

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING**

**Foster City Community Building – 1000 E. Hillsdale Blvd., Foster City
Wind Room**

(Directions on Page 2)

Thursday, January 19, 2012

7:00 P.M.

AGENDA

- 1. Call to Order/Roll Call/Salute to Flag** (Pierce)
- 2. Special Order of Business – Election of Officers for Calendar Year 2012** (Attachment) (Pierce)
 - Election of Chair
 - Election of Vice Chair

(The terms of the new Chair and Vice-Chair commence at the end of the meeting at which they are elected)
- 3. Break for San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting** (Pierce)
- 4. Reconvene following San Francisco Bay Area Regional Water System Financing Authority Board of Directors Meeting** (Pierce)
- 5. Comments by the Chair** (Pierce)
- 6. Board Policy Committee Report** (Attachment) (Klein)
- 7. Public Comments** (Pierce)

Members of the public may address the Board on any issues not listed on the agenda that are within the purview of the Agency. Comments on matters that are listed on the agenda may be made at the time the Board is considering each item. Each speaker is allowed a maximum of three (3) minutes.
- 8. Consent Calendar** (Pierce)
 - A. Approve Minutes of the November 17, 2011 Meeting (Attachment)
 - B. Receive and File Budget Status Report – As of November 30, 2011 (Attachment)
 - C. Receive and File Quarterly Investment Report – As of December 31, 2011 (Attachment)
 - D. Receive and File Director’s Reimbursement Report – As of December 31, 2011 (Attachment)
- 9. Action Calendar** (Jensen)
 - A. Mid-Year 2011-12 Work Plan and Budget Review (Attachment)

Recommendation: Approve the reallocation funds and authorize the CEO to take the actions specified below:

 - To support the proposed revisions to the Work Plan, reallocate the following funds: \$135,000 from as-needed technical engineering support.

- Authorize the CEO to amend the existing contract with Mr. Terry Roberts to add \$15,000 for additional investigations of WSIP program and construction management for a revised contract total of \$135,000.
- Authorize the CEO to execute a contract with an as-yet unidentified consultant for engineering review of WSIP design and technical documents for an amount not to exceed \$25,000.
- Authorize the CEO to amend the existing contract for Strategic Counsel by \$50,000 to assist the CEO and legal counsel with activities to protect the water supply reliability provided by Hetch Hetchy Reservoir, for a revised total contract amount of \$200,000.
- Authorize the CEO to amend the existing contract with Brown and Caldwell to add \$25,000 for a revised total contract amount of \$75,000 to develop improved reports of data in the Water Conservation Data Base and provide on-call technical support.
- Authorize the CEO to move the remaining \$20,000 to the operating Budget contingency.

At its December 14th meeting, the Board Policy Committee unanimously voted to recommend board approval of allocating the entire \$135,000 for consultant contracts with none moved to the contingency budget.

B. Amendment to Policies and Procedures for the Purchase of Equipment and Supplies/Award of Contracts (*Attachment*)

Recommendation: The Board Policy Committee recommends the Board of Directors adopt the proposed resolution revising the Procurement Policy to:

- Increase the CEO's discretionary spending authority to \$25,000 for purchases of equipment and supplies and services, while retaining the existing limit of \$10,000 for construction expenses.
- Limit the CEO/General Manager's authority to approve change orders and amendments \$25,000.
- Require the CEO/General Manager to report all change orders and amendments to the Board.
- Increase the limits for formal solicitation of bids for purchases of equipment and supplies.

Board Policy Committee recommends board approval of the proposed action

10. SFPUC Report

(Harrington)

11. Reports and Discussions

(Jensen)

- A. Fiscal Year 2012-13 Work Plan and Budget Preparation (*Attachment*)
- B. Water System Improvement Program – Update (*Attachments*)
 - 1. Letter to SFPUC
 - 2. AB1823 Required State Review
- C. Announcements
 - 1. FY 2010-11 Statement of Economic Interest FPPC Form 700

12. Directors' Discussion: Comments, Questions and Agenda Requests (Pierce)

13. Date, Time and Location of Future Meetings (Pierce)
(See attached schedule of meetings)

14. Adjourn to next meeting scheduled for March 15, 2012 at 7pm (Pierce)

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*All public records that relate to an open session item of a meeting of the BAWSCA Board 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 Foster City Community Bldg. – 1000 E. Hillsdale Blvd., Foster City

From Hwy. 101, take the Hillsdale Ave. exit East. Turn Right into the parking lot just after the intersection with Shell Blvd. The Community Bldg. entrance is separate from the Library entrance and is marked by signage. The Wind Room will be at the top of the stairs on the right, across from the reception station (there is also an elevator).

From the East Bay, take Hwy. 92 West, exiting at Foster City Blvd., and going South on Foster City Blvd. to Hillsdale. Turn Right (West) onto Hillsdale and proceed to Shell Blvd., making a U-turn to be able to pull into parking lot on SE corner of Hillsdale and Shell. See underlined sentence of first paragraph above for remainder of directions.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Item Title: **Election of Officers for Calendar Year 2012**

Summary:

The State Water Code (Division 31, Section 81401) requires the Board to elect a chair and vice chair each year at the January meeting. The term of officers of the Board commences at the close of the meeting at which they are elected.

Discussion:

The suggested process for electing the chair is as follows:

1. Call for nominations for the position of chairperson.
2. Call for a motion to close nominations once no further names are offered.
3. If there is only one nominee, call for the vote.
4. If there is more than one nominee, then proceeding alphabetically:
 - a. Ask each nominee to give a brief statement on his/her qualifications and interest in the position.
 - b. Ask if other directors would like to comment on behalf of the nominee.
 - c. Call for a vote of those in favor of each nominee, by a show of hands.

Following the election of the chair, proceed to the election of vice chair using the same process.

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BAWSCA

Bay Area Water Supply & Conservation Agency

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MEMORANDUM

TO: BAWSCA Board Members
FROM: Arthur R. Jensen, Chief Executive Officer
DATE: January 19, 2012
SUBJECT: Summary of Board Policy Committee meeting held December 14, 2011

Committee Chair Larry Klein called the meeting to order at 1:35 pm. A list of Committee members present (7) and absent (2), and of other attendees is attached.

Because Director Quirk was attending by teleconference, all votes were taken as roll call votes.

The Committee took the following actions and discussed the following topics:

Consent Calendar:

Approval of the Minutes from the October 12, 2011 Meeting: The Committee approved the minutes from the meeting of October 12, 2011.

Reports and Discussions:

Mid-Year 2011-12 Work Plan and Budget Review: As reported in the memorandum included with the agenda, Mr. Jensen reported that anticipated activities for the remainder of the fiscal year can be completed within the budget for FY 2011-12 approved by the Board in May 2011.

Adjustments will need to be made to the existing Work Plan and to the allocation of funds in the Operating Budget to accommodate anticipated activities

In September, the Board asked that the mid-year budget review project the General Reserve balance at the end of the fiscal year. Mr. Jensen reported that it is expected to grow at year end, and that alternatives for managing the balance according the BAWSCA's adopted guidelines can be best addressed during budget preparations for FY 2012-13.

The recommended adjustments to the overall Work Plan focus on 4 areas.

- 1) As reported at the November Board meeting, the scope and schedule changes to the Long Term Reliable Supply Strategy will be presented in the Spring of 2012.

- 2) The technical review and oversight of the SFPUC's Water System Improvement Program (WSIP) will change emphasis from a technical engineering oversight to a construction management oversight. The professional services agreement with a construction management consultant will be increased by \$15,000. An existing \$135,000 contract for technical engineering services approved in the beginning of the fiscal year was terminated before any work was begun. It will be replaced with an agreement for an as-needed support at \$25,000.
- 3) Increased attention and action will be needed to protect the reliability provided by water storage reservoirs in the Regional Water System. The professional services agreement with Strategic Counsel will be increased by \$50,000. Mr. Jensen noted that an errata was provided for this memorandum to reflect the correct amount of increase by \$50,000 instead of a \$100,000 figure.
- 4) As a response to agency requests for added value in the water conservation data base, BAWSCA will increase the budget with the existing consultant by \$75,000 to make the retrieval of data from the database easier and adaptable to the variety of agency reporting purposes.

The total adjustment amounts to \$165,000. The sources of funds come from the termination of the \$135,000 contract for technical engineering support and \$30,000 from the contingency budget.

Mr. Jensen reported that 93% of the budget is projected to be spent by the end of the fiscal year. The unspent funds would increase the General Reserve balance to 43% of the operating budget, if next year's operating budget is the same as the current year's.

It is difficult to estimate the following year's budget and Mr. Jensen proposed that the process for managing the General Reserve be addressed during the development of the budget for FY 12-13.

The Board will be able to consider the same options it considered in November.

Director Pierce asked what BAWSCA's concerns are with the WSIP. Mr. Jensen stated that with the regional projects midway through construction, it would be prudent to produce a report on BAWSCA's assessment of the program's progress and management, and whether it will be completed on schedule, scope and budget. The report will include BAWSCA's recommendations, and would put BAWSCA in a confident position of saying that the program is sound, and if not, what are San Francisco's plans of action.

Director Breault asked for a review of the dollar value and the benefit-cost ratio for the water conservation database, given that the request for contract amendment is 150% of the original cost.

Ms. Sandkulla noted the comment and explained that the original scope for the data base was geared towards getting a large amount of data from several years of the member agencies' conservation programs in a timely fashion. This database would allow for a simplistic approach to store the data for the member agencies in one database source. The data com-

prise information the member agencies and BAWSCA identified as necessary for planning purposes.

During the development of the database, agencies were not yet prepared to identify specific subsets of data they would like to retrieve from the database on a regular basis. Going into the second year, BAWSCA has gotten some feedback on what types of reports agencies would like to be able to extract from the database through a simple query process.

In response to Director Breault's question of whether \$75,000 would be enough, Ms. Sandkulla stated that it was an appropriate amount to start with, given the number of agencies and the types of reports those agencies might find valuable.

Ms. Sandkulla concluded by saying BAWSCA will be meeting with member agencies on December 15th to determine what kinds of reporting process and results would maximize the value of the database for the agencies as well as for BAWSCA. The mid-year Work Plan and budget adjustments presented to the Board in January will reflect that input.

Director Quirk commented that he is pleased that BAWSCA will continue its oversight of the SFPUC's WSIP through a formal written report.

By roll call vote, the committee unanimously voted to recommend the Board's approval of the four adjustments to the Work Plan and the four adjustments to the Operating Budget:

1. Approve the following revisions to the FY2011-12 Work Plan:
 - a. Prepare scope and schedule changes for the Long-Term Reliable Water Supply Strategy, and present them to the Board the Spring 2012.
 - b. Acknowledge the termination of the original contract for as-needed technical engineering reviews of WSIP design and technical documents because the needs are much smaller than could be envisioned at the time the budget was prepared.
 - c. Take actions needed to protect the reliability provided by water storage reservoirs in the regional water system.
 - d. Respond to agency requests for added value by making data in the water conservation data base easier to retrieve for a variety of agency reporting purposes.

2. Approve the reallocation of funds and authorize the CEO to take the actions specified below:
 - a. To support the proposed revisions to the Work Plan, reallocate the following funds: \$135,000 from as-needed technical engineering support, \$50,000 from the administration budget, and \$30,000 from the contingency budget.
 - b. Authorize the CEO to amend the existing contract with Mr. Terry Roberts to add \$15,000 for additional investigations of WSIP program and construction management for a revised contract total of \$135,000.
 - c. Authorize the CEO to execute a contract with an as-yet unidentified consultant for engineering review of WSIP design and technical documents for an amount not to exceed \$25,000.
 - d. Authorize the CEO to amend the existing contract for Strategic Counsel by \$50,000 to assist the CEO and legal counsel with activities to protect the water supply reliability provided by Hetch Hetchy Reservoir, for a revised total contract amount of \$200,000.

- e. Authorize the CEO to amend the existing contract with Brown and Caldwell to add \$75,000 for a revised total contract amount of \$125,000 to develop improved reports of data in the Water Conservation Data Base and provide on-call technical support.

Fiscal Year 2012-13 Work Plan and Budget Preparation: Mr. Jensen reported that the development of the annual Work Plan and Budget begins with identifying major challenges the agency must address over the next one to 25 years, articulating the critical results needing to be achieved next year, the tasks for achieving those results, and the resources needed to complete those tasks. A table presenting this long-term context was presented. The same table will be updated and presented to the Board in January.

A list of major challenges and issues expected in FY 2012-13 were the focus of committee discussion. Mr. Jensen noted that while some of the items may not require a significant amount of time, they are nonetheless important issues that deserve attention. For example, BAWSCA must maintain a strong relationship with San Francisco as it transitions to Mayor Lee's administration, the appointment of a new General Manager following Ed Harrington's retirement and reappointment of commissioners, or possibly appointment of new commissions, by Mayor Lee and confirmation by the Board of Supervisors.

In FY 2012-13, the Work Plan will include the Board's consideration of specific projects to pursue in the implementation of the Strategy, the development of a uniform method for projecting member agency water demands and SFPUC purchases to support long-term regional planning, and the amendment of the current Water Supply Agreement so that it reflects the revised completion date of the WSIP.

Additionally, it would be appropriate for BAWSCA to pursue an amendment of the Tier 1 drought allocation formula that is in the agreement with San Francisco. Mr. Jensen explained that if drought allocations of SFPUC water are calculated using the existing formula in the agreement and the decreased water use throughout the service area, San Francisco's Wholesale Customers would need to cut back during a drought, but San Francisco Retail Customers would not.

The proponents of draining Hetch Hetchy Reservoir intend to ask San Francisco voters in November 2012 to require the SFPUC to prepare a plan to do so. BAWSCA will follow the developments of this effort closely to protect the interests of the wholesale customers.

With regard to developing a uniform method for projecting water demands, Director O'Connell asked whether agencies are being asked to agree on a specific way to project water demands. Mr. Jensen explained that BAWSCA has not recommended a specific method and is not wedded to a method that was used before. The proposal is to identify a method that can be customized to each agency's unique land use and water use characteristics. A presentation to the Water Supply Management Representatives indicated their support for this effort.

Mr. Jensen reported that a new issue for the Board's consideration in FY 2012-13 is whether member agencies would benefit from issuing bonds to retire old capital debt they owe to San Francisco. Mr. Jensen will meet with Legal Counsel and BAWSCA's financial consultants in January to look into the possible value of refinancing that debt using lower interest rates cur-

rently available. Initial estimates suggest a potential savings of up to \$50M, although there are several issues to consider in greater detail in order to make an informed recommendation. The preliminary investigation with the financial consultants will look into the value of the effort, and determine whether the complexity to pursue it as a region, much more by individual agencies, is worth the value of the perceived savings.

Director Piccolotti asked whether agencies could pay off their share independently of the other agencies. Legal Counsel, Allison Schutte explained that the debt is collective among the member agencies and is built into the SFPUC's wholesale water rates.

Mr. Jensen continued to present the challenges anticipated for years 2013 through 2035. They include the completion of the Strategy, extending the sunset provision of AB1823 prior to 2015, guarding against potential adverse water supply impacts from the Federal Environmental Regulatory Commission relicensing process of the New Don Pedro Hydroelectric Project, representing members' interests in San Francisco's decisions about the 184 mgd supply limitation before 2018, and San Francisco's decision about whether to make San Jose and Santa Clara permanent Wholesale Customers or assist in identifying a long-term supply for those members. He noted that by 2035, the Water Supply Agreement will expire and should be re-negotiated, and that new water supplies should be brought online for agencies requiring additional water.

Director Breault noted that he sees potential activities that may impact the Work Plan for FY 2012-13 such as the SFPUC's consideration of water transfers from MID and how that might affect member agencies.

Mr. Jensen reported that the issues of cost allocation and who benefits from the SFPUC's water transfers with the Modesto Irrigation District (MID) are being examined with the SFPUC. It will be included in the Work Plan for FY 2012-13 and necessary actions to address any issues will be brought to the Board.

The Committee also discussed potential activities that may come up after the completion of the WSIP, including asset management in general, rate setting or the development of a 2-year budget plan.

In response to Director Quirk's question, Mr. Jensen clarified that the SFPUC's proposed water transfers with MID would have a neutral impact on the lower Tuolumne River, but result in lower stream flows on the upper Tuolumne River between Hetch Hetchy Reservoir and New Don Pedro Reservoir.

Director Quirk asked a question about deliveries from San Francisco above 184 mgd and possible concerns of the Tuolumne River Trust. Mr. Jensen stated that most of the water supply alternatives BAWSCA is analyzing through the Long-Term Reliable Water Supply Strategy focus on projects that do not require additional withdrawals from the Tuolumne River. That said, BAWSCA will continue to monitor San Francisco's compliance with the provisions in the 2009 Water Supply Agreement that require it to preserve its water rights. BAWSCA will also continue to maintain the Wholesale Customers' reserved claim that San Francisco is obligated to supply them with additional water in excess of the Supply Assurance.

Amendment to Policies and Procedures for the Purchase of Equipment and Supplies/Award of Contracts: Mr. Jensen presented the proposed amendment to the existing policies and procedures for purchase of equipment and supplies or awards of contracts.

The issue is whether to increase the CEO's discretionary spending authority. Mr. Jensen presented his use of his discretionary spending authority during FY10-11. He cited the following example in which the existing limit on contract amendments created a practical constraint to accomplishing necessary work. The existing limitation on contract amendments is the lesser of \$10,000 or 10% of the original not-to-exceed amount.

Last Spring, the professional services contract with KNN needed to be amended by \$15,000 to address a time-sensitive issue with San Francisco's water rate setting. The existing limit on contract amendments constrained the CEO's authority to amend the contract to just \$4,000 (10% of \$40,000). The contract was amended by that amount to begin the immediate work needed. The CEO brought the Board a request for the additional funds needed to complete the work.

Because the Board meets only every two months, the proposed revision to the policy would provide greater latitude, and allow critical work to proceed. The proposed revision includes a requirement that the use of the CEO's discretionary spending authority be reported in the budget status reports included on each Board agenda. Director Quirk asked why the limit of \$10K remains the same instead of changing it to \$25K. Mr. Jensen explained that BAWSCA does not build anything, and Legal Counsel added that the labor community prefers the \$10K limit for public agencies.

Director Breault noted that the committee also requested the omission of Section VI, Adjustments of Amounts according to CPI, and made a motion seconded by Director Anderson. By roll call vote, the Committee voted unanimously to recommend the Board adopt the proposed resolution revising the Procurement Policy to:

- 1) Increase the CEO's discretionary spending authority to \$25,000 for purchases of equipment and supplies and services, while retaining the existing limit of \$10,000 for construction expenses.
- 2) Limit the CEO/General Manager's authority to approve change orders and amendments \$25,000.
- 3) Require the CEO/General Manager to report all change orders and amendments to the Board.
- 4) Increase the limits for formal solicitation of bids for purchases of equipment and supplies.

Discussion items and Special Reports:

Long-Term Reliable Water Supply Strategy – Water Transfer Policy Discussion: Mr. Jensen stated that the purpose of the agenda item and discussion is to obtain advice from the Committee on how to best schedule a discussion on water transfers.

A Board discussion on the topic is needed to clearly distinguish the different types of water transfers and help the Board understand which types of transfers the Strategy will focus on in

the policy decisions by the BAWSCA Board. The discussion will also help contrast the proposed MID/SFPUC water transfer, as well as identify the types of policy issues expected to arise.

In general, “water transfers” could include:

- The transfer of portions of individual supply guarantees between BAWSCA agencies,
- The transfer of water for specific development projects;
- The transfer of water into the region for normal year supplies; and
- The transfer of water into regional to lessen drought impacts.

BAWSCA will focus the Strategy on transfers of water into the region for normal years and drought supplies.

Ms. Sandkulla stated that the discussion will go through the meanings of each type of water transfer so that members of the Board will have a better understanding of the different types of transfers, the issues that must be addressed, and what decisions are required and by which entities. This background will support informed discussion and decision making for the types of policy issues that will be brought to the BAWSCA Board of Directors.

Director Pierce suggested using a matrix that presents the types of transfers and the other information.

Director Breault commented that it would be difficult for BAWSCA as an agency to get in a position of pursuing a transfer of a member agency’s excess ISG. Mr. Jensen agreed, and said that such decisions must be between willing sellers and buyers.

Director Pierce noted that the matrix would be for the purpose of facilitating conversation. Director O’Connell agreed and stated that the matrix would provide the Board and agencies a way to identify what roles agencies and/or BAWSCA could take in the different types of transfer opportunities.

Mr. Jensen stated the policy issues related to water transfers include identifying the investment value, the actions needed for implementation, the method for distributing benefits and costs, and consideration of alternatives.

The committee agreed to call the discussion a “study session” to clarify that the purpose is educational and informational.

The committee also considered whether to have the study session at a special meeting of the Board or at a regularly scheduled Board meeting, and whether the study session should be scheduled to occur prior to a regular meeting.

Director Breault noted that it would be helpful if the study session were not scheduled to start prior to the regular meeting time because directors had other obligations.

Mr. Jensen thanked the Committee for its input and advice, and said he will work out the details of the schedule with the Chair of the Board.

SFPUC Water System Improvement Program – Status Report: Ms. Sandkulla noted that copies of a December 7th letter from Mr. Jensen to SFPUC General Manager were included in the packet for the Committee's reference. The letter presents BAWSCA's review of the WSIP as of December 1, 2011, cites concerns related to the WSIP's completion within schedule, budget and scope, and provides specific recommendations to the SFPUC.

Ms. Sandkulla stated that the objective of BAWSCA's review is to assist the SFPUC in successfully completing the WSIP.

BAWSCA's first recommendation addressed the SFPUC's Quarterly Report and the need to clearly present to the Commissioners and the public any problems with the program, trends, the use of budget and schedule contingencies, and how those factors might affect completion of the overall program.

Given the size of construction contracts in the \$4.6 billion WSIP, even small percentage change orders can have a dramatic dollar impact on program spending. BAWSCA recommended examining whether delays in change order processing is causing project delays and impacting the overall cost of the program. BAWSCA also recommends that change order management be reviewed to ensure that change orders are needed, and whether the existing change order policy is achieving the results it was intended to provide.

Lastly, the SFPUC's Independent Review Panel (IRP) is in the process of finalizing a report to the Revenue Bond Oversight Committee. BAWSCA recommended that the Commission ensure that the IRP has sufficient resources to appropriately conduct the investigations it may be assigned. Having sufficient resources is vital for the panel, the panel's work products and the WSIP to have credibility..

Ms. Sandkulla reported that Mr. Jensen addressed the Commission at its meeting on December 13th regarding an agenda item related to the New Irvington Tunnel project. The project has encountered a combination of problems that could not reasonably have been anticipated, and the item on the SFPUC agenda requested an extension of the contract.

Mr. Jensen's testimony raised two questions that were not addressed in the staff memo and were significant enough for the Commission's consideration prior to acting on the item. While the memo addressed why the schedule extension is necessary and that additional delays can be expected because of the complexity of the project, the staff memo did not address whether the extension requested is sufficient, or whether the extension could affect completion of other WSIP projects or the WSIP as a whole.

The Commission approved the schedule extension without pursuing the issues raised by Mr. Jensen. Mr. Jensen reported that he ensured his comments were in the record.

The SFPUC is preparing a written response to Mr. Jensen's letter of December 7th. BAWSCA will consider the SFPUC's response to its recommendations and follow up with the SFPUC management and the Commissioners.

BAWSCA's mid-construction review of the WSIP will begin in January. The report will document BAWSCA's assessment of the progress and recommend actions to address any issues that deserve attention.

Director Pierce asked if the resources needed to complete this report are available. Mr. Jensen stated that the resources are included in the mid-year budget adjustments, and will be available if the Board approves the recommended action.

Director Breault asked if the SFPUC has a policy in place to determine acceptable vs. unacceptable change orders based on design errors and omissions, and whether this type of information will be included in BAWSCA's mid-construction report.

Ms. Sandkulla stated that the SFPUC is looking into this more closely to determine whether the nature of the change orders are in-house or from the designers, and whether appropriate actions are taken in response to actual errors.

BAWSCA's recommendation is for the SFPUC to examine the categories of the change orders, and to conduct an audit if necessary to ensure the change orders are classified correctly. It will be up to the SFPUC to complete this task and make the information public. If the SFPUC chooses not to do so, BAWSCA can pursue it.

Director Pierce asked if this trend is expected to continue. Ms. Sandkulla stated that project designs are done, and the question is whether we have reached the maximum level of potential change orders. Change orders are expected to occur throughout a program of this nature, and it is vital that the SFPUC, and BAWSCA, to continue to monitor the need for change orders, whether they are necessary to the success of the program, and what their impact may be on program budget and schedule..

Director Klein noted the rising percentage of change orders for the overall WSIP. Ms. Sandkulla noted that the program has ramped up significantly in its construction, and that the Bay Division Pipeline #5, a major tunnel and pipeline project, has had a higher percentage of change orders than other projects, which would impact the numbers for the overall WSIP.

Director Klein added that change orders are ways contractors can make up for the low bids awarded for the contract. Ms. Sandkulla stated that the SFPUC is very aware of that and is actively monitoring the occurrence of change orders on projects that were awarded at low bids.

From this discussion, Mr. Jensen will ask Terry Roberts to examine the possibilities of distinguishing the change orders that relate to the unforeseeable field conditions from the others, and to characterize them in terms of percentages and dollars. Because some of the problematic field conditions, while anticipated, occurred at an unexpected degree, , change orders of that nature should be examined separately.

Director Breault stated that change orders stemming from site conditions can still be considered as an error in the contractor's planning, if, for example, geotechnical site reviews were unsatisfactory.

Director Piccolotti asked about the level of oversight in the construction inspection process. Ms. Sandkulla reported that an extensive QA/QC process has been put in place for the WSIP. The contractor has a requirement for quality control of their products. For the SFPUC, there is a regional manager with quality control oversight for each major project..

Ms. Sandkulla offered to ask for further information about construction inspection from the SFPUC. She reported that the inspection oversight is something the SFPUC is currently reviewing for its BDPL #5 project, which had some bad welds which both the contractor and in-house staff did not detect.

Ms. Sandkulla reported the SFPUC is doing an investigation of the recent water pipeline break in South San Francisco on November 25th. There is a scheduled discussion this evening at the South City Council Chambers.

The SFPUC reported that its emergency water management procedures went as planned. The water service was uninterrupted, however some residents were displaced due to local flooding that occurred.

The SFPUC's investigation will focus on the causes and implications. The event took place at a WSIP project sight, therefore the SFPUC is working with the contractor of project in its investigation.

Ms. Sandkulla noted that the connection at the event site is similar to 35 other connections in the WSIP and it was important to raise with the SFPUC, the questions Mr. Jensen emailed to Julie Labonte and Ed Harrington. The list of questions is in the memo included in the agenda packet.

Mr. Jensen reported that Ms. Labonte immediately gave the investigation the highest priority. A copy of the SFPUC's presentation for tonight's discussion was sent to BAWSCA, and results of the investigation will be shared with the Board.

Comments by Committee Members: There being no further comments, the committee adjourned.

Adjournment: The meeting was adjourned at 3:20pm.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – October 12, 2011

Roster of Attendees:

Committee Members Present

Larry Klein, City of Palo Alto (Chair)
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 *by teleconference*

Committee Members Absent

Ruben Abrica, City of East Palo Alto
Rob Guzzetta, California Water Service Company (Vice-Chair)

BAWSCA Staff:

Art Jensen	Chief Executive Officer
Nicole Sandkulla	Water Resources Planning Manager
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP

Public Attendees:

Felipe Daniel	Camp Dresser McKee
Peter Drekmeier	Tuolumne River Trust
Sharyn Saslafsky	San Francisco Public Utilities Commission
Michelle Sargent	San Francisco Public Utilities Commission
Nico Procos	City of Palo Alto

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**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
BOARD OF DIRECTORS MEETING
November 17, 2011 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

1. Call to Order/Pledge of Allegiance/Roll Call – 7:00 pm

BAWSCA Chair, Barbara Pierce, called the meeting to order. Art Jensen, called the roll. Twenty (20) members of the Board were present, constituting a quorum. A list of directors present (20) and absent (6) is attached.

2. Comments by the Chair: Chair Pierce noted that critical issues regarding water matters will be of great interest to BAWSCA member agencies and their water customers in 2012. The Board will look to the CEO, Mr. Jensen, to keep the leadership and the member agencies informed about the water policy issues that are relevant to the health, safety and economic well-being of the water customers in the service area.

Improving the relationship with the SFPUC has been a high priority for BAWSCA in the past few years and a notable progress has been made. The improvement is evident in the respectful relationship between Mr. Jensen and Mr. Harrington, as well as between Ms. Sandkulla and the Senior SFPUC staff members. The continuous improvement is valuable in achieving positive results for the work both agencies do, and can be expected to continue with the appointment of Andy Moran as the President of the Commission. Chair Pierce noted that Mr. Moran and Mr. Jensen have a working relationship that goes back 27 years when they worked together at the SFPUC.

Mr. Jensen stated that Commissioner Moran has worked for the SFPUC as head of the Finance Bureau, as General Manager of Hetch Hetchy Water and Power, and as General Manager of the SFPUC. He brings with him a wealth of information and history about the system, the service area and how San Francisco's relationship with State water politics.

Mr. Jensen noted that Mr. Moran held the position of SFPUC General Manager longer than any other General Manager since before 1952. He is formidable in his intellect and his loyalty to San Francisco, which can be both admirable and challenging. Although he lives in San Francisco, Mr. Moran has a regional perspective which is important to BAWSCA and its member agencies.

3. Public Comments: Public comments were received from Wynn Grcich, resident of Hayward, Linda Corwin from the Citizens Concerned About Chloramine, Michael Francois, and Steven Knight from Save the Bay.

4. Board Policy Committee Report: Committee Chair, Larry Klein reported the actions and discussions of the Committee at its meeting held on October 12, 2011.

Amendments to the Procurement Policy were discussed and will be brought back to the Committee following further necessary refinements.

The Committee voted to recommend Board authorization of the CEO to negotiate and execute a contract with PG&E for the administration of the Washing Machine Rebate Program.

The Committee also received a presentation on the schedule for policy decisions on the Long-Term Reliable Water Supply Strategy. The report on the Strategy will come to the Board as a discussion item for the preparation of the FY 2012-13 Work Plan. Director Klein reported that the Committee had an interesting discussion of the implications of regional housing allocations to local water supply planning.

5. **Consent Calendar:** Director O'Mahony inquired about the role of the Bay Area Water Users Association (BAWUA), and why it continues to exist and require a financial audit.

Mr. Jensen stated that San Francisco's City Charter created the Revenue Bond Oversight Committee which includes a representative appointed by BAWUA. Mr. Jensen reported that the existence of BAWUA requires no operational spending, and the cost of the annual audit is minimal.

Director Vella made a motion, seconded by Director O'Connell, to approve the Consent Calendar which includes the Minutes of the September 15, 2011 meeting, and receipt and filing of the Budget Status Report and Quarterly Investment Report for period ending September 30, 2011, the Audit Reports for BAWSCA and BAWUA for FY 2010-11, Director's Reimbursement Report for period ending September 30, 2011, and the authorization for the CEO to negotiate and execute a contract with PG&E for the Washing Machine Rebate Program. The motion carried unanimously with four Directors abstaining from the approval of the minutes of the September 15th meeting which they were not in attendance.

6. **SFPUC Report:**

Michael Carlin addressed the BAWSCA Board on behalf of Mr. Harrington. He announced the retirement of Sharyn Saslafsky, who has served as the key person for communication between BAWSCA and the SFPUC. Michelle Sargent will be taking on Ms. Saslafsky's responsibilities.

Modesto Irrigation District Water Transfer: Mr. Carlin reported that the SFPUC has been working with the Modesto Irrigation District (MID) for several years on a 2 mgd water transfer. The amount of 2 mgd comes from the shortfall identified in the PEIR for the Water System Improvement Program (WSIP). The PEIR addresses necessary environmental issues and would allow the transfer to be implemented following finalization of agreements between the SFPUC and MID. A target date is July 1, 2012.

Mr. Carlin reported that an additional transfer of up to 21 mgd of additional water is the subject of a second proposed water transfer from MID, which could begin in two to three years, following completion of an Environmental Impact Report (EIR) and approval of the necessary agreement. MID would be the lead agency on the environmental work. A portion of the 21 mgd would help the SFPUC make up for the water it is now required to put down San Mateo and Alameda Creeks for environmental purposes.

The SFPUC and MID are working very closely. Public discussions will take place beginning in January 2012.

In response to Director McLeod's questions, Mr. Carlin explained that the Tuolumne River is the source of the water transfer. The transfer purchases MID's water supply, and does not transfer MID's water rights. In addition to other projects, MID has a 10-year program of water efficiencies that they will do within their irrigation system that will make up for the water transfers over time. Lastly, biological impacts and impacts to the river were covered in a full EIR performed to analyze up to 300 mgd being taken away from the Tuolumne River flows.

Congressman Nunes' Legislation: Mr. Carlin reported that Congressman Nunes has initiated legislation, HR1837, and has sent letters about the Hetch Hetchy system that contain several allegations.

The allegations include that the San Francisco Regional Water System is a major water diverter of water out of the Bay Delta, that San Francisco does not comply with the endangered species act, and that San Francisco does not pay the federal government enough for having facilities in a national park.

The SFPUC wrote a letter to Senator Diane Feinstein providing facts as a response to the allegations made by Congressman Nunes.

Mr. Carlin noted that the SFPUC's diversions represent only 0.7% of all Delta watershed diversions and provides water to a service area which serves 7% of the California population. While the Raker Act requires the San Francisco to pay a \$30,000 annual fee each year, San Francisco and its Wholesale Customers pay \$5 million to the national park service and another half a million dollars to the US Forest Service for watershed protection activities.

The SFPUC is working diligently as the Bay Delta debate continues. Information and further developments, including a copy of the letter to Senator Feinstein, will be shared with BAWSCA.

Wholesale Water Rates: Mr. Carlin reported that the SFPUC established a trigger to raise wholesale water rates at mid-year if water use drops to less than 135 mgd. Water usage is holding at 140 mgd, and the forecasted revenue shortfall is about \$9 million.

The wholesale water rate increase for FY12-13 will be at 15%-20% based on sales projections of 135 mgd. A letter from Todd Rydstrom, Chief Financial Officer, to Art Jensen will be finalized tomorrow and will provide the details of next year's wholesale water rate projections.

In response to questions asked by members of the Board, Mr. Carlin explained that the SFPUC hopes to provide a number for next year's wholesale water rate when the SFPUC meets with the Wholesale Customers and BAWSCA on February 24th. If water usage continues to drop, the SFPUC will consider a hiring freeze as well as look into de-funding cash funded capital, which can defer completion of work. Those are two typical alternatives agencies consider before raising rates. He said it is prudent for the SFPUC to look at all available options.

Mr. Carlin reported that a lot of WSIP construction projects are underway and going well. The New Irvington Tunnel and the Calaveras Dam projects are running into unexpected site conditions that require different techniques and more attention than anticipated. The

projects remain on schedule at this time, but the SFPUC is reviewing the schedule forecasts for both the projects to determine how time can be made up if they run behind schedule.

SFPUC Taste and Odor Event Notification: David Briggs, SFPUC Water Supply and Treatment Division Manager, reported on the recent field events that gave the SFPUC an opportunity to identify and fix two problems in its communication strategy.

In October, a minor algae bloom in the Calaveras Reservoir caused an increase in taste and odor in water delivered to customers, including those in San Francisco. Operations could normally work around algae blooms that often occur during this time of year. However, with the ongoing construction projects, the SFPUC could not take the Calaveras Reservoir offline.

Simultaneously, an event in the San Andreas Reservoir took place and water customers including San Francisco were affected by the water quality.

Water quality tests determined that the water met potable water quality standards, although the taste and odor indices were higher than normal. The SFPUC determined the event was not significant enough to require public notification.

The usual average of 20 phone calls per week peaked to approximately 60 to 70 phone calls that week due to the taste and odor changes in the water. The SFPUC was then contacted by the media.

Mr. Briggs stated the first mistake in the SFPUC's communication strategy was that no courtesy notification went out to the Wholesale Customers and BAWSCA about the changes in water quality. The second mistake was in setting the threshold for public notification of taste and odor too high.

Mr. Briggs reported that the SFPUC now has a policy to notify Wholesale Customers and BAWSCA of any activities that might receive any level of media coverage. The SFPUC has also lowered its threshold for taste and odor.

A recent water quality notification was sent to Wholesale Customers and BAWSCA about an increase in the use of local water supplies that generally affects conductivity and other water treatment parameters of interest to local water system operators. The notification also provided a heads-up on possibilities for increased taste and odor and the return of the bubbles in the water which may remain for one or maybe two years.

Lastly, Mr. Briggs reported that the Hetch Hetchy system will be shutdown from December 5th through January 7th to accommodate WSIP construction work. There will be a lot of work on treatment facilities in 2012.

7. Reports and Discussions:

- A. Long-Term Reliable Water Supply Strategy: Nicole Sandkulla reported on the progress of the Strategy to date, upcoming policy decisions that the Board will act upon, and the schedule on which those policy decisions can be expected.

To date, the Strategy has achieved two things; 1) identified when additional water supply will be needed in normal years and in dry years, and where additional water supply will be needed; and 2) what possible water supply solutions should be pursued further. BAWSCA is looking at candidate water supply projects for implementation to address normal year needs and dry year needs.

Ms. Sandkulla noted that the most recent demand projections available at the time of the Board's authorization of the Strategy in July 2010 were from the agencies' 2005 Urban Water Management Plans (UWMP).

Water use conditions have changed since the Board's authorization, and the current water demand projections are significantly different. Last Spring the Board agreed it was appropriate to reassess the study scope and schedule to reflect the member agencies' most recent demand projections reported in their 2011 UWMPs.

Using graphs that compare the 2005 and 2011 projections, Mrs. Sandkulla presented the decrease in the need for additional water supply to meet the BAWSCA service area's projected future supply need in normal years.

Based on the new 2011 demand projections, seven agencies will need additional supplies in normal years by 2015 and 2035: Daly City, East Palo Alto, Purissima Hills, Cal Water, Stanford, San Jose and Santa Clara. The need ranges from 2 mgd to 13 mgd. Ms. Sandkulla explained that the upper bound of 13 mgd would be needed if San Francisco decided to stop supplying water to San Jose and Santa Clara.

In conclusion, the projected near-term water demands during normal years are reduced, and there is no immediate need for regional investment in normal year supplies. Ms. Sandkulla noted that current water demand projections are affected by cooler weather conditions, conservation savings, and current population and economic growth projections. Ms. Sandkulla noted that there is a risk to deferring development of new water supply because there could be an economic rebound or other unexpected changes in conditions. For that reason, it is prudent to reassess the projections with increased rigor within the next five years.

Ms. Sandkulla reported that unlike the need for normal years, the agencies express a collective need for increased drought reliability. Using graphs with the 2005 and 2011 projections, Ms. Sandkulla presented the water supply needed during drought years. Because projected water demands have decreased, the projected shortfall during dry years has decreased from 77 mgd to 58 mgd.

Ms. Sandkulla noted that an additional dry year supply of 58 mgd would result in zero cutbacks during drought.

The critical questions that need to be examined prior to investing in dry year supplies include: expected future levels of drought shortage, the frequency of droughts, the potential economic impact of water supply shortages, and the level of investment in additional drought reliability that makes sense.

BAWSCA is working closely with the SFPUC to examine the future levels of drought and drought frequency. That information will be presented to the Board in Spring of 2012. Information on the economic impacts of drought shortages and possible levels of investment in drought reliability will be available in the Fall of 2012. Ms. Sandkulla noted that the timing to take advantage of some opportunities may be critical.

Over 65 possible water supply projects were identified and closely examined with individual agencies to date. A short list of potential projects was developed and categorized as expansion of existing recycled water projects, water transfers, desalination, and rainwater harvesting, stormwater capture, and graywater reuse.

Ms. Sandkulla presented a timeline of when policy questions will be addressed by the Board. The first consideration is the development by BAWSCA and member agencies of a consistent methodology for projecting future water needs. This will be presented to the Board as part of the work plan for FY 2012-13. That work would span over two to three years and be completed no later than 2014.

The Board will receive the results and analyses of the critical questions that need to be examined for increased drought reliability during FY 2012-13.

Also in the Fall of 2012, the Board will examine under what conditions BAWSCA might provide support to individual agencies that need increased normal year supplies, should they desire such support.

Director Laporte commented that the Board should not lose sight of the member agencies' existing efficiency in water-use so that when a drought comes, there is less to conserve because the region is already efficient. She added that there are substitute supplies during drought, that may not provide the high quality of water needed for particular uses, such as research.

Director McLeod commented that it might be important to have some policy discussion and consideration for the development of a formal policy regarding water transfers because there could be potential impacts on some of the individual agencies when there are internal or external transfers from the system. Equally important is the BAWSCA Board's regional approach to determining what support BAWSCA should provide to individual agencies who need additional supplies in normal years. Director McLeod stated that at her orientation briefing meeting with Mr. Jensen prior to becoming a member of the Board, it was clear that Directors have a regional responsibility as members of a regional board, opposed to a totally local focus. Being a representative of a city that could be heavily impacted, she hopes that the BAWSCA Board takes a regional approach as discussions and recommendations move forward.

In response to Director Weed's questions about Hetch Hetchy's capacity and the cost-effectiveness of desalination, Ms. Sandkulla stated that the capital facilities under the WSIP are designed to meet an average annual demand of 310 mgd. With regard to ocean desalination, various locations along the Bay front were examined and at this time the short list includes desalination along the Bay front in San Mateo County.

Chair Pierce noted that with the current reduction in water, the level of additional water supplies to meet needs by 2018 and 2035 have changed. While the relief from the pressure can be appreciated, Chair Pierce encouraged Board members to present their questions and concerns with the policy issues with recognition of the amount of time required to develop new infrastructure.

Director Quirk expressed his satisfaction with the plan to move ahead with the Strategy because the current low water-use can be the effect of the current economy, which could recover and cause demands to return to prior estimates.

Chair Pierce asked for Director Wykoff's comments, who stated his concern with finding an alternative reliable source of supply in case a catastrophic interruption occurs with the San Francisco Regional Water System.

Mr. Jensen noted that the concern remains valid, and stated that the WSIP is planned and designed to address catastrophic interruptions including major earthquakes, acts of terrorism, landslides and other events. It is San Francisco's objective to restore service within a 24-hour period, at winter time levels, following a catastrophic interruption.

Director Weed expressed his concern that the planning criteria was only for a 24-hour period instead of months following a major catastrophe. He encouraged the Policy Committee to reconsider the length of vulnerability.

- B. SFPUC Water System Improvement Program: Mr. Jensen reminded the Board that BAWSCA recommended the SFPUC identify the specific steps it would take to make up required fish releases so that the SFPUC's adopted water supply goals would be met.

In response to BAWSCA's recommendations, the Commission requested a staff report on how the level of service goals will be met. A staff report was prepared by Steve Ritchie and provided to the Commission at its meeting on December 9th. Additional reports are to be provided to the Commission at its meeting in late January.

Mr. Jensen noted that one of the projects that was intended to provide supply reliability is the Westside Groundwater Basin Conjunctive Use Project in the Northern Peninsula. That groundwater basin lies beneath Cal Water, San Bruno, Daly City and San Francisco. Those agencies have been negotiating an agreement for joint management of the basin, and are coming close to resolving outstanding issues.

Director Guzzetta concurred that the major hurdles are passed and details are being finalized for the project to move forward. He stated that conjunctive use provides water storage efficiently and cost effectively. Director Guzzetta has been involved with conjunctive use for over 25 years in Southern California and Cal Water supports the project in the northern Peninsula. Director Guzzetta expressed his appreciation for the efforts made by the agencies involved with the project.

Mr. Jensen noted that the project is a part of the WSIP and benefit the entire SFPUC service area.

The First Quarterly Progress WSIP Report for the period of July 2, 2011 through October 1, 2011 compared the SFPUC's performance against the schedule and budget adopted by the SFPUC in July 2011. Mr. Jensen reported that the overall regional program is on budget and on schedule. The current forecast for completion of the program is at 0.04% over budget and with a one- to four- month extension of the schedule. BAWSCA will continue to monitor progress closely.

Mr. Jensen noted that two major projects, the New Irvington Tunnel and the Calaveras Dam Replacement Project, exhibit high usage of schedule contingency and completion can be expected to be delayed as much as one year.

The New Irvington Tunnel Project is experiencing significant unanticipated technical difficulties due to natural methane gas, excessive groundwater inflow, and variable geologic conditions.

The Calaveras Dam Replacement Project encountered unforeseen soil conditions in critical areas, and has already used 33% of its schedule contingency with construction only 3% complete. The cost for this project can be expected to increase.

Mr. Jensen noted that the SFPUC anticipated the issues for both projects and took responsible actions during planning and design. But what the SFPUC did not expect was that they would come across every technical and geological issue and at such high levels. The magnitude of the problems is so severe in some cases that they present health and safety concerns for the construction workers. The SFPUC has taken prudent actions to ensure worker safety.

Mr. Jensen emphasized that the SFPUC has made good decisions, and if there are any disappointment, it would be that the severity of the problem has not been highlighted as well as it might have been.

At this time, an appropriate question is whether the schedule impacts to these projects can be recovered, and to what extent the program budget might be affected by the delays.

Mr. Jensen reported that BAWSCA has been investigating use, and projected use, of schedule contingency and has been raising questions and confirming facts and conclusions with the SFPUC. The issues are also being highlighted for the Board and Commissioners. BAWSCA is submitting written recommendations and will review the SFPUC's written response.

Director Kasten asked whether the rapid use of schedule contingencies against the percentage of completion is typical with other projects of the WSIP. Mr. Jensen explained that each project is different, and with the Irvington Tunnel Project, the California Occupational Health and Safety Administration has stated these are the worst tunnel conditions they have seen.

Director Guzzetta asked whether the Irvington Tunnel and Calaveras Dam Replacement Projects are affected by the delays in cash-financed projects. Mr. Jensen stated that the projects are bond-funded projects.

In response to Director O'Mahony's question, Mr. Jensen explained that the inflow of water in the new Irvington Tunnel from the existing tunnel was expected and is a normal tunnel behavior. The extent of the inflow, however, is greater than anticipated.

Direct McLeod asked what BAWSCA's decision points are if there are greater delays or greater cost impacts. Mr. Jensen categorized his answer between costs to rate payers and the health and safety of the public. The California Seismic Safety Commission (CSSC) and the California Department of Public Health (CDPH) look at the public health and safety aspects of the program's progress, or lack thereof. BAWSCA also looks at the potential impacts of the program to rate payers,

Mr. Jensen explained that the SFPUC is required to provide the CSSC and CDPH an annual progress report and notification of any changes made to the WSIP. The two agencies review the SFPUC notifications and produce written reports with their assessment of whether project schedule or scope changes result in increased risks to public health and safety.

Mr. Jensen noted that BAWSCA is going to produce a mid-way assessment of the WSIP's ability to be completed on schedule and within budget. Mr. Jensen stated that the public attention given to the WSIP accounts for, in part, why San Francisco re-invented the way it does business internally and with its contractors.

- C. Federal Energy Regulatory Commission (FERC): Mr. Jensen explained that the Modesto and Turlock Irrigation Districts own the New Don Pedro Reservoir and that because it produces hydroelectric power, it is regulated by the Federal Energy Regulatory Commission (FERC). In 1995, FERC issued a new license for the operation of New Don Pedro, and the expiration of that license is in 2016. Because of agreements between San Francisco and the irrigation districts regarding the management of the water supply in the river, San Francisco may share a portion of the responsibility for any additional flows that FERC requires be released downstream. This can affect San Francisco's water supply to the Wholesale Customers, which is why BAWSCA continues to be engaged with the FERC process.

BAWSCA has worked closely with San Francisco in providing comments on scoping reports and in monitoring meetings to ensure that the interests of the regional system's Wholesale Customers are covered by San Francisco.

Mr. Jensen reported that along with the irrigation districts, San Francisco and BAWSCA, the process has the attention of many interests groups and of people that live in the immediate area. Scoping studies for the re-licensing process are still being developed and are yet to be started. Mr. Jensen stated that this item is a report to the Board and that no Board action is required. BAWSCA will closely monitor the

developments and report back to the Board when there are issues that require the Board's attention.

- D. Board Policy Calendar: Mr. Jensen noted that the Board Policy Calendar was revised to reflect the changes in the Strategy's timeline as a result of the assessment of current water use conditions.

The January Board meeting will include a presentation on the preliminary preparation of the Work Plan and Budget for FY 2012-13.

The Work Plan and budget is developed based on a 10-20 year outlook and identification of the results that need to be achieved in the coming fiscal year . The preliminary budget will be presented to and discussed by the BPC in February, and presented to the Board in March.

Based on discussions and input by the BPC and the Board, a proposed Work Plan and budget will be presented to the BPC in April, and to the Board for consideration and adoption in May.

- 8. Adjourn to Closed Session:** The Board adjourned to Closed Session at 9:05 pm
Public Employee Performance Evaluation:
Closed session pursuant to Government Code section 54957
Title: Chief Executive Officer
- 9. Reconvene to Open Session:** The Board reconvened to Open Session at 9:40 pm. There were no reports from the Closed Session.
- 10. Directors' Discussion:** Director Piccolotti asked about the Tree that was in the WSIP's right of way. Mr. Carlin reported that the tree was saved, and that the pipeline was tunneled under the tree.
- Director Pierce reported that Director Bologoff's wife was hospitalized and expressed her well wishes for her recovery on behalf of the Board.
- 11. Date, Time and Location of Next Meeting:** The next meeting is scheduled on January 19, 2012, in the Wind Room, Foster City Community Center.

12. Adjournment:

Respectfully submitted,

Arthur R. Jensen,
Chief Executive Officer

ARJ/le

Attachments: 1) Attendance Roster

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board of Directors Meeting
November 17, 2011

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Cyril Bologoff	City of Brisbane
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
Jim Griffith	City of Sunnyvale
Michael Guingona	City of Daly City
Rob Guzzetta	California Water Service Company
Tom Kasten	Town of Hillsborough
Larry Klein	City of Palo Alto
Marty Laporte	Stanford
Jamie McLeod	City of Santa Clara
Irene O'Connell	City of San Bruno
Rosalie O'Mahony	City of Burlingame
Tom Piccolotti	North Coast County Water District
Barbara Pierce	City of Redwood City
Dan Quigg	City of Millbrae
Bill Quirk	City of Hayward
Louis Vella	Mid-Peninsula Water District
John Weed	Alameda County Water District
Rick Wykoff	City of Foster City

Absent:

Ruben Abrica	City of East Palo Alto
Randy Breault	Guadalupe Valley Water District
Kelly Fergusson	City of Menlo Park
Armando Gomez	City of Milpitas
Mike Kasperzak	City of Mountain View
Chuck Reed	City of San Jose

BAWSCA

Bay Area Water Supply & Conservation Agency

155 Bovet Road, Suite 302
 San Mateo, California 94402
 (650) 349-3000 tel. (650) 349-8395 fax

TO: Arthur R. Jensen, CEO
FROM: Deborah Grimes and John Ummel
DATE: January 11, 2012
SUBJECT: Budget Status Report as of November 30, 2011

This memorandum shows fiscal year budget status for FY 2011-12. It includes major areas of spending, provides an assessment of the overall budget, and summarizes reserve fund balances. This report covers the budget and expenses for BAWSCA. The BAWSCA budget includes necessary resources for the RFA and BAWUA.

Operating Budget Summary:

For the five month period ending November 30, 2011, total expenditures were \$884,766 or 34 percent of the total budget of \$2,619,705.

Table 1. Operating Budget Summary as of November 30, 2011

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	853,930	271,646	32%
Fair Pricing	233,00	65,909	29%
Administration	112,000	54,974	49%
Subtotal	1,198,930	392,529	33%
Administration and General			
Salary & Benefits	1,075,875	393,319	37%
Other Expenses			
BAWSCA	258,900	98,869	38%
BAWUA	1,100	0	0%
Subtotal	2,534,805	884,717	35%
Capital Expenses	6,000	0	0%
Budgeted Contingency	77,500	0	0%
Regional Financing Authority	1,500	49	3%
Grand Total	2,619,705	884,766	34%

Overview:

Overall expenditures are tracking as expected.

Consultants

The \$255,000 budget for technical review and tracking of the SFPUC’s Water System Improvement Program was 18 percent expended. Strategic counsel’s budget of \$140,000 was 41 percent expended. The \$390,000 legal budget was 48 percent expended. The \$268,930 budget for water management and conservation-related activities including public information, regional program and materials, water supply planning, data base development and landscape classes was 25 percent expended.

Administration

Salary/fringe costs were 37 percent expended.

Other Expenses

Other Expenses were 38 percent expended.

Use of CEO’s Discretionary Spending Authority:

None.

Use of Reserve Fund Balance:

In accordance with the adoption of the annual budget in May 2011, the Board approved transferring \$38,005 from the reserve to fund the FY 2010-11 budget if needed. The BAWSCA General Reserve balance shown below does not reflect this transfer but does include the transfer of \$435,324 of unspent funds from FY 2010-11. The balance also reflects the withdrawal of funds that were in excess of the General Reserve guidelines. That amount, \$172,190, was refunded to the member agencies per Board action at the September Board Meeting.

Table 2. General Reserve Fund Balance

Fund	Account Balance (As of 09/30/11)	Account Balance (As of 11/30/11)
General Reserve	\$653,763	\$916,897

Long-Term Reliable Water Supply Strategy and Use of Water Management Charge:

Phase 2 of the Long-Term Reliable Supply Strategy (Strategy) began this FY 2010-11. Funding is provided through the Water Management Charge, approved by the Board in July 2010. As of November 30, 2011, Water Management Charge revenue totaling \$2,031,900 has been collected by and received from the SFPUC. Consultant invoices received and paid during through November 30, 2011 total \$869,745. The collection of the Water Management Charge will cease in January 2012, when the authorized funding has been fully collected.

BAWSCA

Bay Area Water Supply & Conservation Agency

155 Bovet Road, Suite 302
San Mateo, California 94402
(650) 349-3000 tel. (650) 349-8395 fax

MEMORANDUM

TO: BAWSCA Board of Directors
FROM: Arthur R. Jensen, Chief Executive Officer
DATE: January 12, 2012
SUBJECT: Quarterly Investment Report – As of December 31, 2011

In February 2004, the Board originally adopted an investment policy consistent with the Government Code that requires a quarterly report on the Agency's investments be provided to the Board within 30 days after the close of each quarter. The Board most recently reviewed and revised the investment policy at the July 21, 2011 Board meeting. This report presents fund management in compliance with the current investment policy.

Local funds in excess of \$250,000 are deposited in the BAWSCA LAIF account throughout the year to ensure compliance with BAWSCA's investment policy at that time.

BAWSCA's prior and current period local agency investment (LAIF) account balances are shown below.

<u>09/30/11</u>	<u>12/31/11</u>
\$2,821,449	\$3,026,449

Of the total in the BAWSCA LAIF account as of December 31, \$916,897 represents BAWSCA's General Reserve Fund, equivalent to approximately 25 percent of FY 2011-12 Operating Budget. The remaining amount consists of Subscription Conservation Program funds, Water Management funds and unrestricted funds.

Recent historical quarterly interest rates for LAIF deposits are shown below:

<u>06/30/11</u>	<u>09/30/11</u>
0.48%	0.38%

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BAWSCA

Bay Area Water Supply & Conservation Agency

155 Bovet Road, Suite 302
San Mateo, California 94402
(650) 349-3000 tel. (650) 349-8395 fax

MEMORANDUM

TO: BAWSCA Board of Directors

FROM: Arthur R. Jensen, Chief Executive Officer

DATE: January 12, 2012

SUBJECT: Directors' Reimbursement Quarterly Report for the Period Ending
December 31, 2011

In March 2006, the board adopted a directors' expense reimbursement policy consistent with the Government Code that requires a quarterly report on the Agency's reimbursement of directors' expenses. This report shall show the amount of expenses reimbursed to each director during the preceding three months.

There were no director expenses reimbursed for the quarter ending December 31, 2011.

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Mid-Year 2011-12 Work Plan and Budget Review**

Summary:

To ensure continued access to reliable supplies of high quality water at a fair price, three issues require serious attention during the second half of this fiscal year. The resources to address these issues and produce the necessary results can be provided within the originally approved Operating Budget for FY 2011-12. This memorandum presents: 1) the proposed changes to the annual Work Plan, 2) the proposed reallocation of funds within the existing budget, and 3) the projected balance of the General Reserve.

Fiscal Impact:

Based on the mid-year review, anticipated work can be completed within the approved budget, provided the proposed budget reallocations are approved by the Board. A total of \$115,000 would be reallocated within the existing budget.

Board Policy Committee Action:

The Committee voted unanimously to recommend approval of the proposed Board action. Following the Board Policy Committee, the scope of one proposed task was reduced, as was the amount of funds to be reallocated within the existing budget.

Recommendation:

That the Board approve four adjustments to the Work Plan and four adjustments to the Operating Budget:

1. Approve the following revisions to the FY2011-12 Work Plan:
 - a. Prepare scope and schedule changes for the Long-Term Reliable Water Supply Strategy, and present them to the Board the Spring 2012.
 - b. Focus oversight of the Water System Improvement Program on the SFPUC management of construction.
 - c. Take actions needed to protect the reliability provided by water storage reservoirs in the regional water system.
2. Approve the reallocation funds and authorize the CEO to take the actions specified below:
 - a. To support the proposed revisions to the Work Plan, reallocate \$135,000 from as-needed technical engineering support.
 - b. Authorize the CEO to amend the existing contract with Mr. Terry Roberts to add \$15,000 for additional investigations of WSIP program and construction management for a revised contract total of \$135,000.
 - c. Authorize the CEO to execute a contract with an as-yet unidentified consultant for engineering review of WSIP design and technical documents for an amount not to exceed \$25,000.
 - d. Authorize the CEO to amend the existing contract for Strategic Counsel by \$50,000 to assist the CEO and legal counsel with activities to protect the water supply reliability provided by Hetch Hetchy Reservoir, for a revised total contract amount of \$200,000.

- e. Authorize the CEO to amend the existing contract with Brown and Caldwell to add \$25,000 for a revised total contract amount of \$75,000 to provide on-call technical support.
- f. Authorize the CEO to move the remaining \$20,000 to the operating Budget contingency.

Discussion:

In conducting the mid-year review, changes to the entire Work Plan were examined, regardless of whether the work is funded as part of the Operating Budget or as part of the Long-Term Reliable Water Supply Strategy. This comprehensive review enabled an accurate assessment of resources and the availability of staff to complete the work envisioned for the balance of the year.

Overall Status of Results to be Achieved During FY2011-12. All of the work in the approved Work Plan is on schedule as of December 1, 2011. Some activities have and will continue to require fewer resources than originally estimated at the time the budget was prepared. Other challenges have and are expected to require more resources than originally estimated.

Areas requiring additional resources include participation in the FERC relicensing of New Don Pedro Reservoir, taking appropriate actions to protect the interests of the Wholesale Customers in the face of activities that might lead to draining Hetch Hetchy Reservoir and replacing the storage with as-yet unknown facilities, agreements and water supply impacts.

Work Plan Modifications and Proposed Budget Revisions. The Work Plan for FY 2011-12, adopted in May 2011, was presented in a table that identified the results needing to be achieved during the year. A second table listed activities not covered by the proposed budget.

Table 1, at the end of this memorandum, presents the Board-approved Work Plan of results to be achieved during FY2011-12. Proposed revisions to the Work Plan are highlighted. Explanations for the changes and budget reallocations appear below.

1. Modify the scope and schedule for the Long-Term Reliable Water Supply Strategy. Following this year's review of water demand projections as recommended and accepted by the Board in the Spring of 2011, staff committed to prepare scope and schedule changes and present them to the Board in the Spring of 2012. This work can be completed within the original budget and within the originally approved Water Management Charge levied and collected from member agencies.
2. Reallocate focus and resources in monitoring and acting to ensure the SFPUC's Water System Improvement Program is completed on schedule and within budget. The approved Work Plan included ongoing monitoring of the WSIP and taking actions needed to ensure the program is completed on schedule and budget. The approved budget contained \$135,000 for technical engineering support, and \$120,000 for project and program management monitoring and investigations. This year the WSIP requires far less technical engineering review of designs and technical documents, and greater effort spent on investigating construction performance and management. This shift in work load is reflected in the suspension of the technical review contract prior to any work being performed, and in the intense management review reported to the Board at its November Board meeting. The rate of WSIP expenditures this year has made it imperative that we perform the in-depth investigations of budgets, schedules, uses of contingencies and management procedures. These investigations require time to review and understand SFPUC reports, identify problems, understand trends, and produce useful recommendations. The proposed budget for technical engineering review is reduced by \$110,000, from \$135,000 to \$25,000. The proposed budget for management review is increased by \$15,000, from \$120,000 to \$135,000.
3. Take actions needed to protect the reliability provided by water storage reservoirs in the Regional Water System. Assess risks associated with efforts to drain Hetch Hetchy Reservoir and take actions

needed to protect the interests of the water customers. While this threat was recognized in the preparation of the FY2011-12 Work Plan, it was not then clear that the proponents of draining Hetch Hetchy intended to place a measure before San Francisco voters in November 2012. Their intent is now clear. Serious work has begun to protect the interests of the water customers. BAWSCA's overall position has not changed. The required legal support can continue to be provided within legal counsel's existing contract amount. A net increase in time required for strategic support will require an amendment to the contract with Bud Wendell. The last major effort of this nature required an additional \$200,000 of strategic support. At this time an increase of \$50,000 is proposed, for a total as-needed contract amount of \$200,000.

4. **Provide additional resources to continue outside support of the database**

In FY 2010-11, BAWSCA developed and launched the Water Conservation Data Base, an online tool used by BAWSCA and all the member agencies to maintain water use and water conservation data. The approved Work Plan and budget included \$50,000 for member agency training, on-call technical support and implementation of a few critical improvements identified last year. To date, expenditures have been greater than planned, and 65% of the budget has been used through October. Additional funding is needed for continued outside technical support at a modest level for the balance of the year. BAWSCA staff does not have the technical expertise to provide the technical support or make modifications to the data base. Therefore it is proposed that \$25,000 be added to the existing contract with Brown & Caldwell for a contract total of \$75,000 to provide the additional technical support needed.

As always, if further, unanticipated issues arise during the Spring, they will be brought to the attention of the Committee and Board with recommendations to further reallocate and/or add to existing budget resources, if necessary.

Sources of Funds:

The proposed new uses of funds, totals \$115,000. Funding is available within the approved budget from the as-needed technical engineering support.

The as-needed technical engineering requirements were estimated last year at \$135,000. That money has not yet been spent, and is available to be reallocated. At this time we estimate only \$25,000 will be needed for the technical engineering support originally envisioned.

Work Plan Alternatives Considered:

Alternatives to the proposed Work Plan adjustments, and their advantages and disadvantages, are as follows:

- a. Reallocate focus and resources to ensure the SFPUC's Water System Improvement Program is completed on schedule and within budget. One alternative to investigating project status and construction management is to limit the investigations being performed on the \$4.6 billion WSIP to what can be achieved within the existing budget for outside support of \$120,000. The rate of WSIP expenditures is now several million dollars per month, making it imperative that we perform the in-depth investigations of budgets, schedules, uses of contingencies and management procedures. Limiting BAWSCA's review at this time reduces BAWSCA's ability to anticipate problems and make recommendations to the SFPUC in a timely manner and protect the interests of BAWSCA's member agencies and their customers.

A second alternative is to return to the Board at a later date if funds are expended. Deferring the reallocation of funds within the existing approved budget hampers the ability to respond to issues as they arise.

Only a limited amount of technical engineering support is needed. The estimated amount of as-needed technical engineering support has been reduced from \$135,000 to \$25,000. An alternative is to not approve the work. Not approving this reallocation of resources would prevent technical review and comments on the following three critical projects: the Peninsula Pipeline Project, the Groundwater Conjunctive Use Project, and Harry Tracy Water Treatment Plant Improvement Project. The benefits of BAWSCA's technical reviews have been evident in the final plans and designs for the Sunol Valley improvements, Bay Division Pipeline cross-overs and other projects.

- b. Take actions needed to protect the reliability provided by water storage reservoirs in the regional water system.

One alternative is to allow San Francisco to address this issue alone. Currently, a San Francisco-based group expects to define the policy issues and entrust the policy decisions to voters and elected or appointed officials in San Francisco. It is imperative that BAWSCA work to protect the collective interests of customers outside San Francisco, whether those interests align with San Francisco or not.

A second alternative is to work with San Francisco but without the benefit of support from strategic counsel. The proponents of draining Hetch Hetchy have the support of a national law firm and strategic political and public communications advisors. Groups in San Francisco on both sides of the issue have engaged political or strategic advisors to assist them in preparing to address this issue. Depending on which course or courses of action need to be taken, the CEO and legal counsel will need to have strategic support to achieve the desired results.

- c. Provide agencies greater on-call technical support for using the Water Conservation Data Base.

BAWSCA is unable to provide this support using existing staff resources. The only alternative would be to suspend technical support to agencies, resulting in a loss of data and diminished value of the data base.

Funding Alternatives Considered:

Funding alternatives are limited.

If the Board agrees the proposed work is worth doing, the reallocation of the budget for as-needed technical engineering support is practical because the original funds will not be spent and can be used without impacting other parts the Work Plan or budget.

Projected Year-End Spending and General Reserve Balance as of July 1, 2012

With the proposed reallocation of funds, the best estimate of year-end spending at this time is that approximately 91% of the budget will be used by the end of the fiscal year.

Anticipated under expenditures are in the areas of as-needed consulting services, the contingency budget and administration expenditures. Administrative expenditures to date are below budget for several reasons. The budget included a full year's salary for Ms. Anona Dutton. Her maternity leave extends through February, and salary savings during the unpaid portion of her leave will amount to approximately \$40,000. Lower expenditures in other operating areas will produce an additional \$10,000 in estimated savings.

A precise estimate of year-end spending cannot be made at this time. The "mid-year" assessment necessarily relies on accounting information from July through September plus partial information for

October. In addition, there are inherent uncertainties in much of the work being undertaken or proposed, particularly in the areas of WSIP investigations, FERC, and protecting system storage. There is a clear need for outside support to perform this work, and BAWSCA only pays for work actually needed.

Using current estimates, the unspent funds at year-end would be approximately \$230,000. Adding that amount to the current General Reserve Balance would create an estimated July 2012 General Reserve balance of \$1,146,897:

\$653,763	General Reserve balance as of June 30, 2011
+435,324	Unspent budget from FY 2010/11 to be deposited in General Reserve
<u>\$1,089,087</u>	<u>General Reserve balance following deposit</u>
-172,190	Refund to agencies in November 2011
\$916,897	General Reserve balance as of December 1, 2011
\$230,000	Estimated unspent budget as of June 30, 2012
<u>\$1,146,897</u>	<u>Estimated General Reserve balance as of July 2012</u>

If next fiscal year's Operating Budget were identical to this year's Operating Budget, the estimated General Reserve as of July 2012 would be equivalent to 44% of the FY2012-13 Operating Budget, and would exceed the 35% guideline adopted by the Board in September. The same alternatives could be explored for managing the General Reserve balance: reduce assessments, refund excess, or retain funds to meet vital and anticipated needs.

This analysis is instructive because it highlights an inherent limitation. The estimate of \$230,000 of unspent budget equates to less than 9% of the Operating Budget, and at this time it is not possible to estimate next year's budget within 9%.

It is recommend that further analysis and discussion of the General Reserve balance take place in the Spring of 2012 during development of the FY 2012-13 Work Plan and budget.

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

Highlighting indicates a proposed change from the Work Plan approved by the Board on May 19, 2011

RELIABLE SUPPLY -- WATER SUPPLY MANAGEMENT PROGRAM

1. Long-Term Supply Solutions: Reliable Water Supply Strategy

Work toward completion of Phase II A of the Long-Term Reliable Water Supply Strategy by January 31, 2013 to provide reliable supplies of water when and where needed through the year 2035, including review and compilation of projected population and water demands from member agency Urban Water Management Plans. **Following review of water demand projections, prepare scope and schedule changes for the Long-Term Reliable Water Supply Strategy, and present them to the Board in the Spring 2012.**

2. Near-term Supply Solutions: Water Conservation

- a. Implement Core Water Conservation Programs - Programs that benefit all customers.
- b. Implement Subscription Water Conservation Programs - Rebate and other programs that benefit, and are paid for by, agencies that subscribe for these services.

3. Facility Reliability: Monitor SFPUC Water System Improvement Program

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. **Consistent with the current nature of SFPUC work, reallocate resources from technical review to monitoring project and program performance during construction.**

4. Protect Members' Water Supply Interests in FERC Re-licensing of New Don Pedro Reservoir

Ensure resources for legal and technical monitoring and intervention are sufficient to protect the customers' long-term interests in Tuolumne River water supplies.

5. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement

Compile and submit water purchase projections to SFPUC as required by Water Supply Agreement.

6. Pursue Grant Opportunities Independently and in Coordination with Regional Efforts

7. Ensure Sufficient Storage is Provided by the Regional Water System

Assess risks associated with efforts to drain Hetch Hetchy Reservoir and take actions needed to protect the interests of the water customers.

FAIR PRICE

7. Administer the 1984 Contract

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.

8. Perform Matters that Members Delegated to BAWSCA in the Water Supply Agreement

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.

HIGH QUALITY WATER

9. Support Member Agencies in Receiving Reliable Communication of Water Quality Events

Coordinate member agency participation in Water Quality Committee established by the 2009 Water Supply Agreement to ensure it addresses Wholesale Customer needs.

AGENCY EFFECTIVENESS:

10. Maintain Community Allies and Contacts with Environmental Interests

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.

11. Manage the activities of the agency professionally and efficiently

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Item Title: Amendment to Policies and Procedures for the Purchase of Equipment and Supplies/Award of Contracts

Summary:

This item was originally considered by the Board Policy Committee in October 2011. The matter needed to be re-examined to ensure the revised policy would adequately address all problems.

Under the Board's existing Procurement Policy, originally adopted in 2004, the CEO's discretionary spending authority is limited to \$10,000. In order to ensure BAWSCA's CEO has appropriate authority to achieve results in a timely manner, an increase in the CEO's discretionary spending authority is proposed. In addition, the limits requiring formal solicitation of bids for the purchase of equipment and supplies have also been increased.

Fiscal Impact:

The recommended changes have no impact on the budget.

Board Policy Committee Action:

The Board Policy Committee voted unanimously to recommend Board adoption of the proposed resolution revising the Procurement Policy.

Recommendation:

That the Board of Directors adopt the proposed resolution revising the Procurement Policy to:

- 1) Increase the CEO's discretionary spending authority to \$25,000 for purchases of equipment and supplies and services, while retaining the existing limit of \$10,000 for construction expenses.
- 2) Limit the CEO/General Manager's authority to approve change orders and amendments \$25,000.
- 3) Require the CEO/General Manager to report all change orders and amendments to the Board in the budget status reports.
- 4) Increase the limits for formal solicitation of bids for purchases of equipment and supplies.

Discussion:

The Board's existing Procurement Policy, originally adopted in 2004, limits the CEO's discretionary spending authority to \$10,000. At that time, \$10,000 was considered suitable for the activities in which BAWSCA was involved. That limitation is no longer allows the CEO the flexibility necessary to achieve results in a timely manner. The recommended amount is consistent with other Bay Area public entities, as shown in the attached memo from Hanson Bridgett. It is recommended that the increase in discretionary spending be increased to \$25,000 for purchases of equipment and supplies and services. It is also recommended to increase the

limit required for solicitation of equipment and supplies. The limit of \$10,000 for construction expenses would not change.

Attachments:

1. Legal Counsel supporting memo, dated December 7, 2011.
2. The Procurement Policy containing proposed adjustments in strike and bold format.
3. A clean copy of the Policy and a resolution for adopting it.

Memorandum

TO: Art Jensen, CEO/General Manager
BAWSCA

FROM: Allison Schutte
Julie Sherman

DATE: December 7, 2011

RE: **Amendments to Policies and Procedures for the Purchase of Equipment and Supplies/Award of Contracts**

Attached for your review is a draft resolution updating the Policies and Procedures for the Purchase of Equipment and Supplies and the Award of Contracts (Policies and Procedures) as well as a redlined version of the amended Policies and Procedures. The attached draft accomplishes the following:

(1) General Manager – Contract Authority

It revises the limits within which the General Manager may enter into contracts, issue purchase orders and generally spend BAWSCA funds. Currently, the authority of the General Manager for contracts is \$10,000. Many Bay Area public agencies authorize General Managers to enter into contracts up to \$50,000 or more. The amended Policies and Procedures changes this amount to \$25,000 for most contracts, which is more conservative with other Bay Area public entities, including member agency water districts, as the chart below demonstrates.

GENERAL MANAGER CONTRACT AUTHORITY¹			
Agency	Equipment/Supplies	Professional Services	Construction
Representative Bay Area Water Districts	\$30,000 - \$50,000	\$25,000 - \$50,000	\$30,000 - \$50,000
Representative Bay Area Transit Planning Districts	\$25,000 - \$50,000	\$25,000 - \$50,000	\$25,000
BAWSCA - Current limit	\$10,000	\$10,000	\$10,000
Proposed limit	\$25,000	\$25,000	No Change

¹ Larger agencies, such as Samtrans, the Golden Gate Bridge District, Bart, and AC Transit, and cities with significant capital projects, have General Manager contract authority up to \$100,000.

Memorandum To: Art Jensen, CEO BAWSCA
Allison Schutte
Julie Sherman
December 7, 2011
Page 2

Please note that for construction contracts, the General Manager's contract authority will continue to be \$10,000; as procurements of such contracts are anticipated to be rare, it should not be a burden to seek Board approval for contracts over \$10,000.

(2) Solicitation Policy Limits

The Policies and Procedures have been amended with updated limits in most procurement categories. These changes represent an increase over the prior limits. These changes are consistent with limits recognized by other Bay Area public entities. For example, by statute, Samtrans uses formal competitive bidding for procurements over \$100,000; informal procurement methods (i.e., obtaining three oral or written quotations) may be used for amounts under \$100,000.

(2) Change Order Authority

We also investigated change order authority for the representative agencies. In many cases, the agencies did not authorize the General Manager to execute change orders without Board approval. At least one water district chose to amend its procurement policy this fall to authorize the General Manager to enter into change orders up to \$50,000 or 10% of the contract amount in order to avoid repeatedly returning to the Board for all change orders. For some cities, the Council regularly approves a contingency when it approves a contract, authorizing the City Manager to approve change orders and amendments up to the amount of the contingency.

In updating the BAWSCA Policies and Procedures, we have limited the General Manager's authority to approve change orders and amendments to his contract authority, \$25,000. This limit will facilitate timely administration of contracts. In the past, change order authority was limited to 10% of the base contract amount. As many BAWSCA contracts are about \$50,000, this restriction would only permit a \$5,000 change order which would be very restrictive and would not provide the flexibility needed for the General Manager to respond quickly to Agency needs. In addition, Section I.D, requiring the General Manager to report all contracts to the Board of Directors, has been amended to also include reporting of all change orders and amendments to the Board.

If you have any questions, please do not hesitate to contact Allison at (415) 995-5823 or Julie Sherman at (415) 995-5185.

**RESOLUTION NO. 200412-
BY THE BOARD OF DIRECTORS OF THE
BAY AREA WATER SUPPLY AND CONSERVATION AGENCY**

**POLICIES AND PROCEDURES
FOR THE PURCHASE OF EQUIPMENT AND SUPPLIES AND
THE AWARD OF CONTRACTS**

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WHEREAS, the Bay Area Water Supply and Conservation Agency (BAWSCA) is organized and established pursuant to the Bay Area Water Supply and Conservation Agency Act, Water Code section 81300, *et seq.* (the "Act"); and

WHEREAS, the Act authorizes BAWSCA to acquire such property, facilities, equipment, materials and supplies as may be deemed necessary to carry out its duties; and

WHEREAS, Section 54202 of the Government Code requires that all local government agencies, including BAWSCA, adopt policies and procedures, including bidding requirements, for the purchase of equipment and supplies; and

WHEREAS, in 2004, BAWSCA adopted a "Policies and Procedures for the Purchase of Equipment and Supplies and the Award of Contracts" ("Policies and Procedures"); and

WHEREAS, staff has reviewed the Policies and Procedures and recommends that the Board of Directors ~~desires to delegate to adjust the limits of~~ the General Manager's authority to enter into contracts on behalf of BAWSCA, ~~within specified limits; and~~

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WHEREAS, staff has also amended the Policies and Procedures to update and increase limits required for solicitations in most categories.

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NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Bay Area Water Supply and Conservation Agency approves the amended and restated "Policies and Procedures for the Purchase of Equipment and Supplies and the Award of Contracts," attached hereto.

PASSED AND ADOPTED this ___ day of _____, 200412, by the following vote:

AYES:

NOES:

ABSENT:

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
POLICIES AND PROCEDURES FOR THE PURCHASE OF EQUIPMENT AND SUPPLIES AND THE AWARD OF CONTRACTS

I. PURCHASE OF EQUIPMENT AND SUPPLIES

A. Purchases Under \$~~1025,000~~

When the estimated cost of equipment or supplies is below \$~~1025,000~~, the General Manager may award the contract or purchase order. If the estimated cost is less than \$~~2,5005,000~~, the General Manager shall attempt to secure the best value for the Agency, but need not solicit quotes or bids. If the estimated cost is between \$~~2,5005,000~~ and \$~~510,000~~, the General Manager shall solicit informal quotes from at least two vendors. If the estimated cost exceeds \$~~510,000~~, but is less than \$~~1025,000~~, the General Manager shall solicit formal written quotes from at least three vendors, but need not formally advertise for the solicitation of bids.

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B. Purchases of \$~~1025,000~~ or More

All contracts in the amount of \$~~1025,000~~ or more shall be submitted to the Board of Directors for approval. When the estimated cost of equipment or supplies is \$~~1025,000~~ or more, the General Manager shall solicit formal written bids/proposals through means and methods which he or she determines to be most cost-effective, which may include advertisement in a newspaper of general circulation in the Agency.

C. Leasing of Equipment

Leasing or renting of equipment is permitted if advantageous to BAWSCA. If the total rental payments due under a lease are below \$~~1025,000~~, the General Manager shall follow the procedure in Section I.A. If the total rental payments due under a lease are \$~~1025,000~~ or more, the General Manager shall follow the procedure in Section I.B.

D. Reporting

The General Manager shall report to the Board of Directors on (1) all contracts or leases entered into under Section I.A or I.C and (2) all change orders or amendments entered into under Section V.B. at the next meeting of the Board.

E. General

1. Board approval is required for extension of contracts or purchase orders beyond one (1) year where the cost of the extension is estimated to exceed \$~~1025,000~~.
2. The General Manager is authorized to purchase equipment and supplies through the State of California cooperative purchasing program authorized

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by Public Contract Code Section 10298, California Multiple Awards Schedule (CMAS). If the cost of such purchase is expected to exceed \$~~4025~~,000, the General Manager shall obtain Board approval before participating in the CMAS procurement.

II. PURCHASE OR LEASE OF REAL PROPERTY

Any contract for the purchase of real property must be submitted to and approved by the Board of Directors.

Any lease or sublease of real property, including any renewal or extension of an existing lease or sublease, must be submitted to and approved by the Board of Directors.

III. CONTRACTS FOR SERVICES

Contracts for services in which the maximum compensation payable does not exceed \$~~4025~~,000 may be entered into by the General Manager.

~~Contracts for services in which the maximum compensation payable exceeds \$10,000~~
~~All other contracts~~ shall be submitted to and approved by the Board of Directors.

IV. CONTRACTS FOR CONSTRUCTION

Any contract for construction (other than a leasehold improvement costing less than \$10,000) shall require approval of the Board of Directors.

V. GENERAL MANAGER AUTHORITY

- A. The General Manager is authorized to expend funds, issue purchase orders and sign contracts for procurements and activities as follows: (1) up to \$~~4025~~,000 for equipment and supplies; and (2) up to \$~~4025~~,000 for professional or other services.
- B. The General Manager is authorized to administer all contracts on behalf of BAWSCA. The General Manager is authorized to issue change orders or amendments up to \$25,000 without further Board approval ~~if the change order or amendment does not increase the cost to BAWSCA by more than 10% of the contract amount, up to a maximum of \$10,000.~~

~~VI. ADJUSTMENT OF AMOUNTS~~

~~The amounts set forth in the Policy are as of January 2004. They shall be adjusted annually to reflect the change in the Consumer Price Index, All Urban Consumers, San Francisco San Jose Oakland, from February 2004 (198.1) to each succeeding February.~~

~~VII. VI. WAIVER~~

The Board of Directors may suspend or waive the requirements of this Policy in any instance when the Board deems it in the best interest of BAWSCA to do so.

Adopted ~~April 15, 2004~~ January 19, 2012
by Resolution No. ~~2004-04~~ 2012-

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

POLICIES AND PROCEDURES FOR THE PURCHASE OF EQUIPMENT AND SUPPLIES AND THE AWARD OF CONTRACTS

I. PURCHASE OF EQUIPMENT AND SUPPLIES

A. Purchases Under \$25,000

When the estimated cost of equipment or supplies is below \$25,000, the General Manager may award the contract or purchase order. If the estimated cost is less than \$5,000, the General Manager shall attempt to secure the best value for the Agency, but need not solicit quotes or bids. If the estimated cost is between \$5,000 and \$10,000, the General Manager shall solicit informal quotes from at least two vendors. If the estimated cost exceeds \$10,000, but is less than \$25,000, the General Manager shall solicit formal written quotes from at least three vendors, but need not formally advertise for the solicitation of bids.

B. Purchases of \$25,000 or More

All contracts in the amount of \$25,000 or more shall be submitted to the Board of Directors for approval. When the estimated cost of equipment or supplies is \$25,000 or more, the General Manager shall solicit formal written bids/proposals through means and methods which he or she determines to be most cost-effective, which may include advertisement in a newspaper of general circulation in the Agency.

C. Leasing of Equipment

Leasing or renting of equipment is permitted if advantageous to BAWSCA. If the total rental payments due under a lease are below \$25,000, the General Manager shall follow the procedure in Section I.A. If the total rental payments due under a lease are \$25,000 or more, the General Manager shall follow the procedure in Section I.B.

D. Reporting

The General Manager shall report to the Board of Directors on (1) all contracts or leases entered into under Section I.A or I.C and (2) all change orders or amendments entered into under Section V.B. at the next meeting of the Board.

E. General

1. Board approval is required for extension of contracts or purchase orders beyond one (1) year where the cost of the extension is estimated to exceed \$25,000.
2. The General Manager is authorized to purchase equipment and supplies through the State of California cooperative purchasing program authorized

by Public Contract Code Section 10298, California Multiple Awards Schedule (CMAS). If the cost of such purchase is expected to exceed \$25,000, the General Manager shall obtain Board approval before participating in the CMAS procurement.

II. PURCHASE OR LEASE OF REAL PROPERTY

Any contract for the purchase of real property must be submitted to and approved by the Board of Directors.

Any lease or sublease of real property, including any renewal or extension of an existing lease or sublease, must be submitted to and approved by the Board of Directors.

III. CONTRACTS FOR SERVICES

Contracts for services in which the maximum compensation payable does not exceed \$25,000 may be entered into by the General Manager. All other contracts shall be submitted to and approved by the Board of Directors.

IV. CONTRACTS FOR CONSTRUCTION

Any contract for construction (other than a leasehold improvement costing less than \$10,000) shall require approval of the Board of Directors.

V. GENERAL MANAGER AUTHORITY

- A. The General Manager is authorized to expend funds, issue purchase orders and sign contracts for procurements and activities as follows: (1) up to \$25,000 for equipment and supplies; and (2) up to \$25,000 for professional or other services.
- B. The General Manager is authorized to administer all contracts on behalf of BAWSCA. The General Manager is authorized to issue change orders or amendments up to \$25,000 without further Board approval.

VI. WAIVER

The Board of Directors may suspend or waive the requirements of this Policy in any instance when the Board deems it in the best interest of BAWSCA to do so.

RESOLUTION NO. 2012-____
BY THE BOARD OF DIRECTORS OF THE
BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

POLICIES AND PROCEDURES
FOR THE PURCHASE OF EQUIPMENT AND SUPPLIES AND
THE AWARD OF CONTRACTS

WHEREAS, the Bay Area Water Supply and Conservation Agency (BAWSCA) is organized and established pursuant to the Bay Area Water Supply and Conservation Agency Act, Water Code section 81300, *et seq.* (the “Act”); and

WHEREAS, the Act authorizes BAWSCA to acquire such property, facilities, equipment, materials and supplies as may be deemed necessary to carry out its duties; and

WHEREAS, Section 54202 of the Government Code requires that all local government agencies, including BAWSCA, adopt policies and procedures, including bidding requirements, for the purchase of equipment and supplies; and

WHEREAS, in 2004, BAWSCA adopted a “Policies and Procedures for the Purchase of Equipment and Supplies and the Award of Contracts” (“Policies and Procedures”); and

WHEREAS, staff has reviewed the Policies and Procedures and recommends that the Board of Directors adjust the limits of the General Manager's authority to enter into contracts on behalf of BAWSCA; and

WHEREAS, staff has also amended the Policies and Procedures to update and increase limits required for solicitations in most categories.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Bay Area Water Supply and Conservation Agency approves the amended and restated “Policies and Procedures for the Purchase of Equipment and Supplies and the Award of Contracts,” attached hereto.

PASSED AND ADOPTED this ____ day of _____, 2012, by the following vote:

AYES:

NOES:

ABSENT:

President, Board of Directors
Bay Area Water Supply &
Conservation Agency

ATTEST:

Secretary

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Fiscal Year 2012-12 Work Plan and Budget Preparation**

Summary:

The preliminary work plan for next fiscal year began by compiling a list of major challenges that BAWSCA, its member agencies, and their water customers will face next fiscal year and between now and 2015, 2020 and 2035. This long-term perspective helps anticipate and identify the results that must be achieved during FY2012-13.

As in prior years, the preliminary budget will be developed to provide the resources needed to achieve necessary results. Emphasis is placed on the most vital results that need to be achieved in order to provide reliability and high quality water at a fair price. Activities that are secondary to those goals may be noted but are not incorporated into the budget.

A preliminary list of challenges appears in Table 1. Some of the challenges may affect BAWSCA or its members directly. Other challenges will have indirect, but nonetheless important consequences, and require action by BAWSCA to protect the interests of BAWSCA, its member agencies and their customers.

Some of the items listed are not locked to a specific year. While the schedules for those items may be shifted forward or backward, the changes should not be made arbitrarily.

Board Policy Committee Action:

This list of challenges were discussed with the Board Policy Committee to clarify issues and receive their advice prior to presenting it to the Board.

Recommendation:

No Board action is required. Comments and questions from the Board would be helpful in preparing next year's budget.

Table 1. Future Challenges Facing BAWSCA, Member Agencies and Their Customers

Year or Period	Major Challenges or Issues
FY2012-13	<ul style="list-style-type: none"> • SFPUC relationships: Transition to new SFPUC General Manager, the possibility of changes in Commissioners and building a relationship with the new Mayor of San Francisco • Request decisions on specific projects to pursue to implement the Long-Term Reliable Water Supply Strategy • Protect member interests if proponents of draining Hetch Hetchy Reservoir ask SF voters to require SFPUC to prepare a plan to do so • Participate in the FERC process • Protect member agency interests in MID water transfer • Begin developing a uniform method for projecting member agency water demands and SFPUC purchases to support long-term planning • Amend the Water Supply Agreement with San Francisco to revise the completion date for the WSIP • Pursue amendment of the Tier 1 drought allocation formula with SF • Evaluate the implications of further decline in water purchases • Consider whether Wholesale Customers would benefit from BAWSCA issuing bonds to retire capital debt they owe to San Francisco
2013 to 2015	<ul style="list-style-type: none"> • Complete development of BAWSCA's Long-Term Reliable Water Supply Strategy • Extension of sunset provision in AB1823, the Wholesale Regional Water System Security and Reliability Act, prior to completion of the WSIP before December 2015 • Federal relicensing of New Don Pedro and possible impacts on SFPUC supplies (2015-16) • Additional drought protection should be brought on line to serve BAWSCA member agencies • New water supplies to meet future needs must be brought on line for agencies requiring additional water • Proponents of draining Hetch Hetchy intend to amend SF Charter to require action • San Francisco elects Mayor in 2015
2016 to 2020	<ul style="list-style-type: none"> • San Francisco to make decisions on whether or not to make San Jose and Santa Clara permanent Wholesale Customers by 2018 • San Francisco to decide whether to provide more than 184 mgd to Wholesale Customers and whether or not to increase the perpetual Supply Assurance by 2018 • The Tier 2 drought allocation formula among BAWSCA member agencies expires and an extension or replacement must be negotiated by the end of 2018 • San Francisco elects Mayor in 2019
2021 to 2035	<ul style="list-style-type: none"> • New water supplies to meet future needs must be brought on line for agencies requiring additional water • Water Supply Agreement expires and must be extended or renegotiated • San Francisco elects Mayor (2023, 2027, 2031, 2035)

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: Water System Improvement Program – Letter to SFPUC

Summary:

On December 7, 2010, BAWSCA's CEO sent a letter to Mr. Ed Harrington, General Manager of the SFPUC, presenting significant questions related to the SFPUC's ability to deliver the Water System Improvement Program (WSIP) within the most recently adopted schedule and budget (copy attached). The letter urged Mr. Harrington to consider the following six recommendations to ensure that progress on the WSIP is clearly reported so that future schedule variances can be anticipated, managed and minimized:

1. Include a frank presentation in the WSIP Quarterly Reports on trends and the implications for the completion of the program on schedule and within budget.
2. Review key projects to determine if schedule and budget projections are accurate or if delivery issues exist that need to be addressed. The SFPUC should ensure that schedule and budget projections are conservative and prepared with a common purpose and objective, soundly based and consistent so that they can be relied upon with confidence.
3. Determine how Change Order processing delays impact project schedules and budgets and use the WSIP Quarterly Reports to indicate any expected impacts. If necessary, conduct an audit of change order document processing to determine whether delays are resulting in project schedule slippage or added project costs.
4. Conduct an audit to determine whether the number of change orders by type (i.e. owner requested changes, contractor requested changes, etc.) are reasonable, and ensure that the reasons and costs for change orders are clearly understood.
5. Review the current construction change order authorization policy to ensure that all change orders are essential for the project to meet Level of Service goals prior to authorizing the change.
6. Ensure that the Independent Review Panel is given sufficient latitude, time, resources and access to information so that its findings, conclusions and recommendations can be as helpful as possible, and so that it can fulfill the expectation that its review brings added confidence and is helpful to the WSIP manager, staff, the program management consultant, the Commission and the public.

A written response from Mr. Harrington is expected shortly. Information contained in Mr. Harrington's response will be presented at the Board meeting as appropriate.

Attachment:

1. December 7, 2011 Correspondence with Ed Harrington – Review of Water System Improvement Program Status as of December 1, 2011

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BAWSCA

Bay Area Water Supply & Conservation Agency

December 7, 2011

Mr. Ed Harrington, General Manager
San Francisco Public Utilities Commission
1155 Market Street, 11th Floor
San Francisco, CA 94103

Subject: Review of Water System Improvement Program Status as of December 1, 2011

Dear Mr. Harrington,

This letter conveys BAWSCA's concerns about the ability of the SFPUC to deliver the Water System Improvement Program (WSIP) within the most recently adopted schedule and budget, and urges you to consider six recommendations from BAWSCA focused on ensuring that progress is clearly reported so that future schedule variances can be anticipated, managed and minimized.

On behalf of its member agencies and their customers, BAWSCA monitors SFPUC's progress in implementing the WSIP with a goal of ensuring that the program is delivered on-time, within budget, and meets the identified Level of Service goals adopted by the Commission. The BAWSCA agencies and their water customers, who pay the majority of the cost for these projects, want a high level of confidence that the promised budget and schedule will be achieved.

With increased construction activity and site conditions encountered at the New Irvington Tunnel and Calaveras Dam Replacement projects, we have focused our review on project schedules and the use of schedule contingencies. The comments in this letter reflect our findings, conclusions and recommendations to you, your staff, and the Commission.

We understand that this is a very complex program and that everything will not perfectly fall into place. However, the prospect of continued major schedule or budget revisions every year or two is unacceptable.

Based on our review, more information is needed to confirm that the WSIP can be implemented within the current schedule, and if not, to identify what steps should be taken to ensure the schedule can be met.

Recommendations:

BAWSCA recommends the following actions to be taken by the SFPUC:

1. Include a frank presentation in the WSIP Quarterly Reports on trends and the implications for the completion of the program on schedule and within budget.
2. Review key projects to determine if schedule and budget projections are accurate or if delivery issues exist that need to be addressed. The SFPUC should ensure that schedule and budget projections are conservative and prepared with a common purpose and objective, soundly based and consistent so that they can be relied upon with confidence.

3. Determine how Change Order processing delays impact project schedules and budgets and use the WSIP Quarterly Reports to indicate any expected impacts. If necessary, conduct an audit of change order document processing to determine whether delays are resulting in project schedule slippage or added project costs.
4. Conduct an audit to determine whether the number of change orders by type (i.e. owner requested changes, contractor requested changes, etc.) are reasonable, and ensure that the reasons and costs for change orders are clearly understood.
5. Review the current construction change order authorization policy to ensure that all change orders are essential for the project to meet Level of Service goals prior to authorizing the change.
6. Ensure that the Independent Review Panel is given sufficient latitude, time, resources and access to information so that its findings, conclusions and recommendations can be as helpful as possible, and so that it can fulfill the expectation that its review brings added confidence and is helpful to the WSIP manager, staff, the program management consultant, the Commission and the public.

The Nature and Depth of BAWSCA's review:

BAWSCA's review encompassed all WSIP Quarterly Reports plus the monthly Cost Summary and Document Turnaround reports and other reports such as the WSIP Change Order Reason (COR) report. We also reviewed the October 28, 2011 draft report commissioned by the Revenue Bond Oversight Committee (RBOC) and prepared by the Water System Improvement Program (WSIP) Construction Management Independent Review Panel (IRP). We submitted comments on that draft report to the chair of the RBOC. While some of the issues we think should be examined are included in our comments on that report, our investigation and the comments in this letter to you would have been prepared even if the RBOC report had not been commissioned.

Attachment A lists the findings and conclusions that form the basis for our recommendations.

The purpose of our review and recommendations is to be constructive and assist the SFPUC in the successful completion of the WSIP. We have been extremely impressed with San Francisco's attention to this program and the quality of work performed by Ms. Julie Labonte and the WSIP team of staff and consultants.

We look forward to working with you to address the issues this letter identifies. Please call me if you have questions about this review or our recommendations.

Sincerely,


Arthur R. Jensen
Chief Executive Office

cc: Anson Moran, President of the SFPUC
BAWSC Board of Directors

ATTACHMENT A

Findings and Conclusions:

From BAWSCA's review of these documents and our meetings with your staff, we prepared the following findings and conclusions:

- A. While the WSIP project budgets and schedules were revised only six months ago, as of the end of September the forecasted budgets and schedules for several projects already exceed the values and dates adopted by the Commission. According to the first Quarterly Report ending in September 2011, 10 of the 21 regional projects "need attention" because they are "not within schedule and/or budget." The Quarterly Report did not address whether this is a trend, and if so, what it means to the completion of the \$4.6 billion program. The Quarterly Reports should include a frank presentation on trends, whether forecasted completion dates are conservative, and the implications for the completion of the program on schedule and within budget.
- B. The high use or forecasted use of schedule and budget contingencies generated questions about the ability to complete projects on schedule. We examined the use of contingencies, including approved, pending and potential change orders and trends as reported in the September 2011 Cost Summary and Document Turnaround Report. The report data reveal the following conditions:
- 1) Regional projects: With only 39% of the work completed or invoiced, 68% of the schedule contingency and 53% of the budget contingency is expected to be used. This suggests too much of the contingency may be committed too early in the projects.
 - 2) All WSIP projects: Data for all WSIP projects, including those in San Francisco, show a more extreme result. With 41% of the work completed or invoiced, 96% of the schedule contingency and 51% of the budget contingency is expected to be used.
 - 3) The SFPUC took reasonable and appropriate actions in response to unexpected field conditions on the Calaveras Dam Replacement and the New Irvington Tunnel projects. However, the implications for completion of the projects need to be more clearly presented and understood. The projected use of schedule contingency appears extremely high on both projects. Key projects should be reviewed to determine if schedule and budget forecasts are accurate or if delivery issues exist that need to be addressed. Such project reviews would help build confidence in the current status of the schedules and budgets for the New Irvington Tunnel, the Calaveras Dam Replacement, and the Harry Tracy Water Treatment Plant Long Term Improvements projects, as well as the WSIP as a whole.
- C. Change Orders (CO) are taking too long to process. The September Cost Summary and Document Turnaround Report also indicates that processing time across all Change Order categories (proposed, requested, and final) exceeds document turnaround performance targets by 50% to 400% based on an average of the last 6 months. Given the high rate of expenditures or "burn rate," these delays in processing change orders make it difficult to see how the program can be managed within the adopted budgets and schedules. The impact of these delays on project schedules and budgets should be determined as a matter of routine and the Quarterly Reports should indicate whether or not such delays are expected to impact project schedules and budgets. The need for the changes and the reasons for the large number of changes should also be reviewed.

ATTACHMENT A

- 1) The WSIP Change Order Reason (COR) report dated August 5, 2011 showed that about 52% of all approved changes (by dollar value) result from owner requested changes (31%) and design errors and omissions (21%).
- 2) Over the last six months, SFPUC staff requested more CO's than did contractors (about 375 vs. 350). One would expect contractors to have many more change requests than staff who participated in project development and design. With the information available, BAWSCA was unable to understand the reasons for the changes and the potential cost and schedule impacts.

D. The Independent Review Panel's recent draft report for the Revenue Bond Oversight Committee contained many deficiencies, which may be due to limited time and resources available to them for their review. The IRP's findings and recommendations should be more helpful to the WSIP manager, staff, the program management consultant, and the Commission by identifying potential problems and/or confirming that the program is on track. However, the panel's recent draft report generated a number of questions and concerns.

- 1) The panel's review is particularly timely, given the schedule and budget extensions observed since the Commission approved revised budgets and schedules less than six months ago.
- 2) The draft IRP report cites that 96% of the WSIP construction schedule contingency is expected to be used with only 41% of the work completed or invoiced. But the report does not indicate whether or not the forecasted use of contingencies is conservative, provides no analysis or conclusions about how future project schedules and budgets might be impacted, and presents no recommendations for improving project delivery or managing within the approved schedules.
- 3) The draft IRP report indicates that soft costs are "within industry norms" but gives no source for its conclusion. Soft costs are \$1.2 billion, about one-third of the program costs. Better documentation is needed to determine whether or not this sizable program cost is appropriate or deserves further attention.
- 4) The IRP draft report did not review performance measures in detail and therefore did not consider or report on how past performance might affect future performance.

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: Water System Improvement Program – AB 1823 Required State Review

Summary:

On July 12, 2011, the San Francisco Public Utilities Commission (SFPUC) adopted changes to the Water System Improvement Program (WSIP). In accordance with the 2002 Wholesale Regional Water System Security and Reliability Act (AB 1823), the SFPUC submitted a Notice of Changes to the California Seismic Safety Commission (CSSC) and California Department of Public Health (CDPH) for their review and comment to the Joint Legislative Audit Committee. Both State agencies have completed their review and submitted their findings to the Joint Legislative Audit Committee as required by law. BAWSCA's review of CSSC and CDPH comments revealed no further new issues that need to be addressed at this time.

Discussion:

One of the requirements of AB 1823 is that the SFPUC must notify the CSSC and CDPH following adoption of scope and schedule changes to the WSIP. The SFPUC adopted changes to the WSIP on July 12, 2011. Accordingly, on September 1, 2011, the SFPUC submitted the Notice of Changes Report - June 2011 Revised WSIP to CSSC and CDPH. Per AB 1823, both state agencies are required to submit written comments to the Joint Legislative Audit Committee addressing the significance of the adopted changes to public health and safety within 90 days.

During the course of their review, staff members from both CSSC and CDPH contacted BAWSCA regarding the adopted changes and the overall WSIP progress, and recent communications with the SFPUC, including BAWSCA's comment letter on the changes as proposed in June 2011.

CDPH's letter, dated December 6, makes the following summary conclusions:

- CDPH continues to support the WSIP as providing significant public health and safety protections.
- CDPH continues to be concerned about the potential for schedule delays given further schedule compression associated with revised schedule.
- As adopted, none of the changes negatively impact SFPUC's ability to meet State and Federal drinking water supply regulations.

CSSC's letter, dated December 20, 2011, makes the following summary conclusions:

- SFPUC continues to make progress and refinements to the WSIP.
- SFPUC is not achieving the 50% completion by 2010 and 100% completion of the WSIP by 2015 as required under the original 2002 schedule, however, the CSSC recognizes the significant changes the WSIP has undergone since then, and that the SFPUC has complied with AB 1823 requirements for noticing the changes that have occurred to the scope and schedule since that time.
- Major schedule delays since 2002 including the most recent delays since 2009 have adversely impacted the Program with respect to public health and safety should major earthquakes occur before completion of the Program.

BAWSCA has reviewed the written comments made by CSSC and CDPH and agrees with their overall direction. These comments are consistent with discussions that occurred during the course of the review of the SFPUC documents and appropriate given the scope and magnitude of the WSIP.

Attachments

1. Dec. 6, 2011 letter from Leah Walker, Chief, CDPH-Division of Drinking Water and Environmental Management
2. December 20, 2011 letter from Richard McCarthy, Executive Director, CSSC



State of California—Health and Human Services Agency
California Department of Public Health



RON CHAPMAN, MD, MSPH
Director and State Health Officer

EDMUND G. BROWN JR
Governor

RECEIVED DEC 12 2011

F.Y.K.

December 6, 2011

The Honorable Assembly Member Alyson L. Huber, Chair
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

Mr. Ed Harrington, General Manager
San Francisco Public Utilities Commission
1155 Market Street, 11th Floor
San Francisco, CA 94103

Dear Chairperson Huber and General Manager Harrington:

Response to September 1, 2011 Notice of Adopted Changes to the San Francisco Public Utilities Commission (SFPUC) 2005 Water Supply Improvement Program (WSIP)/2002 Capital Improvement Program (CIP)

In accordance with the 2002 Wholesale Regional Water System Security and Reliability Act (AB 1823) and the 2008 amendments (AB 2437), the California Department of Public Health (CDPH) has completed its review of a SFPUC September 1, 2011 Notice of Changes (2011 Change Notice) to its 2005 Water System Improvement Program (WSIP) and 2002 Capital Improvement Program (CIP) for the SFPUC Regional Water System (RWS). These changes were adopted by the SFPUC on July 12, 2011. The 2011 Change Notice was received by CDPH on September 6, 2011.

Section 73502 (d)(3) of the Water Code requires CDPH to comment on changes to the WSIP/CIP within 90 days of notification and provide those comments to the Joint Legislative Audit Committee and the City and County of San Francisco. The 2011 Change Notice is the fourth change notice that CDPH has reviewed. For each change notice, CDPH's review focuses on: 1) the adequacy of the Change Notice to describe the changes and the reasons for the changes; and 2) the significance of the changes with respect to the protection of public health and safety. CDPH review also considers the comments and recommendations issued by: A) the California Seismic Safety Commission (CSSC), and B) the Bay Area Water Supply and Conservation Agency (BAWSCA).

The 2002 CIP included 37 projects for the Regional Water System. The CIP was renamed and readopted as WSIP in 2005. The WSIP added 6 projects, removed and reassigned 7 projects from WSIP to other SFPUC programs, revised the scope of 14 projects, and adopted goals for Levels of Service (LOS). These changes were described at a conceptual level in the 2006 Change Notice.

The 2008 Change Notice reported that two projects were added to WSIP (Program Management and Habitat Reserve Program); four projects were combined into two projects (Advanced Disinfection was combined with Tesla Portal Disinfection; Additional 40 MGD Treated Water Supply was combined with Sunol Valley Water Treatment Plant's (SWWTP) Treated Water Reservoir), and several project schedules were revised for consistency with 96 scheduled system shutdowns. The minimum (winter month) system demand was revised upwards to 229 MGD. The average system demand remained at 300 MGD. The LOS goal for restoration of water service within 24 hours of a major earthquake was revised to deliver 229 MGD to 70% of turnouts within the East/South Bay, Peninsula, and City of San Francisco Regions within the RWS; the LOS goals for these Regions were: 104 MGD, 44 MGD, and 81 MGD, respectively.

The 2009 Change Notice reported that one project (Peninsula Pipelines Seismic Reliability Assessment) was added to the Regional Program; the scope of work for six projects was revised; and the overall Program schedule was extended by one year. See Attachment 1 for a list of changes for each Change Notice.

CDPH's general comments on the 2011 Change Notice focus on Program Management and the Level of Service Goals as they relate to the ability of SFPUC to reliably deliver a safe drinking water supply to its 2.4 million users. Detailed comments on specific projects of concern are listed in Attachment 2.

PROGRAM MANAGEMENT:

Program Schedule:

The 2011 Change Notice reports that many projects are significantly delayed (up to 86 months relative to the 2002 project schedule and up to 42 months relative to the 2005 schedule). The overall Program schedule is lengthened by 8 months and most of the key projects listed in AB1823 are deferred towards the end of the Program schedule. The number of projects scheduled for completion in the final year of the Program is increased from two to eleven; construction spending is planned to increase by \$382 million (from \$254 million to \$636 million) for FY13-14 through FY15-16; and the delay reported in the 2011 Change Notice is additional to the incremental delays reported in 2006, 2008, and 2009. As of June 30, 2011, construction is reported as 34% complete.

Comment:

CDPH notes that each Change Notice has reported additional compression of the WSIP schedule; actual progress continues to lag planned progress for the overall Program and for many projects including the 9 key projects identified in AB 1823; and the 2011 WSIP schedule assumes a substantially higher SFPUC program delivery capacity than has been achieved to date. As such, the adopted 2011 schedule as reported in the 2011 Change Notice seems overly optimistic. Successful completion of the WSIP will require careful integration between project schedules and planned shutdowns; a highly disciplined program management and support structure, and detailed contingency planning to assure continued and reliable operation of the RWS during construction and until the full scope of planned improvements is completed.

Project Level Scope of Work:

The 2011 Change Notice reports that information gathered through the Peninsula Pipelines Seismic Upgrade shows that additional improvements beyond those specified in the WSIP may be necessary to meet LOS goals. A portion of the Peninsula Pipelines Seismic Upgrade scope of work is planned to be completed under WSIP and the remainder is planned to be completed under a Water Enterprise Capital Improvement Program.

Comment:

CDPH supports refinement of project level engineering design concepts to assure that the RWS can be operated, at all times and under all design scenarios, to meet Safe Drinking Water Act requirements.

LEVEL OF SERVICE GOALS: SEISMIC RELIABILITY

The RWS crosses multiple major earthquake faults. A large magnitude earthquake has the potential to severely damage transmission and treatment facilities and leave the RWS without its major water supply. The basic LOS goal established by SFPUC in response to seismic events is to deliver average winter day demand (estimated as 229 MGD in 2030) within 24 hours to 70% of turnouts, and, to deliver average day demand (estimated as 300 MGD in 2030) within 30 days. For an extreme emergency event, SFPUC intends that all delivered water be disinfected, as a minimum, and that delivery of unfiltered water from the local sources (namely, Calaveras and San Antonio Reservoirs, water that is normally treated at Sunol Valley Water Treatment Plant; and Upper Crystal Springs, Lower Crystal Springs, and San Andreas Reservoirs, water that is normally treated at Harry Tracy Water Treatment Plant, may be necessary for fighting fires and meeting sanitary requirements. SFPUC is designing improvements at the Crystal Springs Pump Station and the Harry Tracy Water Treatment Plant to provide reliable, adequately sized emergency disinfection capability. SFPUC has determined that the emergency disinfection capability provided by the Sunol Valley Chloramination Facility is adequate for the delivery of partially treated (disinfected) water supplies. In 2011, the SFPUC initiated a project to define a decision process and procedures to be implemented under a major catastrophic event when SFPUC cannot provide the required treatment to its water supply.

Comment:

CDPH is responsible for assuring that SFPUC operates the RWS to meet the Safe Drinking Water Act requirements before, during, and after a major disaster event. In the event that SFPUC cannot provide the required treatment to its water supply at times of extreme emergency, SFPUC must have a functional operations plan to readily activate and operate emergency disinfection facilities at strategic locations where untreated raw water supply from the local reservoirs can be introduced into the system. The disinfectant dosage should be adequate for maintaining a minimum chlorine residual of 1 mg/L throughout the transmission system. Additionally, the use of disinfected untreated local raw water supply must be accompanied by a Boil Water Notice (BWN) and SFPUC must have a comprehensive public notification plan for timely distribution of the BWN. These emergency measures are necessary to provide a minimal but critical level of public health protection until the damaged transmission and/or treatment facilities are restored to normal operation. In our responses to the 2006, 2008, and 2009 Change Notices, we recommended that SFPUC further refine its LOS goals to include

the provision of reliable and adequately sized disinfection facilities at all locations where raw water could be introduced into the RWS; activation of an emergency notification plan for issuance of a BWN; and a detailed operation plan for flushing, bacteriological monitoring and disinfection of the RWS to restore potable water service as quickly as possible. CDPH further recommended that the plan for emergency use of partially treated local reservoir water and the restoration of potable water service be developed cooperatively and in conjunction with the public water systems served by the RWS. CDPH supports actions by the SFPUC to prepare a functional operations plan for the delivery of disinfected untreated local raw water following a major disaster event and for the restoration of potable water service as quickly as possible for the RWS and the public water systems served by the RWS.

SUMMARY:

Overall, CDPH supports that the capital projects identified in the CIP and WSIP, when completed, will provide significant public health and safety protections. In the interim, CDPH remains concerned that further compression in the Program schedule may result in significant delays to completion of the WSIP. CDPH notes that several WSIP projects are essential to meeting State and Federal drinking water supply regulations for the protection of public health. CDPH concludes that the changes as reported in the 2011 Change Notice do not significantly change the overall impacts to public health and safety. Nonetheless, it is critically important that SFPUC ultimately deliver the public health and safety protections planned under WSIP.

Sincerely,



Leah Walker, Chief
Division of Drinking Water and Environmental Management

Attachments

Assembly Member Alyson L. Huber and
Mr. Ed Harrington
Page 5
December 6, 2011

cc: The Honorable Ira Ruskin
Member of the Assembly
State Capitol, Room 4139
Sacramento, CA 95814

Members, Joint Legislative Audit Committee

Donald Parker, Chair
California Seismic Safety Commission
1755 Creekside Oaks Drive, Suite 100
Sacramento, CA 95833

Fred Turner, Senior Structural Engineer
California Seismic Safety Commission
1755 Creekside Oaks Drive, #102
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Michael Carlin, Deputy General Manager
San Francisco PUC
1155 Market Street, 11th Floor
San Francisco, CA 94103

Andrew DeGraca, Water Quality Division Director
San Francisco PUC
1657 Rollins Road
Burlingame, CA 94010

ATTACHMENT 1

A. LIST OF CHANGES / REORGANIZATIONS OF PROJECT DESCRIPTION MADE FROM 2002 CIP TO 2005 WSIP

The following 6 projects were added to the CIP in 2005:

- Programmatic EIR
- SFPUC/EBMUD Intertie (Completed with Proposition 50 Funding, June 30, 2008)
- Bay Area Regional Desalination Study
- Baden and San Pedro Valve Lot Improvements
- BDPL No. 4 Slipline PCCP sections assessment
- Watershed Improvement Program.

The following 7 projects were reassigned to the SFPUC Repair and Replacement Program or other SFPUC programs in 2005:

- BDPL 1 and 2 Repairs of Caisson and Pipe Bridge
- Early Intake Reservoir-Resurface Dam
- Early Intake Reservoir-Lower Spillway & Adjacent Weir
- Mountain Tunnel Lining
- Foothill Tunnel Repairs
- Water System Automation
- Sunol Quarry Reservoirs.

The following 14 projects in the CIP were revised in scope in 2005:

- San Joaquin Pipeline System
- Advanced Disinfection
- Additional 40 mgd Treatment Capacity at SVWTP
- Sunol Valley WTP-Treated Water Reservoir
- Calaveras Dam Replacement
- Bay Division PL 5
- SCADA – Phase II
- Pulgas Balancing Reservoir Rehabilitation
- Harry Tracy WTP Long Term Improvements
- Bay Division PL Seismic Upgrade at Hayward Fault
- Capuchino Valve Lot Improvements
- Crystal Springs/San Andreas Transmission System Upgrade
- Recycled Water Projects
- Groundwater Projects.

B. LIST OF CHANGES / REORGANIZATIONS OF PROJECT DESCRIPTION MADE FROM 2006 CHANGE NOTICE TO 2008 CHANGE NOTICE

- Advanced Disinfection combined with Tesla Portal Disinfection Facility
- Additional 40 MGD treatment capacity at SWWTP combined with SWWTP Treated Water Reservoir
- Irvington Tunnel and Alameda Siphon 4 combined into one project in the 2006 Change Notice are separated into 2 projects in the 2008 Change Notice
- BDPL 1 and 2 Repairs of Caisson and Pipe Bridge and BDPL 5 were combined into one project in the 2006 Change Notice. The 2008 Change Notice separates this scope of work into 3 projects
- Rehabilitation of Pulgas Balancing Reservoir, described as one project in the 2006 Change Notice is separated into 4 projects in the 2008 Change Notice
- Phase II SCADA system and security improvements separated into two projects
- San Joaquin Pipeline System separated into two projects
- Groundwater project separated into three projects
- Recycled water project separated into three projects.

C. LIST OF CHANGES / REORGANIZATIONS OF PROJECT DESCRIPTION MADE FROM 2008 CHANGE NOTICE TO 2009 CHANGE NOTICE

The following project was added to the WSIP in 2009:

- Peninsula Pipelines Seismic Upgrade: Geotechnical Evaluation of the San Andreas and Sunset Supply Pipelines.

The following 6 projects were revised in scope in 2009:

- San Joaquin Pipeline System
- Rehabilitation of Existing San Joaquin Pipelines
- Calaveras Dam Replacement
- San Antonio Back-Up Pipeline
- Seismic Upgrade of BDPL Nos 3 & 4
- Harry Tracy WTP Long Term Improvements.

Extended Schedules for the following 12 projects were adopted in 2009

- BDPL Reliability Upgrade (1 month)
- Adit Leak Repair - Crystal Springs/Calaveras (1 month)
- Upper Alameda Creek Filter Gallery (5 months)
- BDPL 4 Condition Assessment - PPCP Sections (9 months)
- University Mound Reservoir – North Basin (9 months)
- Regional Groundwater Storage and Recovery (9 months)
- Alameda Siphon #4 (10 months)
- Lower Crystal Springs Dam Improvements (10 months)
- Crystal Springs Pipeline No. 2 Replacement (15 months)
- San Antonio Backup Pipeline (18 months)
- BDPL Reliability Upgrade – Tunnel (19 months)
- Calaveras Dam Replacement (42 months).

D. LIST OF CHANGES / REORGANIZATIONS OF PROJECT DESCRIPTION MADE FROM 2009 CHANGE NOTICE TO 2011 CHANGE NOTICE

No projects were added to the WSIP for 2011:

The scope of the following 5 projects was modified in 2011:

- Seismic Upgrade of BDPL 3 & 4
- Peninsula Pipelines Seismic Upgrade
- Habitat Restoration Project
- Watershed & Environmental Improvement
- Regional Groundwater Storage and Recovery

The following projects were reassigned to a Water Enterprise CIP in 2011:

- Phase II Peninsula Pipelines Seismic Upgrade
- Lake Merced Water Level Restoration
- San Francisco Groundwater Supply
- San Francisco Westside Recycled Water
- Harding Park Recycled Water
- San Francisco Eastside Recycled Water

Extended Schedules for the following projects were adopted in 2011

- Lawrence Livermore Water Quality Improvements
- San Joaquin Pipeline System
- Tesla Treatment Facility
- New Irvington Tunnel
- Alameda Siphon #4
- Calaveras Dam Replacement
- San Antonio Backup Pipeline
- Sunol WTP Expansion and Treated Water Reservoir
- Upper Alameda Creek Filter Gallery
- Watershed Environmental Improvement Program
- Seismic Upgrade BDPL 3 & 4
- BDPL Reliability Upgrade – Tunnel
- BDPL Reliability Upgrade - Pipelines
- Lower Crystal Springs Dam Improvements
- Crystal Springs Pipeline No. 2 Replacement
- Harry Tracy WTP Long Term Improvements
- Baden and San Pedro Valve Lot Improvements
- University Mound Reservoir – North Basin
- Regional Groundwater Storage and Recovery

ATTACHMENT 2

COMMENTS ON SPECIFIC PROJECTS

1. THE TESLA TREATMENT FACILITY PROJECT

SFPUC operates an unfiltered Hetch Hetchy water system that supplies the San Francisco Regional Water System. In accordance with the Federal Long Term 2 Enhanced Surface Water Treatment Rule (LT2ESWTR), SFPUC must provide additional treatment for *Cryptosporidium* using chlorine dioxide, ozone, or ultraviolet (UV) irradiation. Based on bench scale testing and evaluation of 11 feasible alternatives, SFPUC selected UV irradiation for *Cryptosporidium* inactivation and has constructed a UV Disinfection facility at its Tesla Portal chlorination facility site. This Advanced Disinfection facility at Tesla Portal is essential for compliance with the LT2ESWTR. The compliance date for the SFPUC RWS is April 1, 2012. SFPUC must ensure that the Advanced Disinfection facility at Tesla Portal (including all required commissioning and permitting of the UV reactors and facility) is completed by March 31, 2012.

COMMENT:

The 2011 schedule extends project completion beyond the LT2ESWTR compliance date of April 1, 2012 and may jeopardize LOS goals for water quality. It is critically important to public health protection that the Tesla Treatment Facility be operated in full compliance with Federal and State requirements under the Safe Drinking Water Act on or before April 1, 2012.

2. SAN ANTONIO BACKUP PIPELINE

The San Antonio Backup Pipeline provides the capability of discharging up to 315 mgd of Hetch Hetchy flow that does not meet water quality requirements due to a treatment failure or raw water quality event. The project originally included 11,300 feet of 66 inch diameter pipe extending from the San Antonio Pump Station to San Antonio Reservoir and discharging to a stilling basin at the base of Turner Dam. In 2009 the project scope was revised to reduce the length of 66 inch pipe to 6,410 feet, and to change the discharge location to Sunol quarry, SMP-24, near the intersection of Calaveras Road and San Antonio Creek. The project also includes three tie-in facilities with air gap provisions to prevent cross-connection with the treated water supply and new chemical storage, chemical feed, and water quality monitoring facilities for dechlorination and pH adjustment. The 2011 schedule extends planned completion by 33 months, relative to the 2005 schedule, to March 2015.

COMMENT:

The San Antonio Backup Pipeline provides operational flexibility for the RWS in the event of a treatment failure or raw water quality event. Until project completion and including the initial years of operations for the Tesla Treatment Facility, the RWS will be operating without the benefit of this enhanced margin of safety.

The proposed cross-connection controls provide critically important public health protection for the RWS and its retail customers as required by Sections 7583 through 7605, Title 17, and Chapter 16, *California Waterworks Standards*, Title 22 of the California Code of Regulations. CDPH supports timely completion of this project, consistent with water quality and delivery reliability LOS goals.

3. SUNOL VALLEY WATER TREATMENT PLANT (SWWTP) EXPANSION AND TREATED WATER RESERVOIR

The 2008 Change Notice Report reported that the SWWTP Expansion and Treated Water Reservoir project combined two projects (Additional 40 MGD Treated Water Supply and Treated Water Reservoir (TWR) into one project at the SWWTP. The plant expansion is provided in response to the Delivery Reliability LOS goals to increase the sustainable capacity to 160 MGD during an outage of the Hetch Hetchy supply; and TWR is provided to meet the Water Quality LOS goals in order to respond to a CDPH compliance order. The 2011 schedule extends planned completion by 6 months, relative to the 2005 schedule, to December 2013.

The project includes: a new flocculation/sedimentation basin, a retrofit of the existing filters, and a single 17.5 MG circular TWR together with a new 3.5-MG rectangular chlorine contact tank. Other planned improvements at the SWWTP are: construction of new chemical storage and feed facilities for disinfection using sodium hypochlorite and ammonia, new fluoride facilities, a new filter washwater recovery basin, improvement to the influent chemical mixing system, and a new emergency generator.

COMMENT:

Taking into account all available data, CDPH supports that with the completion of the listed upgrades, SWWTP will reliably provide a sustained capacity of 160 MGD.

4. THE BAY DIVISION PIPELINES – BAY TUNNEL AND BAY DIVISION PIPELINE 5

The CIP identified projects to 1) rehabilitate portions of BDPLs 1 & 2 where they cross San Francisco Bay on a Caisson and Pipe bridge structure; and 2) construct a new BDPL 5. The 2006 Change Notice reported that the new BDPL 5 would be constructed within the BDPL 1 & 2 right of way, and a Bay Tunnel between the Newark and Ravenswood Valve Lots would allow abandonment of the Caisson and Pipe Bridge and the portions BDPLs 1 & 2 between these two valve lots. To assure operability of the system until the new BDPL 5 and Bay Tunnel could be constructed, the SFPUC conducted a condition assessment to determine survivability of pipes, pipe bridge, caisson, and submarine pipeline through the year 2020 and determined that the RWS has sufficient operational options to sustain water deliveries should a failure of the BDPLs 1 & 2 occur.

COMMENT:

This project combines two of the nine key projects listed in AB 1823, and provides critical water supply reliability for the RWS and its retail customers. The 2008 Change Notice reported that the Bay Division Pipeline Reliability Upgrade projects would be completed by March 2013, 11 months earlier than previously planned. The 2009 Change Notice reported that the schedule was extended by 19 months to August 2015. The 2011 schedule further extends planned completion to November 2015. Until the Bay Division Pipeline Reliability Upgrade projects are

completed, significant risks to public health and safety may remain due to the condition of the Caisson and Pipe Bridge. Any actions taken by SFPUC to assure timely completion of these critical projects should be reported in the AB 1823 required *Annual Progress Report on Implementation of WSIP* to the Joint Legislative Audit Committee, the CDPH, and the CSSC.

5. SEISMIC UPGRADE OF BAY DIVISION PIPELINES 3 & 4 & CROSSOVER/ISOLATION VALVES

This project provides a seismically resistant pipeline crossing where the BDPLs 3 & 4 crosses the Hayward Fault near the intersection of Mission Boulevard and Interstate 680 in Fremont. It provides for the construction of two new crossover/isolation valve vaults on either side of the Fault and for strengthening BDPL 3 & 4 between the two vaults. The planned April 2015 completion date is extended by 30 months relative to the 2005 schedule.

COMMENT:

This project is one of the nine key projects listed in AB 1823. It will, when completed, provide critical water supply reliability for the RWS and its retail customers, but the project is significantly delayed relative to the 2005 schedule due to the complex technical issues posed at the BDPL 3 & 4 - Hayward Fault crossing. Until this project is completed, significant risks to public health and safety may remain. Any management, or other, actions taken by SFPUC to assure timely completion of this critical project should be reported in the AB 1823 required *Annual Progress Report on Implementation of WSIP* to the Joint Legislative Audit Committee, the CDPH, and the CSSC.

6. HARRY TRACY WATER TREATMENT PLANT (HTWTP) LONG TERM IMPROVEMENTS

In response to the Seismic Reliability and Delivery Reliability LOS goals and the Water Quality LOS goals, the HTWTP Long-Term Improvements project is planned to achieve a sustained capacity of 140 MGD for at least 60 days, and to provide 140 MGD within 24 hours following a seismic event on the San Andreas Fault. Geotechnical investigations subsequent to the 2008 Change Notice confirmed that the existing slopes adjacent to the existing 6.5 and 8 million gallon (MG) Treated Water Reservoirs may be unstable under a design seismic event. This geotechnical finding resulted in a major change in scope for the HTWTP Long-Term Improvements project to include a new 11 million gallon Treated Water Reservoir and abandonment of the existing Treated Water Reservoirs. The 2011 schedule extends completion to December 2015, an 18 month delay relative to the 2005 schedule.

COMMENT:

CDPH supports SFPUC's determination that completion of the proposed technical improvements should allow HTWTP to achieve a sustained capacity of 140 MGD under most water quality conditions. Progress on this critical project and any action taken by SFPUC to assure timely completion should be reported in the AB 1823 required *Annual Progress Report on Implementation of WSIP* to the Joint Legislative Audit Committee, the CDPH, and the CSSC.

7. REGIONAL GROUNDWATER STORAGE AND RECOVERY

The purpose of this project is to develop a conjunctive use groundwater supply project for the South Westside Basin, San Mateo County. In normal and wet years, the SFPUC will supply supplemental surface water to Daly City, San Bruno, and the California Water Service Company (South San Francisco District) to be used in place of groundwater pumping. In dry years, Daly City, San Bruno, and the California Water Service Company (South San Francisco District) may be supplied with groundwater pumped from 16 groundwater wells to be constructed through this project. The project scope has been revised to include treatment facilities for contaminant removal, pH adjustment, and fluoridation.

COMMENT:

CDPH supports the change in project scope to include treatment facilities. The proposed treatment facilities provide critically important public health protections for the water systems and retail customers served by the groundwater wells to be constructed through this project.



State Of California

ALFRED E. ALQUIST
SEISMIC SAFETY COMMISSION



GOVERNOR EDMUND G. BROWN, JR.

December 20, 2011

12/22/11

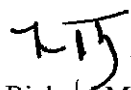
The Honorable Assemblyman Ricardo Lara, Chairman
Joint Legislative Audit Committee
1020 N St. Room 107
Sacramento, CA 95814

Dear Assemblyman Lara,

On behalf of the Seismic Safety Commission, I am pleased to provide you the attached comments on the significance of changes to the San Francisco Public Utilities Commission's Water System Improvement Program. The Commission reviewed documents provided by the SFPUC as well as comments from the Bay Area Water Supply & Conservation Agency and the California Department of Public Health.

Should you or your staff have questions regarding information contained in the attached comments, please do not hesitate to contact Fred Turner on the Seismic Safety Commission staff at 916-263-5506.

Sincerely,


Richard McCarthy
Executive Director

cc: Mr. Ed Harrington, SFPUC
Ms. Julie Labonte, PE, SFPUC
Mr. Art Jensen, PE, BAWSCA
Ms. Nicole Sandkulla, PE, BAWSCA
Ms. Leah Walker, PE, Ca Dept of Public Health
Ms. Betty Graham, PE, CA Dept of Public Health

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State Of California
SEISMIC SAFETY COMMISSION
GOVERNOR EDMUND G. BROWN, JR.



**Comments on the Significance of Changes in the
San Francisco Public Utilities Commission's
Water System Improvement Program (WSIP)
With Respect to Public Health and Safety**

December 20, 2011

Introduction

In 2002 the state enacted the Wholesale Regional Water System Security and Reliability Act (AB 1823, Chapter 841, 2002, Section 73502 of the State Water Code). The Act:

- Required the City and County of San Francisco to adopt a "program of capital improvement projects designed to restore and improve the Bay Area regional water system that are described in the capital improvement program report prepared by the San Francisco Public Utilities Commission (SFPUC) dated February 25, 2002"; and
- Lists nine key improvement projects for the regional water system commonly known as the "Hetch Hetchy" system; and
- States: "If the city adopts a change in the program that deletes one or more projects from the program, or postpones the scheduled completion dates, the city shall promptly furnish a copy of that change and the reasons for that change to the State Department of Health Services and the Seismic Safety Commission;" and
- Requires the Seismic Safety Commission (SSC) to "submit written comments with regard to the significance of that change with respect to public health and safety" within 90 days of receiving a notice of changes to the scope or schedule of the previously proposed 2002 SFPUC Capital Improvement Program (CIP) and subsequent changes.
- Required the SFPUC to produce a Program schedule by 2003 requiring that "projects representing 50 percent of the total program cost be completed on or before 2010 and that projects representing 100 percent of the total program cost be completed on or before 2015."

On September 8, 2011, the SSC received a notice of changes made by the SFPUC on July 12, 2011. This is the SSC's fourth review of changes to the Water System Improvement Program. Prior SSC reviews occurred in 2006, 2008 and 2010 in response to changes in the Program in late 2005, 2007 and 2009.

Scope and Limitations of these Comments

The SSC considered changes to the WSIP that the SFPUC made between July 2009 and July 2011 when generating the comments below. Appendix A lists the planned seismic safety projects and their schedule changes from the 2002 CIP to the 2011 WSIP including the nine key projects identified in the Act. The SSC also evaluated the SFPUC's efforts to address the SSC's January 2010 recommendations. In addition, the SSC considered construction progress to date.

The SSC's chairperson directed Commissioner Emir Macari to work with staff to prepare this report and make a presentation to the SSC at its November 10, 2011 meeting. A field trip on December 14th was

conducted to observe construction underway. Appendices B and C list sources of information used during this review.

As required by the Act, the SSC has prepared comments that address deletions of projects and schedule delays in the regional WSIP. The Act's comment period only allows for limited review and comments by SSC staff and commissioners. In addition, although some Commissioners and staff are licensed professionals who are familiar with certain technical aspects of the seismic design of water systems, in their roles of serving the public as Commissioners and staff, they do not perform engineering or other licensed work. Rather, the SSC's primary mandate is to provide policy advice to the Governor, the Legislature, and the public. Consequently, this effort does not constitute work by licensed professionals on the Commission or its staff. In generating the comments below, the SSC does not assume responsibility for the integrity or reliability of any aspect of the WSIP. The Commission also does not regulate, certify, approve or disapprove of the WSIP or any of its changes.

Notwithstanding the foregoing, in the interest of assisting the SFPUC and serving the public, the SSC has included additional comments and recommendations that it believes are relevant to public health and safety.

The Original Capital Improvement Program in 2002 and Major Changes in 2005

The SFPUC's water transmission system serves 26 wholesale customers in addition to delivering water to the San Francisco City Distribution Department's retail system. Together these 27 retail distribution systems (including San Francisco) serve approximately 2.5 million users. In 2002, the seismic upgrade component of the CIP was composed of a collection of projects intended to limit the loss of service to the SFPUC's wholesale customers following major earthquakes. The 2002 CIP was prepared and evaluated in an intuitive manner without the benefit of specific seismic performance objectives, quantitative analysis of alternatives, or a schedule that allowed for a programmatic environmental impact review (PEIR). The CIP was renamed the Water System Improvement Program and the SFPUC adopted more specific Levels of Service Goals and significant changes to the scope of the program in 2005.

Progress in the Water System Improvement Program as of July 2011

By July 2011, 93 percent of the project designs and 33 percent of construction had been completed for the 46 regional projects currently in the Program. As of November 9, 2011, construction is reportedly completed on 21 regional projects, 11 more than in July 2009 when the program was last revised. Construction is currently ongoing for 19 regional projects worth over \$2.5 billion out of the \$4.6 billion budget for the overall program. The SFPUC reports that seismic reliability of the water system is improving now that the following assets have been upgraded or built:

- San Antonio Pump Station
- Alameda Siphon #4
- First of three Bay Division Pipeline (BDPL) 3 and 4 Cross Facilities at Guadalupe
- Standby Power Facilities
- New Crystal Spring Bypass Tunnel
- San Andreas Pipeline No. 3 Installation
- Pulgas Balancing Reservoir
- Baden and San Pedro Valve Lots
- University Mound Reservoir

The WSIP's seismic reliability goals and objectives for Levels of Service have remained the same since they were first adopted as part of the 2005 revisions to the Program, with the exception of one refinement: The 215 million gallons per day (MGD) basic service flow (average winter-month usage) originally

associated with the goal was updated to 229 MGD based on the availability of updated winter-month usage records.

The most significant changes from the July 2009 to the July 2011 schedule were delays to twenty projects including seven key seismic safety projects:; 1) New Irvington Tunnel by 11 months; 2) Bay Division Pipeline Reliability Upgrade Tunnel by 3 months; 3) Seismic Upgrade Bay Division Pipelines 3 and 4 by 4 months; 4) Bay Division Pipelines 3 and 4 Crossover/Isolation Valves by 10 months; 5) Crystal Springs Pipeline No. 2 Replacement by 2 months.; 6) Bay Division Pipelines 3 and 4 Crossover/Isolation Valves by 10 months; 7) Calaveras Dam Replacement is further delayed by 8 months

Of the nine key seismic safety projects listed in State Water Code, all have been delayed significantly with respect to the 2002 schedule:

<u>Seismic Safety Project Referenced in the State Water Code</u>	<u>Scheduled Delay (Months) Relative to 2002 Schedule</u>	<u>Constr. Status*</u>
New Irvington Tunnel	62	In Progress
Crystal Springs to San Andreas Reservoir Transmission Upgrade	33	In Progress
Bay Division Pipelines 1 and 2 Repairs	See BDPL Reliability Upgrade	
Bay Division Pipeline (BDPL) Reliability Upgrade Tunnel	33	In Progress
Seismic Upgrade Bay Division Pipelines 3 and 4	56	Not Initiated
Alameda Siphon #4 Upgrade	34	In Progress
New Crystal Springs Bypass Tunnel	34	Completed
Bay Division Pipelines 3 and 4 Crossover/Isolation Valves	10	Completed
Calaveras Dam Projects	86	In Progress

*Reported by SFPUC staff regarding progress as of November 9, 2011

The State Water Code provides that the SFPUC may change projects and schedules in the Water System Improvement Program without outside permission, but that if San Francisco deletes or delays projects, the SSC must be informed. Appendix A presents the adopted changes to the Water System Improvement Program schedule since its original adoption by San Francisco in 2002. As of September 1, 2011, the SFPUC has completed construction and closed out fourteen regional projects, accelerated three projects, delayed twenty, and nine remain unchanged. However, the program will only experience an additional net delay of seven months beyond the 2009 schedule. And the Water System Improvement Program's overall completion will occur four months later than the date estimated in 2002 due to efforts to compress the construction schedule in the final years. Four Regional Projects have experienced major changes to their scope of work and none have been deleted since they were last reviewed in 2010.

Comments within the Scope of the Act

1. **Schedule Changes.** Revised estimates of completion dates for the projects originally identified as key for seismic safety are expecting cumulative delays from 10 to 86 months, averaging over three years in delays compared to the 2002 schedule. The effect of delays is a forestalling of seismic safety reliability for the regional water system. It is helpful to note that the U.S. Geological Survey estimates the probability of a major earthquake striking the region during any given three-year period—the time that the key seismic safety projects are delayed—is approximately three to six percent. These delays will increase the chance that major earthquakes will occur before critical seismic safety portions of the upgrade are completed.

The SSC notes that the SFPUC has incrementally reported delays 2005, 2007, and 2009 in addition to this latest set of delays.

2. **Project Scope Changes.** In comparing the July 2011 WSIP with the December 2009 WSIP there were no projects deleted.

Appendix A

Water System Improvement Program

Seismic Reliability Projects and Schedule Comparisons

The San Francisco Public Utilities Commission is undertaking a \$4.6 billion Water System Improvement Program to enhance the Hetch Hetchy water transmission system with an anticipated 2015 completion of seismic projects. The table below summarizes the major seismic reliability projects and compares schedules between the 2002 Program and subsequent changes in 2007, 2009 and 2011.

Water System Improvement Program Seismic Projects	Project Closeout Dates Estimated					2002 to 2011 Variance (Months)
	2002	2005	2007	2009	Sept 1, 2011	
Standby Power Facilities	Nov 2013	Dec 2010	Dec 2010	Dec 2010	Dec 2010	-35
New Irvington Tunnel	Aug 2009	Sep 2013	Dec 2013	Dec 2013	Oct 2014	+62
Alameda Siphon #4 Upgrade**	**	Apr 2011	Aug 2011	Jun 2012	June 2012	+34
Pipeline Repair & Readiness	Sep 2004	Mar 2007	Dec 2008	Dec 2008	Apr 2009	+55
Calaveras Dam Projects	May 2009	June 2012	May 2012	Dec 2015	July 2016	+86
Bay Division Pipelines 3&4 Crossover/ Isolation Valves	N/A	Sep 2008	Sep 2008	Sep 2008	July 2009	+10
Seismic Upgrade Bay Div. Pipelines 3&4	Aug 2010	Oct 2012	Dec 2014	Dec 2014	Apr 2015	+56
Bay Division Pipeline Reliability Upgrade Tunnel	Feb 2013	Jan 2014	Jan 2014	Aug 2015	Nov 2015	+33
Bay Division Pipeline Reliability Upgrade Pipeline	Feb 2013	Jan 2014	Mar 2013	Mar 2013	Mar 2013	+1
Bay Division Pipelines 3 & 4 Crossovers***	Jan 2013	N/A	Sep 2013	Sep 2013	May 2013	+4
New Crystal Springs Bypass Tunnel	May 2009	Oct 2010	Mar 2012	Mar 2012	Mar 2012	+34
Harry Tracy Water Treatment Plant Short Term Improvements	Nov 2012	Sep 2010	Sep 2010	Sep 2010	July 2010	-27
Harry Tracy Water Treatment Plant Long Term Improvements	Mar 2016	Apr 2014	Jun 2014	Jun 2014	Dec 2015	-3
Capuchino Valve Lot Improvements	Mar 2016	Jul 2009	Feb 2009	Aug 2008	Aug 2008	-91
Crystal Springs to San Andreas Reservoir Transmiss. Upgrade	Jul 2011	Apr 2014	Apr 2014	Apr 2014	Apr 2014	+33
Crystal Springs Pipeline No.2 Replacement	Nov 2015	Apr 2012	Apr 2012	Jul 2013	Sep 2013	-26
San Andreas No.3 Pipeline Installation	Nov 2014	June 2011	May 2012	May 2012	Nov 2011	-36
Baden & San Pedro Valve Lot	^	Oct 2011	Aug 2011	Aug 2011	Aug 2012	+10
Sunset Reservoir North Basin	Oct 2014	May 2009	May 2009	May 2009	Sep 2010	-49
Peninsula Pipelines Seismic Upgrade	^^		-	Dec 2014	July 2016	-
Bay Div Pipelines 1 & 2 Repairs***	Jan 2013	N/A	-	-	-	-
Overall WSIP Completion	Mar 2016	Jun 2014	Dec 2014	Dec 2015	July 2016	+4

Notes: Projects in bold are listed in CA Water Code Section 73502(b) added by AB 1823 (Chapter 841, Statutes of 2002)

** The Alameda Siphon Upgrade is now a separate project that was previously combined with the New Irvington Tunnel.

*** The SFPUC removed these projects from the WSIP since they are not required to achieve the new Levels of Service Goals.

Refer to the Bay Division Pipeline Reliability Upgrade Project for BDPL 1 and 2.

^ Completion date established in 2005; ^^ in 2009. **Page 5**

Appendix B

List of Documents Received/Reviewed

Notice of Changes to Water System Improvement Program, *San Francisco Public Utilities Commission (SFPUC)*, September 1, 2011.

Fiscal Year 2010-11 Annual Report Water System Improvement Program, *San Francisco Public Utilities Commission (SFPUC)*, September 1, 2011.

Letter from SFPUC's General Manager Harrington to CSSC, September 1, 2011.

Letter from SFPUC to CSSC November 9, 2011
Emails from BAWSCA, November 29, 2011.

Letter from DPH to JLAC, December 6, 2011 Response to September 1, 2011 Notice of Adopted Changes

Letter from CSSC to JLAC, December 6, 2011 requesting a delay.

Emails from SFPUC staff December 14, 15 and 16, 2011

Appendix C

Meetings with San Francisco Public Utilities Commission (SFPUC) Staff and California Seismic Safety Commission (SSC), its Ad Hoc Committee and SSC Staff

November 10, 2011: SSC Hearing, minutes available at www.seismic.ca.gov

December 12, 2011: Teleconference between Seismic Safety Commissioner Emir Macari, SSC Staff, SFPUC Staff, and BAWSCA staff

December 14, 2011: Field Trip by Commissioner Emir Macari, SSC staff and SFPUC staff to the Sunol Valley Water Treatment Plant, Alameda Siphons, New Irvington Tunnel, west end of Bay Division Pipeline 5 Bay Tunnel Ravenswood Shaft, Crystal Springs and San Andreas Reservoirs, and the Harry Tracy Water Treatment Plant

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**Bay Area Water Supply and Conservation Agency
and Regional Financing Authority**

Meeting Schedule through December 2012

Schedule for BAWSCA Board Meetings (Meetings are held from approx. 7:00 – 9:00 p.m.)	
<u>Date</u>	<u>Location</u>
Thursday – January 19, 2012	Wind Room, Foster City Community Center
Thursday – March 15, 2012	Wind Room, Foster City Community Center
Thursday – May 17, 2012	Wind Room, Foster City Community Center
Thursday – July 19, 2012	Wind Room, Foster City Community Center
Thursday – September 20, 2012	Wind Room, Foster City Community Center
Thursday – November 15, 2012	Wind Room, Foster City Community Center

Schedule for RFA Board Meetings (Meeting time will be announced)	
<u>Date</u>	<u>Location</u>
Thursday – January 19, 2012	Wind Room, Foster City Community Center
Thursday – July 19, 2012	Wind Room, Foster City Community Center

Schedule for BAWSCA Board Policy Committee Meetings (Meetings held from 1:30-4:00 p.m.)	
<u>Date</u>	<u>Location</u>
Wednesday, February 8, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, April 11, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, June 13, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, August 8, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, October 10, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.
Wednesday, December 12, 2012	155 Bovet Rd., San Mateo – 1 st Floor Conf. Rm.