

**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, March 15, 2012
7:00 P.M.**

AGENDA

- 1. Call to Order/Roll Call/Salute to Flag** (Pierce)
- 2. Comments by the Chair** (Pierce)
- 3. Board Policy Committee Report** *(Attachment)* (Klein)
- 4. 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.
- 5. Consent Calendar** (Pierce)
 - A. Approve Minutes of the January 19, 2012 Meeting *(Attachment)*
 - B. Receive and File Budget Status Report – As of January 31, 2012 *(Attachment)*
 - C. Receive and File Investment Report – As of January 31, 2012 *(Attachment)*
 - D. Resolution Appointing John Ummel as Temporary Senior Administrative Analyst Emeritus *(Attachment)* *(To be adopted by Roll Call Vote)*
- 6. Action Calendar** (Jensen)
 - A. Resolution honoring John Ummel for his retirement after 17 years of services for BAWSCA *(Attachment)*
- 7. SFPUC Report** (Harrington)
- 8. Reports** (Jensen)
 - A. Preliminary Fiscal Year 2012-13 Work Plan and Budget *(Attachment)*
 - B. Announcements
 - FY 2011-12 Statement of Economic Interest FPPC Form 700

9. Study Session: Long-Term Reliable Water Supply Strategy – Water Transfers (Attachment) (Sandkulla)

Issue: As part of its Long-Term Reliable Water Supply Strategy, BAWSCA is investigating potential alternatives for additional normal year and dry year supply, including water transfers. It is expected that the Board could take action as early as Fall 2012 on some aspect of implementing Strategy recommendations.

Information to the Board: In order to prepare the Board for potential future actions on the Strategy, an informational Study Session focused on Water Transfers will provide information to the Board to achieve a common level of knowledge concerning water transfers being investigated by BAWSCA.

Action requested from the Board: No action is requested of the board as part of this Study Session.

10. Closed Session -- Conference With Legal Counsel – Anticipated Litigation (Schutte)
Initiation of Litigation pursuant to Government Code 54956.9(c).
(One Potential Case)

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

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

13. Adjourn to next meeting scheduled for May 17, 2012 at 7pm (Pierce)

*Upon request, the Bay Area Water Supply and Conservation Agency will provide for written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. Please send a written request, including your name, mailing address, phone number and brief description of the requested materials and the preferred alternative format or auxiliary aid or service at least two (2) days before the meeting. Requests should be sent to: **Bay Area Water Supply & Conservation Agency, 155 Bovet Road, Suite 650, San Mateo, CA 94402** or by e-mail at bawsca@bawsca.org*

*All public records that relate to an open session item of a meeting of the 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 650, 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.

BAWSCA

Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board Members

FROM: Arthur R. Jensen, Chief Executive Officer

DATE: March 9, 2012

SUBJECT: Summary of Board Policy Committee meeting held February 8, 2012

Committee Chair Larry Klein called the meeting to order at 1:30 pm. A list of Committee members present (8) and absent (2), and of other attendees is attached.

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

Consent Calendar:

Approval of the Minutes from the December 14, 2011 Meeting: With the correction on the fourth bullet on page 7 of the Minutes noted by Director Pierce, the Committee approved the minutes from the meeting of December 14, 2011. Three committee members abstained.

Action Items:

There were no action items.

Discussion Items: Chair Klein moved item 6B up on the agenda.

Potential Bond Issuance to Pre-Pay Capital Debt Owed to SFPUC: Mr. Jensen introduced David Brodsky from KNN, who was invited to the meeting to answer committee members' questions about the potential bond issuance Mr. Brodsky is one of the two managing Directors of KNN, BAWSCA's financial advisors since 2003. Mr. Brodsky has served as financial advisor to cities, water districts and governmental agencies throughout California. Prior to being with KNN, Mr. Brodsky was Vice-President and Senior Credit Officer with Moody's Investors Service.

Mr. Jensen reported that the objective of the bond issuance would be to help water customers by lowering the cost of water purchased from San Francisco. He explained that under the 1984 Settlement Agreement and Master Water Sales Contract between San Francisco and its Wholesale Customers, agencies repaid San Francisco for their share of infrastructure investments over the life of the assets, which could be 15 to 80 or more years. Under the

2009 Water Supply Agreement, the agencies agreed to pay their proportion of infrastructure investments costs in real time, as a percentage of debt service on bonds or a percentage of revenue-funded projects. At the end of the 1984 contract, there remained a present value of approximately \$370 million of payments for old projects still owed to San Francisco, and those payments would have stretched out over several decades.

To resolve the outstanding amount owed, the 2009 Water Supply Agreement provides that the \$370 million would be paid amortized over the 25-year life of the Agreement at a 2009 interest rate of 5.13%. The Agreement also provides that the remaining balance can be prepaid at any time without penalty.

San Francisco initiated the discussion of whether BAWSCA could issue bonds to prepay this debt. If BAWSCA issued bonds and were repaid by its members, the bonds could quite possibly be sold at interest rates much lower than 5.13%. Interestingly, everyone may stand to gain in different ways.

BAWSCA member agencies could experience a net cost savings. KNN's preliminary estimate is that the net savings to BAWSCA's members could be as much as \$35 million over the next 25 years. The net savings would result from the difference between the payments to BAWSCA and a lower-than-otherwise cost of water from San Francisco.

San Francisco would benefit from the infusion of cash which could reduce the size of San Francisco's anticipated retail rate increase in 2015, increase the SFPUC's reserve cash balance, and have a positive impact on SFPUC's credit rating.

Mr. Jensen stated that it is critical to examine all possible issues that might affect the feasibility and approach to issuing such bonds. One potential issue includes whether BAWSCA's existing authority to issue bonds allows this type of use of bond funds. Mr. Jensen explained that if BAWSCA issued bonds, BAWSCA will be paying debt to San Francisco that is owed by its members, under an agreement to which BAWSCA is not a signatory. If BAWSCA's enabling legislation does not cover issuance of bonds for this purpose, the enabling statute might be able to be modified to enable the water customers to realize the potential benefit.

There are a variety of other financial issues that are being examined by BAWSCA's legal counsel and financial advisor, in conjunction with SFPUC staff. Mr. Jensen expects that outside bond counsel will need to be hired at a modest initial expense to help assess the feasibility of moving forward. He stated that it is important to ensure that the objective of lowering the wholesale customers' cost of water purchased from San Francisco is met. To that end, BAWSCA would need to ensure that San Francisco's use of the funds would not result in increased rates to the wholesale customers, and that allocation of net savings among the 26 wholesale customers would be made in an fair manner.

In addition, identifying an appropriate institutional arrangement might be important for securing good bond ratings. For example, it might be necessary to generate agreements between BAWSCA and each member agency.

The refinance appears to be advantageous to both San Francisco and the Wholesale Customers, and deserves thoughtful considerations.

Director McLeod asked if the bond ratings of individual agencies could be impacted by BAWSCA issuing bonds. Mr. Brodsky stated that while there are technical issues that call for due diligence, a positive impact to the member agencies are more likely than an adverse impact.

In response to Director Pierce's question, Mr. Brodsky explained that bond issuance by either BAWSCA is not problematic. The challenging part is the nature of the underlying contracts that secure the bonds because there is no existing system through which BAWSCA charges its members "water rates" that can serve as a basis.

Mr. Brodsky confirmed that the savings of up to \$35M over 25 years is a net present value, and that the interest rate would be at an average of under 4%.

Director Weed noted that the Alameda County Water District recently issued bonds totaling \$47 M at an interest rate of 3.21%.

Director O'Connell asked how long would it take to do all that needs to be done and how long the low interest rates would be available. Mr. Brodsky stated that there are reasons to believe that low interest rates will remain into 2013, however, they can be affected by unforeseen events.

Mr. Brodsky noted that there is a substantial amount of work to be done under a tight schedule, and an August bond issuance would arguably be an ambitious deadline. He stated that progress can also depend on the need for local agency approvals.

Mr. Jensen commented that if agency approvals are needed for contracts, BAWSCA can move the process as it did with the Drought Implementation Plan, Water Supply Agreement, and the creation of BAWSCA, which took approximately four months, once all of the materials and documents had been prepared.

Mr. Jensen stated that the feasibility of issuing bonds, and the pros and cons, would be brought to the Committee before it was brought to the Board to ensure a thorough understanding prior to making a decision. He noted it would also be important to communicate with the member agencies so that they would be informed and prepared to act on any agreements needed to implement the idea.

As a response to the Director O'Connell's question about the potential impact of the November elections on interest rates, Mr. Brodsky stated that it is difficult to predict what factors will affect interest rates. He noted that if the market opportunity passes by, the benefit of having developed an intellectual infrastructure to do the financing would put BAWSCA and the agencies in a position to do the financing swiftly the next time a favorable market occurred.

In response to a question from Director Klein, Mr. Brodsky stated that there is high probability that the re-finance can be done. He said to his knowledge, all 26 member agencies could individually issue bonds, and pool together the money to pay off the debt. However, it would be a very complex and cumbersome process. A simple method would be for BAWSCA to issue bonds on behalf of the 26 member agencies.

Mr. Brodsky stated that despite the challenges, he is confident that a method could be developed to secure bonds that can pay off the debt.

Mr. Jensen stated that if the re-finance is feasible, and assuming that issuing bonds is a part of the Work Plan for FY 2012-13, work would begin in Spring or, at the latest, early Summer. A cost of \$50K to look at feasibility is available in the existing budget. The out-of-pocket cost associated with issuing bonds is estimated at \$435,000 and could be funded during FY 2012-13, as he will explain when he presents the preliminary budget for next year.

Director Weed asked how individual agency's debt rating could be impacted. Mr. Brodsky does not see a negative impact to individual agencies, but states that the payments to BAWSCA may be a reportable obligation. Mr. Brodsky stated that since the contracts have yet to be developed, it is unknown how they would be reported. He expects them to be operating contracts which would be considered as off-balance sheet debt, which are typically used to restructure an existing obligation, and are viewed by rating agencies as such.

Director Breault asked if the nature of the existing capital debt repayment and structure, and the authority BAWSCA and the RFA have to issue bonds, require unanimity among all the member agencies, or could agencies opt out? Legal Counsel, Allison Schutte stated that issuance of bonds would require a 2/3rd's vote of the BAWSCA Board.

Director Breault also asked what would happen to debt coverage in the case that an agency defaults.

Mr. Brodsky stated that a tried and true mechanism would be a 25% step-up, which the State Water Contracts applied, but never exercised. Director Weed asked what bond rating KNBN had assumed in developing its estimate. Mr. Brodsky replied that they assumed a AA- rating. Mr. Brodsky stated that not all the debt could be tax exempt.

Director Guzzetta asked if there was anything in the law that would allow privately-owned entities to use tax exempt bonds because the benefit is to the customers, and not to the company.

Mr. Brodsky said not at this time, but he was willing to explore that question.

As a response to Director Pierce's question of whether the materials provided in the packet were sufficient, members of the Committee suggested to highlight the potential risk factors, and the inclusion of all the information available at the time the matter is brought before the Board.

Mr. Jensen clarified that the feasibility study is being done now. When the bond issuance is proven to be the right thing to do, the Committee and the Board will be asked to authorize the resources needed to move forward. Mr. Jensen stated that the \$435,000 is the estimate for the out-of-pocket cost, and does not include costs that would be paid upon issuance of the bonds. The total cost of issuance would likely exceed of \$2M.

Ms. Schutte noted that compared with ACWD's recent bond issuance, the cost of issuance for BAWSCA with its 26 member agencies would have a higher price tag because of its complexity and the fact that it does not have a history of issuing bonds.

Director Pierce requested that all benefits of establishing the intellectual infrastructure be presented to the Board in March, regardless of how big or little they may be. As well as information on the revenue stream.

Mr. Jensen stated that a graph can be presented to show what the current debt payments look like now in comparison to what they would look like with the bond issuance based on some assumptions.

Director Breault commented that some people may see very little savings over the long period of time and ask, "Why bother?" The Committee agreed with Mr. Jensen who stated that he would not want to answer a question about why an opportunity to save \$35M was not examined.

Director Guzzetta stated that the savings does not have a "wow" factor, but it is the right thing to do. The Committee agreed.

Director Weed suggested that it would be helpful to provide the net present value and the bond rating assumptions.

Mr. Jensen thanked the Committee for the questions and comments.

Preliminary Fiscal Year 2012-13 Work Plan and Budget: Mr. Jensen reported that the preliminary Work Plan for FY 2012-13 covers all activities regardless of the source of funding, whether through the Operating Budget, the Water Management Charge, or payments for Subscription Water Conservation Services.

The Work Plan continues to address BAWSCA's goals of ensuring a reliable supply of high-quality water at a fair price, as well as agency effectiveness. The presentation of the preliminary budget, however, is restricted to the Operating Budget for two reasons: the use of Water Management Charge revenue is restricted to a one-time study and the amount of subscription services and associated revenue depends on decisions made by member agencies once their budgets are adopted.

A substantial portion of the Work Plan has to do with ensuring both near-term and long-term reliability of water supply and delivery.

The work involved in the Long-Term Reliable Water Supply Strategy (Strategy) includes ensuring that reliable, high-quality supply of water is available where and when needed through the year 2035. It also addresses achieving a desired level of drought reliability, as well as providing a consistent and defensible basis for regional water planning. Mr. Jensen noted that the Work Plan includes the development of a common methodology for projecting water demands throughout the 26 service areas.

Near-term decisions stemming from development of the Strategy will focus on achieving sufficient drought reliability. In addition, continued implementation of core and subscription water conservation programs addresses the near-term solutions for water supply reliability.

With respect to the reliability of water delivery, BAWSCA will continue to monitor the SFPUC's WSIP scope, schedule and budget, focusing on construction and overall program

management, project schedules and cost control. BAWSCA will take appropriate actions as necessary.

Protecting the members' interests will require BAWSCA's involvement in several major activities that affect water supply reliability including the FERC relicensing process of New Don Pedro Reservoir, the SFPUC's water transfer with Modesto Irrigation District (MID), and the current efforts by proponents of draining Hetch Hetchy reservoir.

The continued administration of the 2009 Water Supply Agreement (WSA) includes an effort to amend the Tier 1 drought allocation formula with the SFPUC, as well as amending the WSA to revise the provision that states "San Francisco will complete construction of the physical facilities in the WSIP by December 31, 2015," a date which the Commission has extended to mid-2016.

Finally, BAWSCA will pursue grant opportunities independently and in coordination with other agencies, and implement the use of Proposition 84 grant funds awarded for water conservation in 2011.

Directors discussed and asked questions about the preliminary Work Plan.

Director McLeod asked whether BAWSCA was considering each agency's other sources of water when looking at drought reliability. Mr. Jensen stated that the efforts to obtain the desired level of drought reliability will be consistent with the approach taken to date, which considers each agency's other sources of supply as local assets and not subject to reallocation unless those supplies are offered for study by the agency. Mr. Jensen noted that the drought allocation between BAWSCA member agencies will expire in 2018, which is one reason the matter appears in the Work Plan for FY 12-13.

Director McLeod asked if BAWSCA participates in any discussions with cities to gain a regional perspective on how cities might be impacted to ensure there is an overall balance.

Ms. Sandkulla stated that BAWSCA does not currently participate in any regional discussions of that nature, however, through the efforts on the Strategy, BAWSCA has initiated discussions among its member agencies about dry-year water supplies, which agencies want it, and at what level. Information is still being compiled and the question of how much to invest in drought reliability will be brought to the Committee and Board for discussion and consideration at a later date.

In response to Director McLeod's question about compliance with State greenhouse emission regulations, Ms. Sandkulla explained that since BAWSCA is not a supplier, it is not required to comply. However, because the SFPUC and individual agencies address it in their facilities plans, compliance is covered. Ms. Sandkulla noted that if BAWSCA develops a water supply project, BAWSCA's roll relative to compliance may change depending on how such a project was implemented.

To ensure fair price, BAWSCA will continue to perform matters delegated to it by member agencies through the WSA. In addition, BAWSCA would pursue whether wholesale customers would benefit from BAWSCA issuing bonds to retire capital debt owed to San Francisco, as discussed earlier.

BAWSCA will continue to support member agencies in receiving reliable communication of water quality events, and coordinate member agency participation in Water Quality Committee established by the WSA.

In the context of developing new water supplies or implementing water transfers, Director McLeod asked about how the mix of different water sources is addressed to ensure high quality water, and if there would be some value gained from a discussion that could set a minimum standard that exceeds basic drinking water requirements. Mr. Jensen explained that the WSA address water quality impacts if BAWSCA or member agencies transfer water through the San Francisco Regional Water System facilities.

Director Weed commented the inclusion of the number of personnel hours required to accomplish each of the functions in the Work Plan, and how the workload is distributed. Mr. Jensen stated that charts can be provided to show where the relative levels of effort associated.

Director Weed stated that one of BAWSCA's biggest challenges is the effort to drain Hetch Hetchy and that he finds it valuable to encourage the SFPUC to have water system tours to educate the government leaders, agency staff and others about the significance of system, and to gain a full understanding of it.

Mr. Jensen noted that BAWSCA's predecessor organization, BAWUA, used to conduct tours, which later evolved to a sponsorship of the Water Education Foundation's (WEF) tour of the Hetch Hetchy system. The tours stopped three years ago after proponents of draining Hetch Hetchy consumed a disproportionate use of the tour to promote their agenda. Mr. Jensen will discuss the idea with the SFPUC.

Mr. Jensen also noted that the Work Plan includes assessing the risks associated with efforts to drain Hetch Hetchy, and that he welcomes members of the Board to contact him with any questions.

Director Guzzetta stated that aside from the efforts of Restore Hetch Hetchy, he stated that there might be value in educating agency staff members who deal with the system and the public on a daily basis. It may not involve going to Hetch Hetchy, but perhaps an educational program that would provide information so agency staff can become better ambassadors of the system. The Committee agreed to request the CEO look into what resources would be needed to provide such a program.

Mr. Jensen reported that the preliminary Operating Budget is estimated at a range between \$2.6M and \$3M. The upper end estimate included \$435,000 associated with the possibility of issuing bonds.

Funding alternatives included funding the \$435K for issuing bonds through the General Reserve, should the Board decide to move forward with that activity.

Another alternative included decreasing the as-needed consulting budgets by 10% to reduce the budget by \$30K and increasing the contingency budget by \$30K for the CEO to use if and when needed.

Options for reducing the size of the preliminary budget include removing salary and benefit adjustments that are included in the initial estimate. Due to recent economic conditions and cost-cutting actions taken by many member agencies, BAWSCA has deferred making adjustments to staff position salary ranges to reflect the results of compensation surveys or implement COLA adjustments. The preliminary budget number included top-step salary adjustments for two positions, which totaled \$7,400, and COLA adjustments for positions other than the CEO amounting to \$17,000. Mr. Jensen stated that the budget could be reduced by \$24,400 if these adjustments were omitted.

Mr. Jensen then reported that the budget can be funded without an increase to the assessments. He noted that the General Reserve would continue to grow even if bonds were issued using the General Reserve funds.

Several alternatives were examined for managing the General Reserve balance. One that Mr. Jensen recommends is to either use a portion of the General Reserve to pay the out-of-pocket costs for issuing bonds, or rebate a similar amount to agencies in the event bonds are not issued. In addition, reduce assessments by 7% as part of the budget process for FY 2013-14.

Other alternatives included reducing assessments by 15% the first year, and increasing assessments by 9.5% the following year.

The Committee discussed and offered comments on the preliminary Work Plan, Operating Budget and funding plan.

Director O'Connell and other members asked that the presentation of budget alternatives be clarified.

Director O'Connell expressed her concern with removing the top-step salary adjustments for two positions. She said that while all cities continue to cut back and freeze wages, BAWSCA's personnel are unlike those of other cities. The skill set of BAWSCA's personnel positions fit the unique need of the agency and its member agencies. To lose a person would mean a lot of training for the replacement, and she would be interested in retaining the employees as opposed to losing them to save \$7,400.

Director McLeod concurred with Director O'Connell.

Director Breault suggested that it should be noted to the Board that the funding alternatives presented by Mr. Jensen are alternatives that the Board Policy Committee discussed and found that no further development of information to be necessary.

The Committee supported the results to be achieved, the preliminary Operating Budget, the use of the General Reserve to fund the possible issuance of bonds and the schedule for reducing assessments by 7%. The Committee also agreed that it does not support removing the top-step salary adjustments for two positions to save \$7,400.

Update and Reports:

Meeting with Mayor Lee held February 3, 2012: Director Pierce reported that a meeting with San Francisco Mayor Lee was arranged by Assembly Member Jerry Hill on February 3rd.

She attended the meeting on behalf of BAWSCA with Art Jensen, Director Chuck Reed, and Bud Wendell. San Francisco members included Ed Harrington and Tony Winnicker.

Two messages delivered at the meeting were that the mayor consider the regional significance of the water system and the importance of the Wholesale Customers who pay the majority of regional system costs when he appoints a new SFPUC general manager to succeed Ed Harrington, and when he makes appointments or reappointments for the three seats on the commission for which the current terms expire this year.

Top priorities for the new general manager must remain completion of the WSIP on schedule and within budget, as well as ensuring water customers would be protected should the movement to drain Hetch Hetchy Reservoir go forward.

Mr. Jensen reported that Mayor Lee was receptive to BAWSCA's concerns and pledged to have Ed Harrington work with Art Jensen to address protection of water customers. Mayor Lee also acknowledged his understanding of the regional nature of the water system and pledged to pick Ed's successor with care.

Long-Term Reliable Water Supply Strategy – Status Report: Ms. Sandkulla reported that the Study Session with the Board about water transfers will be scheduled for the March Board meeting. A presentation will be given and will require no Board action. The objective is to achieve a common level of understanding about water transfers, and provide information to support further Board decisions with respect to drought and water supply reliability.

Director Breault suggested that information should be provided in a simple format with lots of graphics.

SFPUC Water System Improvement Program – Evaluation of SFPUC Response to BAWSCA Comments: Ms. Sandkulla reported that BAWSCA received the SFPUC's response to its December 7th letter containing six recommendations regarding the WSIP. The letter had a positive response and was appreciative of BAWSCA's efforts on behalf of the wholesale customers.

The SFPUC agreed with two of BAWSCA's recommendations and will include additional information on cost and schedule trends in reports submitted to the Commission and the public, including the Quarterly Reports. The SFPUC will also analyze approved WSIP change orders to confirm conformance with existing policy.

BAWSCA will follow up with Julie Labonte and her staff to discuss other outstanding areas of concern, including the inclusion of trends in both cost and schedule estimates, and how sufficient information on WSIP trends could be provided to the public and policy makers to help set realistic expectations. Any further developments will be shared with the Board at future meetings.

Comments by Committee Members: Regarding current water supply conditions, Ms. Sandkulla reported that in spite of this relatively dry winter, San Francisco anticipates no mandatory rationing given the continued low water use and last year's wet season.

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

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE – February 8, 2012

Roster of Attendees:

Committee Members Present

Larry Klein, City of Palo Alto (Chair)
Rob Guzzetta, California Water Service Company (Vice-Chair)
Robert Anderson, Purissima Hills Water District
Randy Breault, City of Brisbane/GVMID
Jamie McLeod, City of Santa Clara
Irene O'Connell, City of San Bruno (BAWSCA Vice-Chair)
Barbara Pierce, Redwood City (BAWSCA Chair)
John Weed, Alameda County Water District

Committee Members Absent

Ruben Abrica, City of East Palo Alto
Tom Piccolotti, North Coast County Water District

BAWSCA Staff:

Art Jensen	Chief Executive Officer
Nicole Sandkulla	Water Resources Planning Manager
John Ummel	Sr. Administrative Analyst
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
David Brodsly	Kelly, Norcross & Nobriga (KNN), Financial Advisor

Public Attendees:

Peter Drekmeier	Tuolumne River Trust
Marilyn Mosher	City of Hayward
Michelle Sargent	San Francisco Public Utilities Commission
Nico Procos	City of Palo Alto

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

**January 19, 2012 – 7 p.m.
Foster City Community Building, Foster City CA**

MINUTES

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. Eighteen (18) members of the Board were present, constituting a quorum. A list of directors present (18) and absent (8) is attached.

Chair Pierce welcomed Charlie Bronitsky as a new member of the BAWSCA Board representing the City of Foster City.

Special Order of Business – Election of Officers for Calendar Year 2012:

Vice-Chair O’Connell conducted the portion of the meeting that called nominations for the position of Chair of the BAWSCA Board. Director O’Mahony nominated Barbara Pierce for Chair. Director Coverdell seconded the nomination. There being no other nominations, nominations were closed by consensus.

Director O’Mahony made a motion to close the nominations, seconded by Director Chambers, and that Barbara Pierce be elected as Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2012 to commence at the adjournment of the meeting at which she was elected.

Chair Pierce called for nominations for the position of Vice-Chair. Director Quirk nominated Irene O’Connell as Vice-Chair of the board, and was seconded by Director Kasperzak. Director McLeod nominated Jim Griffith as Vice-Chair. Director Griffith appreciated the nomination, however given his newness to the Board, declined the nomination. There being no other nominations, nominations were closed by consensus.

Director Gomez made a motion, seconded by Director McLeod to close the nominations and that Irene O’Connell be elected as Vice-Chair of the Bay Area Water Supply and Conservation Agency Board of Directors for calendar year 2012 to commence at the adjournment of the meeting at which she was elected.

Consent Calendar:

Director Bronitsky made a motion, seconded by Director Quirk, that the minutes of the November 17, 2011 Board meeting be approved, and that the Budget Status

Report ad of November 30, 2011, the Quarterly Investment Report as of December 31, 2011, and the Director's Reimbursement Report as of December 31, 2011 be received and filed.

Action Calendar:

A. Mid-Year 2011-12 Work Plan and Budget Review:

Director Klein made a motion, seconded by Director Quirk, that the Board approve the following adjustments to the Work Plan and 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 in 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 of 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.**

The motion carried unanimously.

B. Amendment to Policies and Procedures for the Purchase of Equipment and Supplies/Award of Contracts:

Director Quirk made a motion, seconded by Director Anderson, that the Board of Directors adopt the proposed resolution revising the Procurement Policy to:

- a. 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.**
- b. Limit the CEO/General Manager's authority to approve change orders and amendments \$25,000.**
- c. Require the CEO/General Manager to report all change orders and amendments to the Board in the budget status reports.**
- d. Increase the limits for formal solicitation of bids for purchases of equipment and supplies.**

The motion carried unanimously.

Adjournment: The meeting adjourned at 8:27pm

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
January 19, 2012

Attendance Roster

Present:

Robert Anderson	Purissima Hills Water District
Randy Breault	Guadalupe Valley Water District
Charlie Bronitsky	City of Foster City
Tom Chambers	Westborough Water District
Ken Coverdell	Coastside County Water District
Armando Gomez	City of Milpitas
Jim Griffith	City of Sunnyvale
Rob Guzzetta	California Water Service Company
Mike Kasperzak	City of Mountain View
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
Bill Quirk	City of Hayward
John Weed	Alameda County Water District

Absent:

Ruben Abrica	City of East Palo Alto
Cyril Bologoff	City of Brisbane
Kelly Fergusson	City of Menlo Park
Michael Guingona	City of Daly City
Tom Kasten	Town of Hillsborough
Dan Quigg	City of Millbrae
Chuck Reed	City of San Jose
Louis Vella	Mid-Peninsula Water District



Bay Area Water Supply & Conservation Agency

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

TO: Arthur R. Jensen, CEO

FROM: Deborah Grimes and John Ummel

DATE: March 6, 2012

SUBJECT: Operating Budget Status Report as of January 31, 2012

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 seven month period ending January 31, 2012, total expenditures were \$1,237,133 or 47 percent of the total budget of \$2,619,705.

Table 1. Operating Budget Summary as of January 31, 2012

Cost Category	Year-To-Date		
	Budget	Expenses	Percent
Consultants /Direct Expenditures			
Reliability	833,930	373,675	45%
Fair Pricing	233,00	81,607	35%
Administration	112,000	78,612	70%
Subtotal	1,178,930	533,894	45%
Administration and General			
Salary & Benefits	1,075,875	571,427	53%
Other Expenses			
BAWSCA	258,900	131,626	51%
BAWUA	1,100	0	0%
Subtotal	2,514,805	1,236,947	49%
Capital Expenses	6,000	0	0%
Budgeted Contingency	97,500	0	0%
Regional Financing Authority	1,400	187	13%
Grand Total	2,619,705	1,237,133	47%

Overview:

Overall expenditures are tracking as expected.

Consultants

The \$160,000 budget for technical review and tracking of the SFPUC's Water System Improvement Program was 39 percent expended. The Operating Budget allocation of \$190,000 for strategic counsel, was 46 percent expended. The Operating Budget allocation of \$390,000 budget for legal counsel was 65 percent expended. Expenditures for strategic and legal support of the Long-Term Reliable Water Supply Strategy are within their respective budgets. The \$293,930 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 29 percent expended.

Administration

Salary/fringe budgets were 53 percent expended.

Other Expenses

The budget for other expenses was 51 percent expended.

Use of CEO's Discretionary Spending Authority:

None during this reporting period

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 2011-12 budget if needed. The BAWSCA General Reserve balance shown below does not reflect this transfer but does include a transfer into the General Reserve of \$435,324 of unspent funds from FY 2010-11. The balance also reflects the withdrawal and refunding 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 11/30/11)	Account Balance (As of 01/31/12)
General Reserve	\$916,897	\$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 FY 2010-11. Funding is provided through the Water Management Charge, approved by the Board in July 2010. As of January 31, 2012, Water Management Charge revenue totaling \$2,296,788 has been collected by and received from the SFPUC. Consultant invoices received and paid during through January 31, 2012 total \$939,310. In accordance with the July 2010 Board authorization of the Water Management Charge, collection of the Charge ended once the total amount had been collected in December 2011.



Bay Area Water Supply & Conservation Agency

155 Bovet Road, Suite 650
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: March 6, 2012

SUBJECT: Investment Report – As of January 31, 2012

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>12/31/11</u>	<u>01/31/12</u>
\$3,026,449	\$2,941,307

Of the total in the BAWSCA LAIF account as of January 31, 2012, \$916,897 represents BAWSCA's General Reserve Fund, equivalent to approximately 35 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>11/30/11</u>	<u>12/31/11</u>
0.48%	0.38%

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Item Title: **Resolution Appointing John Ummel as Temporary Senior Administrative Analyst Emeritus**

Summary:

As required by PERS, Board findings are required before John Ummel, recently retired from BAWSCA, can be appointed to the temporary position of Senior Administrative Analyst Emeritus to provide BAWSCA with essential services.

Fiscal Impact:

Funds were budgeted and are available for FY 2011-12. The proposed FY 2012-13 budget also includes the expected necessary funding.

Board Policy Committee Action:

This was an administrative item not presented to the Board Policy Committee.

Recommendation:

That the Board approve the attached resolution approving the appointment of John Ummel to the temporary position of Senior Administrative Analyst Emeritus, and making associated findings in support of such an appointment.

Discussion:

Although John Ummel is retiring from BAWSCA, his services continue to be necessary in order to effect a smooth transition to his successor without jeopardizing BAWSCA's ability to review and audit issues relative to the wholesale water purchase agreement with San Francisco. The California Government Code allows the temporary employment (no longer than one year without additional Board approval) of a PERS covered retiree only under specified conditions, and only if the person works no more than 960 hours per fiscal year. The attached resolution includes findings that the Board must adopt in order for the CEO to appoint John Ummel to a temporary position in compliance with all legal requirements.

Attachments:

1. Resolution for the temporary appointment of John Ummel as Senior Administrative Analyst Emeritus.

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RESOLUTION NO. 2012- 02
BY THE BOARD OF DIRECTORS OF THE
BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

TEMPORARY APPOINTMENT OF JOHN UMMEL
AS SENIOR ADMINISTRATIVE ANALYST EMERITUS

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, section 81408 of the Act authorizes the Board of Directors of BAWSCA (the "Board") to (i) employ employees that it determines are necessary or convenient to operate BAWSCA, and (ii) delegate that authority to the Chief Executive Officer and General Manager of BAWSCA (the "Chief Executive Officer") with respect to the employment of additional employees; and

WHEREAS, the Chief Executive Officer wishes to temporarily appoint John Ummel (the "Appointee") to the position of Senior Administrative Analyst Emeritus; and

WHEREAS, the Appointee is a retired annuitant entitled to receive retirement benefit payments under the California Public Employees' Retirement System ("PERS"), which benefits he accrued based on service with one or more PERS-covered agencies; and

WHEREAS, BAWSCA contracts with PERS to provide retirement benefits to its eligible employees; and

WHEREAS, the California Government Code ("Code") generally requires that a retired PERS annuitant be reinstated to active PERS membership upon employment by a PERS-covered agency, unless he is temporarily appointed by the agency's appointing authority under section 21224 of the Code, which exempts a retired PERS annuitant from the reinstatement requirement if (i) he is temporarily appointed because he "... has specialized skills needed in performing work of limited duration," (ii) he works no more than 960 hours per fiscal year for all PERS-covered employers, (iii) his rate of pay is neither less than nor more than that paid by the agency to any of its other employees who perform comparable duties, and (iv) he has not received unemployment compensation arising out of any prior employment subject to these requirements with the same employer during the 12-month period preceding his appointment; and

WHEREAS, the Board has determined that the Appointee has the skills needed in performing work as Senior Administrative Analyst Emeritus for a limited term of no more than one year and intends that his appointment to that position for such term meet this and all other applicable requirements of section 21224 of the Code.

NOW THEREFORE BE IT RESOLVED, that subject to BAWSCA's customary employment practices and the specific terms and conditions of any offer of employment by BAWSCA to the Appointee in connection therewith, the Board hereby approves the appointment of the Appointee to the position of Senior Administrative Analyst Emeritus for a one-year term, effective upon appropriate action by the Chief Executive Officer; and

RESOLVED FURTHER, that in accordance with section 21224 of the Code:

1. the Board finds and declares that the that the Appointee possesses extensive, highly specialized skills and experience needed to (i) perform the duties of a Senior Administrative Analyst until a suitable replacement with the requisite skills and experience can be hired, and (ii) train and assist that replacement until he can competently perform those duties;
2. the Board finds and declares that based on the relative scarcity of suitable candidates with the skills and experience needed to competently perform the duties to be performed by the Senior Administrative Analyst, the appointment's one-year term is necessary to ensure that a suitable replacement can be hired and trained to competently perform all of the duties of that position without assistance;
3. the Appointee's appointment to the position of Senior Administrative Analyst Emeritus will not exceed 960 hours in any fiscal year for all PERS-covered agencies;
4. the Appointee's rate of pay as Senior Administrative Analyst Emeritus will be neither less than nor more than that of any of BAWSCA's other employees who perform comparable duties;
5. the Appointee's prior employment with BAWSCA was not subject to the requirements of section 21224 of the Code and, in any event, he has not received any unemployment compensation arising out of his prior employment with BAWSCA during the 12-month period preceding his appointment; and
6. subject to BAWSCA's customary employment practices, including "at-will" employment, the appointment of Appointee as Senior Administrative Analyst Emeritus will continue only until the earlier of: (i) the end of the appointment's one-year term, or (ii) termination of the Appointee's employment by either BAWSCA or the Appointee for any other reason.

FURTHER RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute all documents and take all other actions necessary or advisable to effect the purposes of this resolution.

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

AYES:

NOES:

ABSENT:

Chair, Board of Directors
Bay Area Water Supply and
Conservation Agency

ATTEST:

Secretary



RESOLUTION NO. 2012 - 03

BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

*** * ***

**EXPRESSING APPRECIATION TO JOHN UMMEL FOR HIS
SERVICE AND CONTRIBUTIONS AS SENIOR ADMINISTRATIVE ANALYST**

WHEREAS, the Board of Directors of the Bay Area Water Supply and Conservation Agency (“BAWSCA”) desires to express its appreciation to Mr. John Ummel, who, for 17 years, has served BAWSCA and its predecessor, the Bay Area Water Users Association (“BAWUA”), with extraordinary competence, loyalty, and dedication; and

WHEREAS, since 1995, Mr. Ummel effectively protected the interests of the BAWUA and BAWSCA agencies and their water customers through administration and enforcement of the 1984 Settlement Agreement and Master Water Sales Contract and the 2009 Water Supply Agreement between San Francisco and its Wholesale Customers, including arbitration proceedings and settlement agreements; and

WHEREAS, Mr. Ummel provided invaluable assistance in preparing for and conducting negotiations of the 2009 Water Supply Agreement, including overseeing the preparation of the financial and accounting sections of the Agreement and suggesting innovative ways to simplify and improve those provisions; and

WHEREAS, for 17 years Mr. Ummel meticulously and rigorously reviewed budgets, accounting records, audit reports, capital project costs, contracts, work papers and financial reports of the San Francisco Public Utilities Commission to achieve the goal that Wholesale Customers pay a fair price for water; and

WHEREAS, Mr. Ummel’s service protected the financial interests of BAWSCA’s member agencies and their water customers and achieved collective reimbursements and credits of over \$16.5 million; and

WHEREAS, Mr. Ummel, in addition to his other duties, routinely compiled, analyzed and reported data on water use and water rates, and responded to countless requests for information from member agencies; and

WHEREAS, Mr. Ummel conducted business with professionalism, fairness and integrity, and established collaborative, mutually respectful and effective relationships with BAWSCA member agencies, the City and County of San Francisco and BAWSCA’s financial advisors, auditing experts and legal counsel; and

WHEREAS, during his 17 years of service for both BAWSCA and BAWUA, Mr. Ummel consistently demonstrated exceptional knowledge, judgment, sincerity and good humor.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Bay Area Water Supply and Conservation Agency that it hereby proclaims, on behalf of the Agency and its members, an expression of admiration and appreciation to John Ummel for his many years of dedicated and distinguished service.

Regularly passed and adopted this 15th day of March, 2012, by the following vote:

AYES:

NOES:

ABSENT:

ATTEST:

Chair, Bay Area Water Supply and Conservation Agency

Secretary

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS

Agenda Title: **Preliminary Fiscal Year 2012-13 Work Plan and Budget**

Summary:

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

The memorandum differs from previous presentations by summarizing major conclusions at the beginning and placing details in appendices at the end.

The preliminary Work Plan remains aligned with BAWSCA's legislated authority and its three goals: a reliable supply of high quality water at a fair price.

The agency's three major sources of revenue are annual assessments, payments for subscription-based water conservation services, and the Board-approved Water Management Charge.

The preliminary estimate for the FY2012-13 Operating Budget is \$2,590,000, within 1% of the FY2011-12 budget. This budget could be funded without increasing the level of assessments for the fourth year in a row.

The projected General Reserve balance is expected to exceed the Board's guideline. An approach maintaining the balance within the guideline is presented.

In addition to a recommended work plan, budget and funding plan, alternatives are provided for comparison.

Board Policy Committee Action:

Comments and suggestions made during the Committee discussion on February 8, 2012 were taken into account in preparing the version of the preliminary Work Plan and Operating Budget presented in this memo.

Recommendation:

That the Board provide comments and suggestions concerning the results to be achieved, the recommended preliminary Operating Budget estimate and, alternatives for funding the budget, and the proposed approach for managing the General Reserve.

Preliminary Work Plan:

Next year's Work Plan addresses all of the ten forward-looking issues discussed with the Board Policy Committee in December and with the Board in January.

The list of results to be achieved assumes that the feasibility of issuing bonds has been determined during FY 2011-12 and that a decision on whether or not to move forward can be made in May or July 2012.

Other major activities that affect the Operating Budget include efforts to protect water supply reliability for customers outside San Francisco, active participation in the relicensing of New Don Pedro Reservoir to protect regional water supplies, completing the Long-Term Reliable Water Supply Strategy, and moving forward on initial actions to improve drought reliability.

Table 1 lists all of the major results to be achieved. The activities are grouped according to the benefits they would provide.

Revisions made following the discussion with the Board Policy Committee. Two revisions were made to the preliminary Work Plan following the February 8th discussion with the Board Policy Committee.

1. Based on interest expressed by members of the Board Policy Committee, the CEO asked Ed Harrington if the SFPUC would be willing to conduct tours of the water system and WSIP projects for members of the Board, agency officials and other possible participants. San Francisco responded positively. Item 9b in Table 1 now includes a reference to system tours. No adjustment was made to the preliminary budget, as funding could be made available from the budgeted contingency.
2. It may be advisable for BAWSCA to initiate or participate in a study of possible wholesale water rates. Changes in wholesale rate structure for FY 2012-13, proposed by San Francisco in February, are undergoing serious examination. At the annual meeting with the SFPUC, held February 24th, the SFPUC Finance Manager made a verbal request of BAWSCA member agencies for ideas for possible future changes in wholesale water rate structures. A powerpoint slide presented such concepts as "fixed vs. variable rate structures based on [individual] supply guarantees, [interim] supply limitations, debt service/capital vs. operating [costs]," and solicited ideas from Wholesale Customers. San Francisco has made no formal announcement that it will study alternative rate structure. In Table 1, Item 7.c has been added to the preliminary Work Plan to provide initial coordination of such an effort. This Spring the CEO will work with San Francisco to determine their approach and schedule for investigating changes in wholesale water rate structures. If the SFPUC intends to move forward next fiscal year, the CEO will recommend modifications to the Work Plan and Operating Budget prior to Board consideration in May. In general, rate structure changes are a "zero sum game" because changes that lower costs for a subset of agencies necessarily increase costs for the others. This aspect must be taken into account when determining what BAWSCA's role would be in such a study. At a minimum, BAWSCA can ensure that objective, thorough, and clearly-explained analyses are conducted.

Table 2 lists the items that are not included in the preliminary budget. Any of these items could be added at a later date, if needed.

Table 1. Results to be Achieved in FY 2012-13

RELIABLE SUPPLY -- WATER SUPPLY MANAGEMENT PROGRAM

1. Long-Term Supply Solutions: Ensure a reliable, high quality supply of water is available where and when needed.

- a. Reliable Water Supply Strategy – Complete Phase II A of the Long-Term Reliable Water Supply Strategy to ensure supply reliability through the year 2035, including evaluation of projects to pursue, present policy-decisions for board consideration, review and compilation of projected population and water demands from member agency UWMP.
- b. Drought Reliability – Pursue projects that would enhance near-term drought reliability for all agencies.
- c. Consistent and Defendable Regional Planning – Select a uniform method for projecting future water needs of agencies for development in FY 2013-14.

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

- a. Monitor WSIP 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. Focus resources from technical review to monitoring project and program performance during construction.

4. Protect Members' Interests in a Reliable Water Supply

- a. Proponents of draining Hetch Hetchy Reservoir – Assess risks associated with efforts to drain the reservoir and take actions needed to protect water supply reliability for water customers.
- b. FERC – Ensure resources for legal and technical monitoring and intervention in the FERC Re-licensing of New Don Pedro Reservoir are sufficient to protect the customers' long-term interests in Tuolumne River water supplies.
- c. MID/SFPUC water transfer – Protect members' water supply and financial interests.

5. Take Actions to Protect Members' Water Supply Interests in the Administration of the 2009 Water Supply Agreement

- a. Pursue amendment of the Tier 1 drought allocation formula with SFPUC.
- b. Amend the Water Supply agreement with San Francisco to revise the completion date for the WSIP.

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

- a. Implement use of Proposition 84 grant funds awarded for water conservation programs.

FAIR PRICE

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

- a. 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.
- b. Consider whether Wholesale Customers would benefit from BAWSCA issuing bonds to retire capital debt owed to San Francisco.
- c. Coordinate examination and analysis of alternative wholesale water rate structures. [Note 1]

HIGH QUALITY WATER

8. 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

9. Maintain Community Allies and Contacts with Environmental Interests

- a. 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.
- b. In conjunction with San Francisco, conduct or co-sponsor tours of the water system for selected participants. [Note 2]

10. Manage the activities of the agency professionally and efficiently

Note 1: Item on wholesale water rate structure added following the SFPUC's solicitation of input on rate structures at the February 24, 2012 Annual Meeting.

Note 2: Item on tours of the water system added following discussion with the Board Policy Committee on February 8, 21012.

Table 2: Activities Not Included in Proposed Operating Budget for FY 2012-13

Reliable Supply

1. Drought-year water purchases and wheeling.
2. Independent analysis of why water use is down in recent years.
3. Extended or complex application for grant funds. Application for water conservation grants will continue to be made through or with the Bay Area Water Agency Coalition, the California Urban Water Conservation Council or other agencies.
4. Introduction of new legislation or supporting or opposing legislation initiated by others. If necessary, the agency would be able to respond to major legislative efforts by redistributing resources, use of the contingency budget or accessing the general reserve, subject to prior Board approval.
5. Evaluating how sub-metering of mobile home parks or multi-family dwellings could be implemented to encourage conservation. Other utilities have investigated these opportunities and their information and methods are available to BAWSCA members.
6. Support for agencies in forming alliances to comply with Senate Bill 7X (20% by 2020).
7. Estimating the volume of water savings that result from BAWSCA and local agency water conservation activities.

Fair Price

8. Evaluating potential economic or water supply impacts of State efforts to fix the Delta and other State water management projects.
9. Development of alternative wholesale rate structures that the SFPUC might consider. Actions will be limited to review of SFPUC proposed rate structure modifications.
10. Development of alternative retail rate structures that member agencies might consider for stabilizing water rates and water revenues.
11. Arbitration of issues related to the 2009 Water Supply Agreement.

High Water Quality

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

Agency Efficiency

14. Resources to support additional Board, Board committee or technical committee meetings.
15. Conducting tours of the Regional Water System. The Preliminary Operating Budget does not include funds to co-sponsor a tour by the California Water Education Foundation.
16. Conducting tours of member agency facilities to acquaint Board members with potential supply projects and their neighboring jurisdictions.

Recommended Preliminary Operating Budget Estimate:

A preliminary budget estimate was prepared and several alternatives for funding it were examined. All of the alternatives could be funded without increasing the level of assessments. As discussed below, if future budgets were of comparable size, consideration would need to be given to reducing the size of assessments.

Preliminary Operating Budget estimate

With the exception of the one-time costs associated with issuing bonds to repay Wholesale Customer debt owed to San Francisco, the Operating Budget needed to accomplish the preliminary Work Plan would be approximately \$2,592,789, which is 1% lower than the current year's budget.

**Table 3. Recommended Preliminary Operating Budget Estimate
by Major Expenditure Category (Alternative #1)**

Cost Category	Approved FY 2011-12 Budget, dollars*	Preliminary Estimate FY 2012-13 Budget, dollars	Difference, dollars
Consultants/ Direct Expenditures			
Reliability	833,930	843,162	9,232
Fair Pricing	233,000	196,000	(37,000)
Administration	112,000	95,000	(17,000)
<i>Subtotal</i>	1,178,930	1,134,162	(44,768)
Administration			
Employee Salaries & Benefits	1,075,875	1,065,527	(10,348)
Operational Expenses	258,900	280,600	21,700
BAWUA	1,100	1,100	0
<i>Subtotal</i>	1,335,875	1,347,227	11,352
Total Operating Expenses	2,514,805	2,481,389	(33,416)
Capital Expenses	6,000	4,000	(2,000)
Budgeted Contingency	97,500	106,000	8,500
Regional Financing Authority	1,400	1,400	0
Grand Total	2,619,705	2,592,789	(26,916)

*As amended by the Board on January 19, 2012.

Budget alternatives examined

The preliminary Operating Budget shown above is labeled Alternative #1. Several alternatives were examined for reducing the size of the budget and managing the General Reserve balance.

Alternative #2: Same as Alternative #1 but including the one-time cost of issuing bonds

The budget would be increased by approximately \$435,000, making it 18% higher than the current year's budget.

A variety of factors may affect the feasibility and timing of moving forward. Feasibility is being examined this spring, and it should be possible to bring a recommendation to the Board in July or September 2012

If feasibility is demonstrated this Spring, this one-time effort could be funded using the General Reserve.

If bonds were ultimately issued next fiscal year and the General Reserve was used to fund the issuance of bonds, the projected FY 12-13 year-end General Reserve balance would be approximately 30% of the preliminary Operating Budget, or 5% below the 35% guideline.

On the other hand, if a decision were made to not issue bonds, the projected year-end General Reserve balance would approach 48% of the Operating Budget, well in excess of the 35% guideline. In this event, the CEO would recommend refunding \$435,000 to the member agencies and reducing assessments about 7% for the following fiscal year, FY 2013-14. These actions would maintain the General Reserve balance within the Board's policy guidelines if the future budgets were of comparable size and no unexpected expenditures were incurred.

Alternative #3: Same as Alternative #1, with creation of a pool for a portion of as-needed consultant budgets.

One of the largest uncertainties in budgeting for the agency is how much of the as-needed consulting budget will ultimately need to be spent.

An approach discussed during this last year was to reduce the budgets for as-needed consulting support by 10%, remove half of that amount from the budget, and place the other half into the budgeted contingency. The CEO would be given authority to distribute the contingency to those consultants whose work was critical to achieving results.

This approach would reduce the estimated Operating Budget by about \$30,000. If bonds were ultimately issued, the end of year General Reserve Balance would be about 33%, within the 35% guideline.

If bonds were not issued, the end of year General Reserve balance would be approximately 50%, well above the 35% guideline.

This alternative is not recommended because of the additional effort required to adjust as-needed consultant budgets and contracts on a timely basis for only a 1% reduction in the size of the budget.

Additional budget reducing measures.

The preliminary Operating Budget includes salary adjustments for some positions which were deferred last year, and COLA adjustments to top-step salaries for positions other than the CEO.

Given the continuing economic conditions and the sacrifices being made by several member agencies, these adjustments and the impacts of removing them, were discussed with the Board Policy Committee.

A salary survey conducted in 2010 determined that two positions were approximately 4 and 5 % below the market median for comparable positions. Those adjustments add \$7,400 to the salary and benefits budget.

Using the traditional cost-of-living index, a COLA adjustment for all positions except the CEO adds an additional \$17,000 to the salary and benefits budget.

Eliminating both adjustments would reduce the budget about \$24,400.

Board Policy Committee members cited the importance of BAWSCA attracting and retaining a specialized and qualified work force. The Committee supported leaving the \$7,400 adjustments to top-step salaries for two positions.

The Committee did not indicate a preference on the inclusion or exclusion of COLA adjustments. However, the Committee indicated unanimous support for the recommended Preliminary Operating Budget.

The preliminary Operating Budget shown in Table 3 retains both the salary survey and COLA adjustments for discussion by the Board.

Funding the Budget and Managing the General Reserve Balance:

The FY 2012-13 Operating Budget and the preliminary FY 2012-13 Operating Budget are approximately \$2.6 million. While annual expenditures vary depending on actual work loads, historical annual expenditures run about 10% under budget. For a budget of \$2.6 million, this means actual expenditures might average about \$2.35 million.

Current assessments total roughly \$2.52 million, meaning that income exceeds actual expenditures, resulting in a gradual increase in the General Reserve balance.

These amounts might be small compared to most member agency budgets and expenses, but would cause BAWSCA's General Reserve balance to exceed the guideline set by the Board: the projected year-end balance should be no more than 35% of the current year's Operating Budget.

Given the possibility of a large one-time expenditure to benefit water customers, no immediate action to reduce assessments is recommended.

As noted in the presentation of Alternative #2, above, a plan has been created to bring the General Reserve balance within the Board's guidelines within the next year.

If bonds are issued to save water customers up to \$35 million, the one-time out-of-pocket costs for bond issuance, estimated to be \$435,000, could be funded from the current General Reserve balance. The following year, a 7% decrease in annual assessments would maintain the General Reserve balance within the Board's guidelines.

If, however, a decision were made to not issue bonds, the comparable amount, \$435,000, could be refunded to member agencies. Again, the following year, a 7% decrease in annual assessments would maintain the General Reserve balance within the Board's guidelines.

Additional Attachments:

Attached to this memo are several appendices (A-I) which present additional detail about the Operating Budget.

Appendices**Appendix A: Funding for Subscription Conservation Programs**

As in prior years, a portion of operating expenses would be reimbursed by agencies that participate in BAWSCA's subscription water conservation programs. The staff time to be devoted to those programs during FY 2012-13 is estimated to be 617 hours. The reimbursement for those hours is estimated to be \$24,000. Agencies participating in subscription programs also pay for associated consultant support and direct expenses. As in prior years, those consultant costs and direct expenses are not included in the Operating Budget.

Appendix B: Funding for the Long-Term Reliable Water Supply Strategy

The Operating Budget does not include the cost of consulting services for developing the Long-Term Reliable Water Supply Strategy, which is being funded through the Water Management Charge authorized by the Board in July 2010. A summary of the current budget status will be included in the preliminary budget report to the Board in March.

Appendix C: Value for the Cost

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

Appendix D: Historical Assessments

Table 5 displays the history of assessments and year-end reserves.

Table 5. Historical Annual Assessments and Year-End Reserves

Fiscal year	Assessments	Year-End Reserves
2003-04	\$1,668,550	\$276,480
2004-05	\$1,641,995	\$246,882
2005-06	\$1,953,998	\$240,000
2006-07	\$2,117,904	\$654,000
2007-08	\$2,117,904	\$691,474
2008-09	\$2,309,000	\$507,474
2009-10	\$2,517,000	\$407,192
2010-11	\$2,517,000	\$653,763
2011-12	\$2,517,000	\$1,146,900 (est.)

Appendix E: Preliminary Budget for the Bay Area Water Users Association (BAWUA)

The Board will consider a separate action to approve the proposed FY 2012-13 budget for BAWUA of \$1,100. This amount appears in the BAWSCA budget.

Appendix F: Preliminary Budget for the Regional Financing Authority Budget

The BAWSCA Board of Directors has continued to agree to fund nominal administrative costs for the Regional Financing Authority (RFA), at least until it became more actively involved and required significant resources. Assuming a low level of activity in FY 2012-13, the proposed RFA budget is \$1,400. The RFA will formally consider and adopt this budget in July 2012.

Appendix G: History of Salary and Benefits Adjustments

Salary adjustments have been deferred for several years.

FY 2011-12: The Operating Budget included no adjustment to the salary for any employee for COLA, merit or any other reasons.

FY 2010-11: The Board approved a 3.01 percent increase to the top step of staff salary ranges. Those adjustments were consistent with the December value for the Consumer Price Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose. COLA increases for employees are not automatic but can be granted by the CEO on the basis of merit.

FY 2009-10: There was no COLA adjustment. An allowance for merit adjustments was budgeted for employees not yet at top step.

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

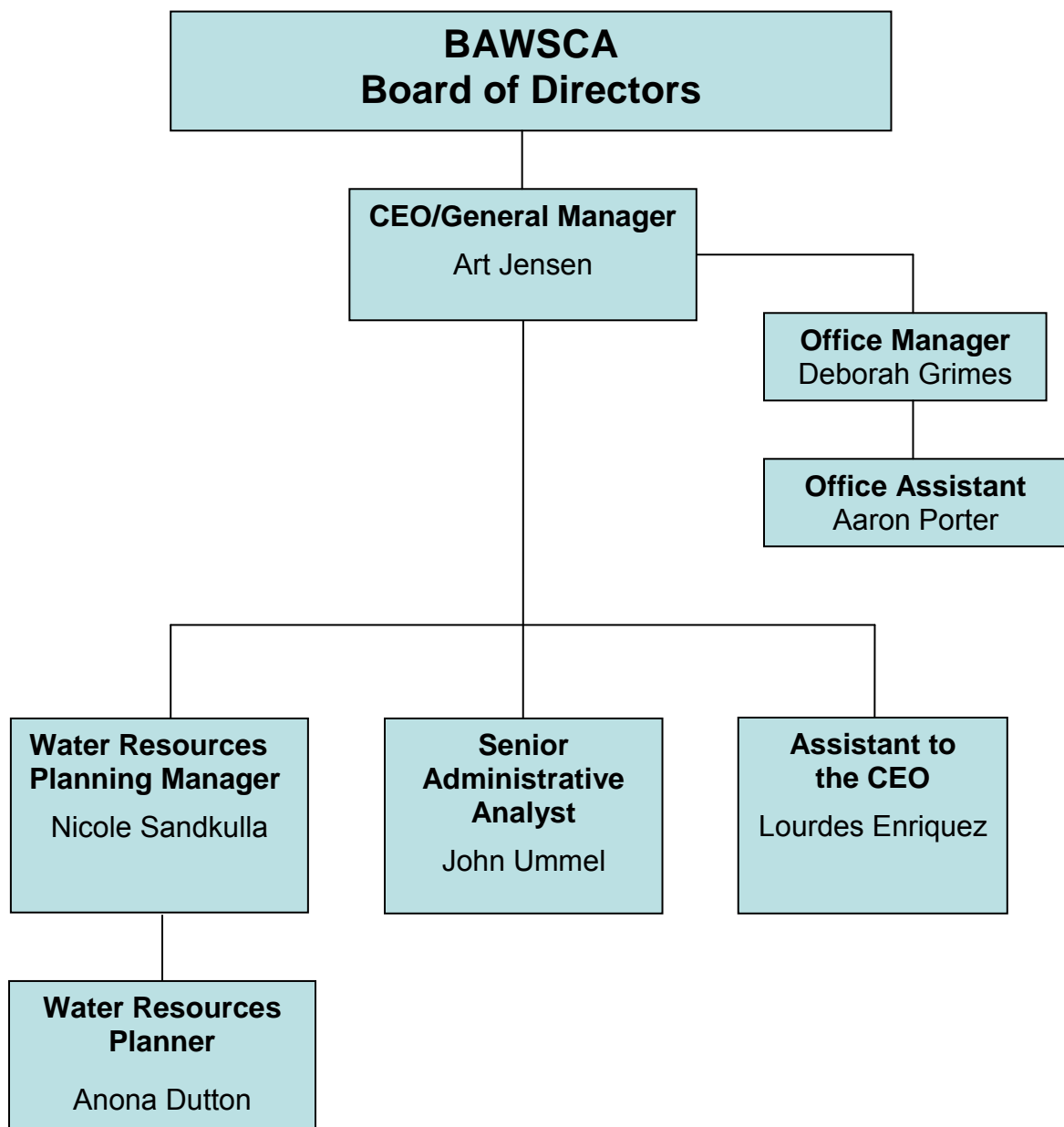
1. Professional engineering services for: a) developing a long-term strategy to ensure a reliable supply of water; b) implementing and tracking water conservation efforts; c) evaluating Water System Improvement Program project scopes during design and construction; d) monitoring WSIP project cost estimates, bids and schedules; e) monitoring and assessing San Francisco's performance in implementing the overall WSIP; e) assessing San Francisco's method for cost estimation, application of contingencies and addressing cost inflation during the WSIP; f) providing specific constructive recommendations for keeping the WSIP on or ahead of schedule; and g) analyzing hydraulic records used by San Francisco in setting the wholesale water rates.
2. General legal services for BAWSCA and the RFA; specialized legal services to support administration of the Water Supply Agreement; specialized legal services for addressing matters related to water supply reliability.
3. Strategic counsel for identifying and addressing strategic and political issues associated with maintaining the progress of the Water System Improvement Program, assisting the Board and the CEO in developing and implementing an effective policy making process that supports the development of the Long-Term Reliable Water Supply Strategy, providing legislative and political support, and providing advice to the

CEO and the Board on other issues significant to the water customers and the effectiveness of the agency.

4. Financial advisory services to conduct specified capital financing and rate impacts analyses on a task order basis.
5. Accounting/auditing expertise to assist with implementing the new water agreement, as well as an independent auditor to prepare and review annual financial statements.

Appendix I: Organization and Staffing. Figure 1 represents the current reporting relationships in the organization. No new positions are proposed in the preliminary FY 2012-13 Operating Budget. The staffing level has not changed in eight years.

Figure 1. Organization Chart



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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD OF DIRECTORS MEETING

Agenda Title: **Study Session: Long-Term Reliable Water Supply Strategy – Water Transfers**

Summary:

As part of the regularly scheduled March Board meeting, a special study session with the Board has been scheduled focused on Water Transfers as a part of the Long-Term Reliable Water Supply Strategy (Strategy). The objective of the Water Transfer Study Session is to achieve a common understanding of the types of water transfers investigated by BAWSCA as part of the Strategy. The Board's understanding of this information is necessary to support further direction from the Board on water transfers at a Board meeting later this calendar year.

Recommendation:

There is no recommended action for this item. This information is being presented to the Board in a Study Session format with no action required by the Board. Clarifying questions and feedback from the Board on the information presented is encouraged.

Discussion:

On July 15, 2010, the BAWSCA Board authorized the initiation of Phase IIA of the Strategy to reliably meet the projected normal and drought year water needs of the member agencies through 2035. As part of the Strategy, BAWSCA has been evaluating what role water transfers can have in meeting the water supply needs in dry and normal years.

Water Transfer Study Session

To support the Board in providing further direction on the Strategy, including water transfers, a Water Transfer Study Session with the Board will occur as part of its March 15, 2012 meeting. The objective of the Water Transfer Study Session is to achieve a common understanding of the types of water transfers investigated by BAWSCA as part of the Strategy.

The Study Session presentation will address:

- What are water transfers and why are they being discussed now?
- Where are the possible water sources?
- How does transfer water get to BAWSCA agencies?
- What type of transfers is BAWSCA interested in examining further and why?

Background:

Status of Strategy Development

Work on the Strategy continues and include:

- Completion of the technical evaluation of alternative water supply management projects;
- Updating estimates of the magnitude and frequency of SFPUC Regional Water System water shortages in the future; and
- Evaluation of the potential economic impacts of water shortages

In July, a Long-Term Reliable Water Supply Strategy Interim Report will be distributed to the BAWSCA Board. The Interim Report will describe the results of all technical evaluations performed to date as part of the Strategy and present recommended next steps for consideration. Board action to implement one or more of the recommended next steps is anticipated in Fall 2012.

Purpose and Need for the Strategy. A reliable supply of water is needed to support the health, safety, employment, and economic opportunities of the existing and expected future residents in the BAWSCA service area and to support the agencies, businesses, and organizations that serve those communities. The following facts support the purpose and need for the Strategy:

- Water demands in the BAWSCA service area are projected to exceed supplies even after accounting for significant water conservation efforts;
- Existing supplies within the BAWSCA service area are subject to drought shortages and other impacts (e.g., climate change, environmental restrictions); and
- The consequences of supply shortfalls are regional and severe (e.g., a 20% water supply shortage can result in \$7.7 billion dollars of impact to water-dependent customers in the BAWSCA service area).

BAWSCA is developing the Strategy to quantify when, where, and how much additional supply reliability and new water supplies are needed throughout the BAWSCA service area through 2035. The Strategy will then identify water supply management projects that can be cost-effectively implemented by a single member agency, by a collection of the member agencies, or by BAWSCA in an appropriate timeframe to meet the identified needs.

While supplies are expected to be sufficient until 2018, there are compelling reasons to develop a long-term strategy:

- Long lead times are required to complete projects that produce water supplies
- If economic recession is a significant factor in current low water use, the end of the recession could be followed by rapidly increasing water needs for jobs and residents, and an orderly plan would be essential
- Drought reliability remains a common concern for almost all agencies
- The pursuit of water supplies, and means to transport and store them, is increasingly competitive, and without a well-considered plan, opportunities will be lost

In all instances, and in accordance with a key BAWSCA principle, the water supply management projects that are developed as part of this Strategy will be paid for by those agencies that benefit from their development.

Success of the Strategy will depend on timely and appropriate actions by the BAWSCA Board and by the individual member agencies. Progress on the development of the Strategy will be monitored closely to ensure that a reliable, high quality supply of water is available where and when people within the BAWSCA service area need it.

**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 – 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 – 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, 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.

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

March 15, 2012

Media coverage of interest between February 16, 2011 and March 9, 2012.

Attached documents are being provided to you for your information and are not in the agenda for discussion.

Correspondence

Date: March 9, 2012
From: Arthur Jensen, Chief Executive Officer
To: BAWSCA Board of Directors
Re: Chief Executive Officer's Letter

Media Coverage

Water Supply

Date: March 5, 2012
Publication: Modesto Bee
Article: Hetch Hetchy restoration and the Tuolumne River

Date: March 4, 2012
Publication: San Francisco Chronicle
Article: Century-old battle over water is reignited

Date: March 2, 2012
Publication: San Francisco Chronicle
Article: S.F. needs responsible future without Hetch Hetchy

Date: March 2, 2012
Publication: San Francisco Chronicle
Article: Ballot measure on S.F. water supply unnecessary

Date: February 23, 2012
Publication: San Francisco Chronicle
Article: Irrigation districts: Hetch Hetchy claims untrue

Date: February 22, 2012
Publication: Stockton Record
Article: Delta left out of fight over Hetch Hetchy

Date: February 16, 2012
Publication: New York Times
Article: Hetch Hetchy's Past and Future

Conservation

Date: March 2012
Source: Silicon Valley Water Conservation Awards
Subject: Winners and Awards Ceremony, March 22, 2012

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Bay Area Water Supply & Conservation Agency

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

MEMORANDUM

TO: BAWSCA Board of Directors
DATE: March 9, 2012
FROM: Arthur R. Jensen, Chief Executive Officer
SUBJECT: Chief Executive Officer's Letter

Water System Improvement Program:

On February 9th, the SFPUC released 2nd Quarter FY 2011-2012 WSIP Regional Projects Quarterly Report (Quarterly Report) presenting data through December 24, 2011. Per the Quarterly Report:

- The overall WSIP Regional Program is 52% complete;
- The current forecasted cost for completing the WSIP Regional Program is \$3,338 million compared to an approved budget of \$3,326 million. The forecasted \$12 million budget overage can be accommodated within the funds available in the approved WSIP Program Management Reserve of \$145.7 million; and
- The program is currently forecasted to be completed by the approved date of July 2016.

In general, there were no surprises in this Quarterly Report with project progression continuing as expected last Quarter.

The Quarterly Report transmittal memo includes a new section titled "Implication of Major Trends on Program Completion," which was added at BAWSCA's suggestion. In this section, the New Irvington Tunnel Project and the Calaveras Dam Replacement Project (both WSIP projects currently under construction) are highlighted as projects with significant construction challenges, risks, and unknowns. As such, these projects are identified as having the potential to impact the program's overall completion date.

BAWSCA staff has met with SFPUC staff to closely review the information contained in the Quarterly Report. A follow-up meeting with the WSIP Director, Ms. Julie Labonte, is being scheduled to further investigate specific areas of WSIP implementation that BAWSCA is continuing to focus on, including change orders, change management procedures, and the incorporation of trends in the all forecasts.

BAWSCA staff and its WSIP technical team are preparing a Mid-Program WSIP Assessment based on the data provided in the Quarterly Report. This Assessment will be completed and distributed to the Board for its May meeting.

Lastly, the SFPUC has recently released a new “What’s Up With WSIP” video clip that provides excellent visuals of the progress being made in the field on WSIP projects. To access the video clip, please go to: http://www.youtube.com/watch?v=JPz_QEDBwL4

San Francisco Ballot Initiative to Drain Hetch Hetchy Reservoir

The proponents of draining Hetch Hetchy Reservoir have announced they will or have filed ballot initiative with the San Francisco Department of Elections in San Francisco. I have received and reviewed a copy described as a “draft.” We are contacting the Department of Elections to obtain an official copy of the initiative. We will distribute it to the Board, together with any appropriate comments, once it has been received and reviewed.

Water For People Donation:

Water For People is an international non-profit focused on developing and implementing innovative and long-lasting solutions to the water, sanitation, and hygiene problems in the developing world. In February, BAWSCA made a small donation (\$500) to be a sponsor for the upcoming fundraising event for the “Rulindo Challenge”. The “Rulindo Challenge,” is a Water For People initiative with a goal of providing full water coverage for the Rulindo District of Rwanda by the end of 2014. As an event sponsor, BAWSCA receives a small number of tickets to the fundraising event, scheduled for the evening of Monday, May 7th at the San Francisco Academy of Sciences. The CEO will discuss distribution of these tickets with the Board Chair. This use of the CEO’s spending authority will be included in the budget report presented to the Board in May.

Modesto Bee

Hetch Hetchy restoration and the Tuolumne River

By Spreck Rosekrans

March 05, 2012 07:00:04 PM

The Feb. 24 op-ed by the general managers of the Turlock and Modesto Irrigations Districts mischaracterized the critical role that Don Pedro reservoir plays in the operations of Hetch Hetchy and San Francisco's other reservoirs. The Hetch Hetchy system is, in fact, dependent on Don Pedro for its operations and any changes to Don Pedro's federal power license are likely to affect San Francisco's operations upstream.

As a result, Restore Hetch Hetchy has much at stake in the relicensing process under way for Don Pedro.

The Hetch Hetchy system and Don Pedro reservoir both store Tuolumne River flows. Like all streams in California's Sierra Nevada, the Tuolumne is a hard working river. In the upper watershed, San Francisco operates the Hetch Hetchy, Eleanor, and Cherry reservoirs. Releases from these reservoirs provide water supplies for San Francisco and other Bay Area communities and generate hydropower.



Yosemite's Hetch Hetchy Valley - The Modesto Bee -

Downstream, the Turlock and Modesto Irrigation Districts operate the Don Pedro reservoir, one of California's largest water storage facilities, which holds six times the volume of Hetch Hetchy Reservoir. The districts deliver about three times more Tuolumne River water to their customers than does San Francisco.

Turlock and Modesto operate and control releases from Don Pedro reservoir. But one third of its volume is managed as a water "bank" for San Francisco, for which San Francisco paid one half the cost of construction. The water in this bank is "pre-delivered" to Turlock and Modesto, but allows San Francisco to divert flows upstream that it would otherwise not be entitled to. As the districts well know, without water stored in the bank, San Francisco often could not legally divert flows upstream. As the Federal Energy Regulatory Commission explained in setting the scope of environmental review for relicensing Don Pedro, "the elimination of the flood control responsibility and the creation of the water bank provide CCSF with greater flexibility in its upstream water and power operations".

The districts and San Francisco operate their respective systems in accordance with a series of negotiated agreements that have evolved over time. The current process of relicensing the Don Pedro power house, however, can and should lead to changes in how both of these interdependent systems are operated.

This mission of Restore Hetch Hetchy is to return the Hetch Hetchy Valley in Yosemite National Park to its natural splendor while continuing to meet the water and power needs of all communities that depend on the Tuolumne River.

A series of studies has shown that restoration is possible. San Francisco could divert the natural flow of the Tuolumne River during winter and spring and from storage in Cherry or Eleanor Reservoir during the dry times of the year. Some additional water supply and/or storage would need to be developed to ensure an equivalent level of reliability. Some additional investments in renewable power, most likely wind and solar, also will be necessary.

In San Francisco, Restore Hetch Hetchy is asking voters to consider restoration as part of a plan that would make the city's water system more resilient to drought, earthquake or other disasters while lessening its impact on the environment. It is also essential that all parties with a stake in the Tuolumne River be engaged in restoration plans to be assured that their interests are protected.

Restoration of Hetch Hetchy Valley is a compelling vision for many Americans. Working together, we can make Yosemite whole once again.

Rosekrans, of Oakland, is director of policy for Restore Hetch Hetchy (www.hetchhetchy.org).

Century-old battle over water is reignited

San Francisco Chronicle

[John Diaz](#) \ Sunday, March 4, 2012

The editorial battle lines over the fate of the Hetch Hetchy Valley have been drawn. It's 1913 all over again.

Almost a century ago, the New York Times editorial page put up a spirited fight to try to stop Congress from approving a dam that would inundate 8 miles of the northwest corner of Yosemite National Park. "They have an eye only for utility, a utility that flows their way," the Times said of San Francisco politicians.

My predecessors on The Chronicle editorial page were equally impassioned in their argument that a growing region needed to account for its future water and power demands. "We are planning for water for a century to come," they editorialized.

It seemed the issue was settled with congressional passage of the 1913 Raker Act and the 1923 completion of the O'Shaughnessy Dam. The first gravity-propelled waters from the Hetch Hetchy Reservoir reached San Francisco in 1934. Today, the system delivers water to 2.4 million residents in San Francisco and three suburban counties, along with 1.6 billion kilowatt-hours of clean electricity every year.

Yes, such an intrusion on a pristine stretch of national park would be unimaginable in 2012. One could make a credible argument that the damming of Hetch Hetchy Valley was a big mistake of a less enlightened era. But who can imagine undoing a system that provides high-quality water and clean energy to a major metropolitan area at a time when California has more than 10 times the population it had in 1913 and is facing the challenge of global warming?

The allies aligning behind the preservationist pipe dream of restoring the Hetch Hetchy Valley are curious bedfellows, to say the least.

Rep. Dan Lungren, a Republican whose vast district encompasses the Sacramento suburbs, vast swaths of farmland and Mother Lode country, has a long history of supporting agriculture and the extraction industries over conservation. Yet he has become an veritable tree hugger in his embrace of dismantling the O'Shaughnessy Dam.

The Sacramento Bee, from the luxury of its perch in a land of swimming pools, lawn-sprinkler cascades on 100-degree days and no water meters until very recently, won a Pulitzer Prize for

its 2004 series of editorials calling for the restoration of Hetch Hetchy. Tom Philp, the author of those editorials, has since left journalism to become an executive strategist for the Metropolitan Water District of Southern California.

The Los Angeles Times, which had its own sordid history in the deceit behind the diversion of water from the Owens Valley in the early 1900s, recently jumped on the drain Hetch Hetchy bandwagon, suggesting that San Francisco broke its end of the bargain by doing too little to harvest rainwater or embarking on restoration efforts generally.

The New York Times jumped back into the fray from Manhattan with a Feb. 17 editorial, citing Lungren - of all people - as suggesting the waters that feed Hetch Hetchy could be captured at downstream reservoirs.

Some of the folks who have been feeding these editorialists with talking points are about to circulate petitions for a November ballot measure to try to put the city on record in favor of a Hetch Hetchy restoration.

Don't be fooled. The notion that San Francisco will be able to draw sufficient water from enlarged downstream reservoirs or through conservation or reclamation is pure fantasy, as is the prospect that the federal government would spend billions of dollars and many years on the restoration of Hetch Hetchy Valley, which may or may not be capable of recapturing its original splendor. It's instructive that the most prominent advocates of tearing down O'Shaughnessy Dam have no direct stake in the effects on the Bay Area's water supply - and, in some cases, they carry a political or provincial incentive to tweak San Francisco.

The city's opposition to the removal of a water-and-power system that has worked well for nearly a century might be the rare instance when San Francisco's political leadership should be praised for its clear-eyed pragmatism.

Editorial July 12, 1913

New York Times

"Why the city of San Francisco, with plenty of collateral sources of water, should present an emergency measure to the special session of Congress whereby it may invade the Yosemite National Park is one of those Dundrearian things that no fellow can find out. The Hetch Hetchy Valley is described by John Muir as a 'wonderfully exact counterpart of the great Yosemite.' Why should its inspiring cliffs and waterfalls, its groves and flowery, park-like floor, be spoiled by

the grabbers of water and power? The public officials of San Francisco are not even the best sort of politicians; as appraisers and appreciators of natural beauties their taste may be called into question. ... If the water-power grabbers are put off this session, or two, or three, or many more sessions before gaining an entrance to the Hetch Hetchy Valley, the dwellers of San Francisco will not go thirsty."

Editorial Sept. 4, 1913

San Francisco Chronicle

"The Hetch Hetchy bill has passed the House, in spite of the factious opposition which it encountered. ... The nature men got very little sympathy and their ridiculous performances were upon the whole probably useful in utterly discrediting cranks who would divert natural resources from any important economic use in order to gratify the alleged aesthetic sensibilities of neurotics and emotionalists. The cult is cantankerous beyond measure and its members care for nobody but themselves, but there are not very many of them ... The West is and always has been a source of great profit to the country, and we who live here insist that, having long ago paid for our estate at a very round figure, we shall be allowed from now on to enjoy its full usufruct without paying further tribute to extortioners."

John Diaz is The San Francisco Chronicle's editorial page editor. Twitter: [@johndiazchron](https://twitter.com/johndiazchron).
jdiaz@sfchronicle.com

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S.F. needs responsible future without Hetch Hetchy

San Francisco Chronicle

Mike Marshall

Friday, March 2, 2012

This November, San Francisco voters may have a chance to restore the city's reputation for environmental leadership. Sadly, that reputation has been tarnished over the years as we imported 99 percent of our water supply from outside the city while virtually abandoning the use of local sources.

The problem began almost 100 years ago, when sympathy for the city recently devastated by an earthquake and fire led Congress to permit San Francisco to clear cut and flood a grand valley in Yosemite National Park for use as a water storage tank, thereby forming Hetch Hetchy Reservoir. Unfortunately, in addition to destroying habitat in a national park, this antiquated water system has contributed to the decimation of the salmon population in the Tuolumne River. To make matters worse, while cities elsewhere have been updating their water systems to be more sustainable, San Francisco has not. For example, while Orange County uses 35 million gallons a day of potable recycled water, San Francisco doesn't recycle a drop. Instead, we use pristine drinking water from Yosemite to wash our [cars](#) and flush our toilets.

"The way San Francisco takes advantage of its bountiful water from the Hetch Hetchy Reservoir would make John Muir weep," the Los Angeles Times commented in a recent editorial.

Though numerous studies show that the engineering and ecological capabilities exist to update our system, retire Hetch Hetchy Reservoir and return Hetch Hetchy Valley to the National Park Service while continuing to meet the water and power needs of all communities that depend on the Tuolumne River, our city's bureaucracy lacks the political will to do so.

Hence, this ballot initiative would ask voters to authorize a planning process to examine ways the city can improve its use of local water supplies and reduce harm to Yosemite National Park and the Tuolumne River.

The initiative, titled the "Water Sustainability and Environmental Restoration Planning Act of 2012," calls for the creation of a plan for a more sustainable, environmentally responsible water system.

If it passes, a five-member volunteer task force will be formed to prepare, with public input, a plan by Nov. 1, 2015.

Then, in the November 2016 election, voters will be given the opportunity to approve the plan and implement the reforms.

We can and must start recycling water, capturing more rainfall, and recharging our groundwater supplies. These are not radical changes; other California cities have been adopting them for the last 25 years. These steps can lift San Francisco from trailing the state to leading the nation in the responsible stewardship of our precious natural resources. Our initiative could afford voters the opportunity to take that first step.

Mike Marshall is the executive director of Restore Hetch Hetchy. hetchhetchy.org

Ballot measure on S.F. water supply unnecessary

SF Chronicle

Ed Lee, David Chiu

Friday, March 2, 2012

A petition is circulating to place a measure on the November ballot encouraging San Francisco to develop a sustainable water supply but the hidden intent of this measure is to drain Hetch Hetchy Reservoir - a pristine source of water and clean hydropower for millions of people in the San Francisco Bay Area.

San Franciscans know that true water sustainability starts by maximizing water conservation and efficient water use, not by destroying and then building costly new facilities as the measure advocates.

Let's not forget that San Franciscans already use half as much water per person as the statewide average. Yet we are focused on aggressive water conservation efforts, from offering free water-saving devices and efficiency audits to incentives and [education](#). We've also passed ordinances and changed building codes to support our conservation goals. Together, these efforts will save San Francisco nearly 23 million gallons of water a day by 2035.

We are working to add to the local water supply. Today, residents and businesses in the Hetch Hetchy System - San Francisco, San Mateo and parts of Alameda and Santa Clara counties - use on average 40 million gallons of groundwater daily. That will increase to 45 million gallons by 2035.

We are helping residents use gray water - water from showers, bath tubs, washing machines and bathroom sinks - as well as store rainwater to irrigate gardens and lawns. These programs protect our tap water for drinking, promote wise water re-use and reduce the burden on our sewer system.

Since 2004, we have been working with Daly City to bring recycled water to irrigate the Olympic Club, Lake Merced and the San Francisco golf courses. This June, we will use recycled water to irrigate Harding Park Golf Course. Customers of Hetch Hetchy water already use 6 million gallons of recycled water per day. By 2035, it will be 21 million gallons.

We are already investing \$4.6 billion from voter-approved upgrades to the Hetch Hetchy Water and Power system. Yet, in our arid California climate, all these measures combined will not take away the need to store water in Hetch Hetchy Reservoir. The best-case

scenarios of those working to tear down the dam show that the Bay Area would be subject to severe drought in one out of every five years.

This ballot initiative is a Trojan horse that threatens irreparable harm to our economy and our environment. If it qualifies for the ballot and becomes law, it will consume millions of taxpayer dollars in studying how to dismantle an efficient system that provides water and clean power to hospitals, schools, libraries, police and fire stations, and electric buses.

If you really want to help the environment, conserve water at home and support these re-use and recycling programs. Don't sign a petition that advocates draining the city's reservoir.

Ed Lee is the mayor of San Francisco. David Chiu is the president of the Board of Supervisors.

Irrigation districts: Hetch Hetchy claims untrue

San Francisco Chronicle

Thursday, February 23, 2012 (SF Chronicle)

The stubbornly enduring movement to restore the once-magnificent Hetch Hetchy Valley received a cold dousing Wednesday from the two irrigation districts that would likely have to deal with the enormous amounts of water that would be released if the valley's O'Shaughnessy Dam were removed.

The Modesto and Turlock irrigation districts, which jointly own the Don Pedro Reservoir downstream from Hetch Hetchy, issued a statement declaring that there is no more storage available and criticizing the instigator of the campaign, Restore Hetch Hetchy, for "misleading statements and cavalier disregard for the facts."

"Recent attempts by Restore Hetch Hetchy to link the relicensing of the Don Pedro Project with the Hetch Hetchy System require that the districts publicly address the issue," wrote Allen Short, the Modesto district general manager, and Casey Hashimoto, the Turlock district general manager.

"It does not make sense to the districts that a water-short state that desires to reduce its carbon footprint would seriously entertain the idea of removing a 360,000 acre-foot storage reservoir," the statement said.

Mike Marshall, executive director of Restore Hetch Hetchy, has said the Tuolumne River, not the Hetch Hetchy Reservoir, is the legal source of San Francisco's water. He has suggested that it would be feasible to tap the Tuolumne downstream, partly by enlarging the Don Pedro dam.

Don Pedro's license with the Federal Energy Regulatory Commission expires in 2016.

The group is asking the commission to examine alternatives to leaving O'Shaughnessy Dam in place. One alternative it specifically suggests is the proposal to increase storage at Don Pedro to collect Hetch Hetchy water.

"Restore Hetch Hetchy is offering 21st century solutions that increase water supplies and water quality for folks in San Francisco without harming the interests of the farmers in the San Joaquin Valley," Marshall said. "The reward for implementing these reforms will be a restored Yosemite National Park. How is that a bad thing?"

Marshall said he expects to have the 7,500 signatures he needs to put the issue on the ballot by next week, giving San Franciscans a chance to vote on the idea in November.

The Raker Act, passed in 1913, allowed San Francisco to build O'Shaughnessy Dam in 1923 and submerge Hetch Hetchy Valley, in Yosemite National Park, under 300 feet

of Tuolumne River water. Famed naturalist John Muir vehemently opposed the dam a century ago.

The 1913 arrangement essentially exempts Hetch Hetchy from FERC jurisdiction.

Rep. Dan Lungren, R-Gold River (Sacramento County), recently called for the removal of the dam, but it will be a tall order. Opponents include two of California's most powerful Democrats, Sen. Dianne Feinstein and House Minority Leader Nancy Pelosi, both residents of San Francisco, along with city and business leaders.

The San Francisco Public Utilities Commission, which supplies water from Hetch Hetchy to 2.5 million customers in the city, Peninsula and South Bay, has declared repeatedly that it has no intention of removing the dam.

Removing the dam would not only eliminate San Francisco's supply of crystal-clear drinking water, it would mean the loss of 1.6 billion kilowatt hours per year of electricity, according to utilities commission officials. That's enough to power San Francisco's municipal facilities and infrastructure, including City Hall, Muni, the airport, all street lights and port facilities.

Short and Hashimoto contend in their memo that Don Pedro and Hetch Hetchy are two separate projects "and there is no surplus water or storage available." They acknowledge, however, that because San Francisco financed almost half of the cost of building Don Pedro Dam in 1971, it is allowed to release water from upstream and use their facilities as a "water bank."

Ruth Porter, a Washington, D.C., lawyer representing Restore Hetch Hetchy, said the water banking arrangement effectively gives San Francisco the rights to approximately one third of the Don Pedro project's water storage. Consequently, FERC should be able to make them increase storage there, Porter said.

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DELTA LEFT OUT OF FIGHT OVER HETCH HETCHY

By *Michael Fitzgerald*

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Record Columnist

There's a Stockton angle to the very interesting movement to drain and restore Hetch Hetchy, San Francisco's reservoir in a corner of Yosemite Valley.

If you just tuned in, in 1913 San Francisco got a historically wrongheaded Congress to approve damming and flooding an 8-mile-long scenic wonder John Muir called "a wonderfully exact counterpart of the great Yosemite."

That's a big source of San Francisco's water today.

If I understand history correctly, the city was still traumatized by running out of water during the fire that destroyed the city following the '06 quake.

Still, Hetch Hetchy is San Francisco's most glaring contradiction: the loftily green headquarters of the Sierra Club sustains itself from a barbaric environmental travesty.

Drowning the Lorax apparently bothers some San Franciscans. There's a serious, if improbable, movement to drain Hetch Hetchy and to restore its natural magnificence.

The group Restore Hetch Hetchy even has a plan: remove the dam, terraform the land using historical photographs, replant native plants and stand back as the natural order resumes. Supporters range from the Sierra Club to Republican Congressman Dan Lungren.

In the opposite corner, everyone from U.S. Sen. Dianne Feinstein to Bay Area newspaper editorial boards say, alas, Hetch Hetchy, while regrettable, is a done deal.

They cite one report estimating restoration costs at \$3 billion to \$10 billion. Their defense, in other words, is the reservoir's practical irreversibility.

What they don't mention is the sweetheart deal San Francisco enjoys under the old congressional act: The city gets its entire Hetch Hetchy water supply for \$30,000 a year. The liberal conscience is apparently not pricked by this outrageous giveaway of a public resource. Even as water subsidies to Big Ag in this Valley arouse their righteous denunciations. San Francisco has nine reservoirs. Studies say they would provide enough water without Hetch Hetchy. Only in dry years would the city have to find a little more.

This brings us to the San Joaquin Delta. It's remarkable that the debate over Hetch Hetchy is taking place with nary a mention of the Delta.

But flows from the Tuolumne River, if not dammed and diverted at Hetch Hetchy, would tumble down into the San Joaquin River and riffle into the Delta.

I asked a national Sierra Club spokesman if they considered this.

"No, no, the Sierra Club has not," said Bruce Hamilton. "We have a policy that supports taking out the dam and restoring the (Hetch Hetchy) valley. But we have not done any examination itself of the various impacts."

Well ... shucks.

If San Francisco allowed water to flow into the Delta and diverted it there instead, all the lower rivers and environs would be healthier and the economies of river cities stronger.

"It would improve salinity in the south Delta," Bill Jennings of the California Sportfishing Protection Alliance said. "It would be a boon to fisheries in the Tuolumne and San Joaquin. It would benefit Stockton, Manteca and Modesto by lowering the cost of wastewater treatment." It would increase oxygen in the Deep Water Channel, making it easier for the Port of Stockton to obtain dredging permits. It would confer numerous other benefits.

And it's not going to happen.

In the unlikely event San Francisco did drain Hetch Hetchy, studies recommend the city keep drawing its water from high up the Tuolumne. There, it is cleanest. Delta water is dirtier and costlier to treat.

There's a Catch-22 for you: Excessive exports and diversions, San Francisco's among them, have degraded the Delta to the point where San Franciscans won't drink out of it. Those green progressives will leave the dirty water for others.

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New York Times

Hetch Hetchy's Past and Future

February 16, 2012

Nearly a century ago, Congress rashly approved a dam and an eight-mile-long reservoir called Hetch Hetchy in the northwest corner of Yosemite National Park. The purpose was to trap water from the Tuolumne River and supply it to San Francisco. The cost was the destruction of a pristine valley that the naturalist John Muir once called “one of nature’s rarest and most precious mountain temples.” The project, completed in 1923 despite a national outcry, included a sweetheart deal for San Francisco: the right to buy the water for \$30,000 a year. There have been many attempts to re-examine this deal and study whether the dam could be breached, the reservoir emptied and the valley restored. In the latest, Representative Dan Lungren, a Republican from California, has asked Ken Salazar, secretary of the interior, to investigate whether San Francisco is fulfilling its end of the deal, which requires the city to use all its local water sources before turning to Hetch Hetchy.

Mr. Lungren, who comes from a district that borders Yosemite, argues that the city is ignoring three vital resources — water recycling, groundwater and harvesting rainwater. He points out that San Francisco recycles no water at all, and is still paying bargain-basement prices. These measures will not be enough to replace the water San Francisco draws from Hetch Hetchy. But they will help, and, as Mr. Lungren and others have long pointed out, the waters from the Tuolumne River that now feed Hetch Hetchy could be allowed to flow farther downstream to other reservoirs that now serve the San Francisco Bay area.

Democrats, usually more sympathetic to the environment, might be expected to sympathize with Mr. Lungren’s call. But Nancy Pelosi, the House minority leader, and Senator Dianne Feinstein — both San Franciscans — like things the way they are. Mr. Salazar should look into the matter. The issue is not only how San Francisco uses its water but whether there’s any rationale, a century later, for the dam and the deal. Ninety-nine years ago, this newspaper argued against the construction of the dam. We lost, but the much bigger loss was nature’s.

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Silicon Valley Water Conservation Awards

Recognizing the primacy of water to the health and economic vitality of our region and to the environment, the Silicon Valley Water Conservation Awards are presented to organizations, agencies, businesses and individuals whose programs and leadership have advanced water conservation in Silicon Valley (San Mateo County, Santa Clara County and Alameda County from Hayward south). Our [coalition of 19 member organizations](#) represents a diverse cross-section of respected parties concerned about water conservation and the need for a strategic response, both to the droughts and to a new era of water scarcity. The goal of the Awards is to raise awareness and celebrate outstanding achievements in water conservation through best practices, efficiency and innovation.

2012 Awards Ceremony

Thursday, March 22, 2012 11am-1pm
Redwood City Council Chambers
1017 Middlefield Rd., Redwood City

Awards Program

11:00am - Water Expo and Appetizers
11:30am - Keynote Address: Art Jensen, Bay Area Water Supply and Conservation Agency
11:45am - Awards Presentation
1:00pm - Wrap Up



Congratulations to the 2012 Winners

Government Agency (Large):	Santa Clara Valley Water District
Government Agency (Small):	Estero Municipal Improvement District
Business (Large):	Adobe Systems
Business (Small):	Earth Bound Homes
Organization:	Our City Forest
Greenscape Management:	Waterfluence
Education:	Tuolumne River Trust
Water Champion:	Frank Niccoli, The Village Gardener