investments in new water supplies. Additionally, accounting for the factors that affect water use and water rate setting can stabilize revenues.

Mr. Jensen noted that a broad array of factors may contribute to the trend observed in the BAWSCA service area. The increased cost of water purchased from the San Francisco Regional Water System does not explain the observed trend, and does not explain the State-

wide decrease in water use. The Los Angeles Department of Water and Power (LADWP) and the City of San Diego observed such trends and had CDM analyze their water use trends using the same method proposed for the BAWSCA area.

LADWP reportedly used the tool in developing their Urban Water Management Plan to estimate how quickly water use might respond to an end to the recession, and to assess the effectiveness of its conservation program

The City of San Diego is reportedly examining a range of future demand projections based on the results they obtained from the tool.

Director Klein asked whether the results from LA and San Diego can be used for the Bay Area. Directors Breault and Piccolotti noted that the driving factors and water use trends between the areas may be very different. Mr. Jensen added that differences between Northern and Southern California would be at least as large as the differences between the two Southern California agencies.

Director O'Connell noted that San Bruno's water rates do not reflect increases from the SFPUC and questioned how useful the analysis will be.

Director Quirk stated that an analysis to look at the correlation of different factors over the last 30 years will not predict the future, and he would not support it. He commented that a statistical analysis that looks at the factors to understand the past would be more valuable, and he would support it. Director Quirk stated that this study is not the right study, and perhaps a different study can be considered. Mr. Jensen noted that no model will be able to predict the future and that the value of this analysis is to better understand the past as a means for improving future decisions.

Mr. Jensen reported that the proposed one-time study responds to the Board's direction in July. Additional interests noted at the July Board meeting included addressing the efforts by the group that wants to drain Hetch Hetchy Reservoir. Mr. Jensen stated that work on that issue is being pursued within the existing budget. If and when more resources are required to address this emerging issue, Mr. Jensen would come back to the Committee and the Board with a specific request.

Following comments by Committee members, Mr. Jensen summarized the Committee's view that it does not consider the study useful to the agencies at the local level. While the study might provide insights at the regional level, those results would not necessarily be useful at the local level for each agency. Mr. Jensen reported that the SFPUC is considering performing a different economic study in relation to the FERC relicensing process. That study would look at the significance of reductions in the flow of water to the Bay Area, as a possible result of the FERC relicensing process, and what the socio-economic impacts of such reductions might be. BAWSCA will monitor the development of the study and use of resulting data.

Director Quirk moved, seconded by Director Breault, to not move forward with the professional services contract with CDM to develop a statistical tool to examine causes of water demand suppression. The motion passed by roll call vote.

Mr. Jensen stated that he would not bring the proposed study to the Board without the Committee's support, and that the item, including the Committee's discussion, would be presented at the September Board as a report rather than as an action item

5. Reports:

- A. Board Policy Calendar: The management of the General Reserve balance will be added to the Board agenda in September, as well as the Board agenda in January with the mid-year budget report. The CEO will come back to the Committee in December with the budget report that was discussed at this meeting.
- B. Fall 2011 Landscape Classes: The Fall schedule has received very good media coverage and is currently a popular regional program.

6. Discussion Items:

Procedures for Conducting the CEO's Performance Evaluation: BAWSCA Chair, Barbara Pierce, reported that she has been working with Vice-Chair Irene O'Connell and Art Jensen in revising the process for conducting the CEO's performance evaluation. She requested the Committee's comments on the draft procedure summary and evaluation form.

Director Pierce noted that the goal is to develop a process that allows all Board members an opportunity to provide input to the CEO's evaluation.

This will be the first year for trying this new procedure. Because the evaluation is for the prior year, changes in the evaluation form were minimized.

Director Breault is pleased with the draft process and form. So that the Board chair would retain the ability to modify and improve the process, he preferred that the process not be adopted by the Board or amended to the CEO's contract. He also noted that the nature of the performance objectives on the form was appropriate for the requirements of the position, which do not lend themselves to quantifiable measurement. Director Abrica commented that the Board should agree on the objectives for the following year's performance review. It was noted that a step toward the end of the procedure provides for Board discussion of performance objectives for the following year.

Legal counsel commented that ongoing discussion is positive, and that changes to the procedure would not require an amendment to the employee contract or formal adoption by the Board. She also said that providing Director Pierce, as Chair of the Board, with the discretion to lead the evaluation process is appropriate.

Director Pierce said she would take Committee members' comments into consideration as she finalizes the process and evaluation form before presenting it to the Board

- 7. Comments by Committee Members: Director Quirk commented that the Committee had a good discussion of the items on the agenda and made very good recommendations.
- 8. Adjournment: The meeting was adjourned at 3:30 to the next regularly scheduled meeting on October 12, 2011 at 1:30 p.m. which will be held at 155 Bovet Road, 1st Floor Conference Room, San Mateo.

APPROVED

Board Policy Committee Minutes

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August 10, 2011

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Arthur R. Jensen". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Arthur R. Jensen, Chief Executive Officer and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board Policy Committee
August 10, 2011**

Attendance Roster

Committee Members Present:

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

BAWSCA Staff Members Present:

Arthur Jensen	Chief Executive Officer
Lourdes Enriquez	Assistant to the CEO
Allison Schutte	Legal Counsel, Hanson Bridget, LLP.

Guests:

Paul Sethy	Alameda County Water District
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