

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

**December 14, 2011 – 1:30 p.m.
155 Bovet Road, 1st Floor Conference Room**

MINUTES

1. Call to Order: 1:35 p.m.

Committee Chair Larry Klein called the meeting to order at 1:35pm. Seven members of the committee were present, constituting a quorum. A list of the directors present (7) and absent (2) and members of the community who attended is attached.

2. Public Comments: There were no public comments.

3. Consent Calendar:

Approval of the Minutes from the October 12, 2011 meeting: Director O'Connell made a motion, seconded by Director Anderson, to approve the minutes from the meeting of October 12, 2011. The motion carried with two abstentions.

5. Reports and Discussion:

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

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

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

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

- 1) As reported at the November Board meeting, the scope and schedule changes to the Long Term Reliable Supply Strategy will be presented in the Spring of 2012.
- 2) The technical review and oversight of the SFPUC's Water System Improvement Program (WSIP) will change emphasis from a technical engineering oversight to a construction management oversight. The professional services agreement with a construction management consultant will be increased by \$15,000. An existing \$135,000 contract for technical engineering services approved in the beginning of the fiscal year was terminated before any work was begun. It will be replaced with an agreement for an as-needed support at \$25,000.

- 3) Increased attention and action will be needed to protect the reliability provided by water storage reservoirs in the Regional Water System. The professional services agreement with Strategic Counsel will be increased by \$50,000. Mr. Jensen noted that an errata was provided for this memorandum to reflect the correct amount of increase by \$50,000 instead of a \$100,000 figure.
- 4) As a response to agency requests for added value in the water conservation data base, BAWSCA will increase the budget with the existing consultant by \$75,000 to make the retrieval of data from the database easier and adaptable to the variety of agency reporting purposes.

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

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

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

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

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

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

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

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

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

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

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

Director Anderson made a motion, seconded by Director O'Connell, and by roll call vote, the committee unanimously voted to recommend the Board's approval of the four adjustments to the Work Plan and the four adjustments to the Operating Budget:

1. Approve the following revisions to the FY2011-12 Work Plan:
 - a. Prepare scope and schedule changes for the Long-Term Reliable Water Supply Strategy, and present them to the Board the Spring 2012.
 - b. Acknowledge the termination of the original contract for as-needed technical engineering reviews of WSIP design and technical documents because the needs are much smaller than could be envisioned at the time the budget was prepared.
 - c. Take actions needed to protect the reliability provided by water storage reservoirs in the regional water system.
 - d. Respond to agency requests for added value by making data in the water conservation data base easier to retrieve for a variety of agency reporting purposes.
2. Approve the reallocation of funds and authorize the CEO to take the actions specified below:
 - a. To support the proposed revisions to the Work Plan, reallocate the following funds: \$135,000 from as-needed technical engineering support, \$50,000 from the administration budget, and \$30,000 from the contingency budget.
 - b. Authorize the CEO to amend the existing contract with Mr. Terry Roberts to add \$15,000 for additional investigations of WSIP program and construction management for a revised contract total of \$135,000.
 - c. Authorize the CEO to execute a contract with an as-yet unidentified consultant for engineering review of WSIP design and technical documents for an amount not to exceed \$25,000.
 - d. Authorize the CEO to amend the existing contract for Strategic Counsel by \$50,000 to assist the CEO and legal counsel with activities to protect the water supply reliability provided by Hetch Hetchy Reservoir, for a revised total contract amount of \$200,000.
 - e. Authorize the CEO to amend the existing contract with Brown and Caldwell to add \$75,000 for a revised total contract amount of \$125,000 to develop improved reports of data in the Water Conservation Data Base and provide on-call technical support.

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

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

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

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

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

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

Mr. Jensen reported that a new issue for the Board's consideration in FY 2012-13 is whether member agencies would benefit from issuing bonds to retire old capital debt they owe to San Francisco. Mr. Jensen will meet with Legal Counsel and BAWSCA's financial consultants in January to look into the possible value of refinancing that debt using lower interest rates currently available. Initial estimates suggest a potential savings of up to \$50M, although there are several issues to consider in greater detail in order to make an informed recommendation. The preliminary investigation with the financial consultants will look into the value of the

effort, and determine whether the complexity to pursue it as a region, much more by individual agencies, is worth the value of the perceived savings.

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

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

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

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

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

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

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

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

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

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

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

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

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

Discussion items and Special Reports:

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

A Board discussion on the topic is needed to clearly distinguish the different types of water transfers and help the Board understand which types of transfers the Strategy will focus on in the policy decisions by the BAWSCA Board. The discussion will also help contrast the proposed MID/SFPUC water transfer, as well as identify the types of policy issues expected to arise.

In general, “water transfers” could include:

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

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

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

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

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

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

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

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

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

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

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

SFPUC Water System Improvement Program – Status Report: Ms. Sandkulla noted that copies of a December 7th letter from Mr. Jensen to SFPUC General Manager were included in the packet for

the Committee's reference. The letter presents BAWSCA's review of the WSIP as of December 1, 2011, cites concerns related to the WSIP's completion within schedule, budget and scope, and provides specific recommendations to the SFPUC.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Respectfully submitted,



Arthur R. Jensen, Chief Executive Officer and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board Policy Committee
December 14, 2011**

Attendance Roster

Committee Members Present:

Larry Klein	City of Palo Alto (Chair)
Robert Anderson	Purissima Hills Water District
Randy Breault	City of Brisbane/GVMID
Irene O'Connell	City of San Bruno
Tom Piccolotti	North Coast County Water District
Bill Quirk	City of Hayward (by Teleconference)
Barbara Pierce	City of Redwood City

Committee Members Absent:

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

BAWSCA Staff Members Present:

Arthur Jensen	Chief Executive Officer
Nicole Sandkulla	Water Resources Planning Manager
Lourdes Enriquez	Assistant to the CEO
Allison Schutte	Legal Counsel, Hanson Bridget, LLP.

Guests:

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