

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

**April 11, 2012 – 1:30 p.m.
BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room**

MINUTES

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

Committee Chair Larry Klein called the meeting to order at 1:30pm. Nine members of the committee were present, constituting a quorum. A list of the directors present (9) and absent (1) and members of the community who attended is attached.

- 2. Public Comments:** Peter Drekmeier of Tuolumne River Trust (TRT), provided public comments regarding TRT's concerns with the Environmental Impact Report for the proposed water transfer between MID and the SFPUC. TRT stated that San Francisco's water customers will pay \$1.5 million every year even if water is only transferred during drought years. TRT believes that the water may not be needed. Mr. Drekmeier said that when the WSIP was approved in 2008, the system was using 257 mgd. That number went down to 220mgd last year. Mr. Drekmeier said it was not clear that the water would be needed and that the cost will add to the already increasing water rates. .

3. Consent Calendar:

- A. Approval of the Minutes from the February 8, 2012 Meeting: **Director Klein made a motion, seconded by Director O'Connell, to approve the Minutes of February 8, 2011. The motion carried unanimously with one abstention.**
- B. Approval of Revisions to Personnel Handbook: Director Klein stated that Director McLeod had additional considerations for the handbook, and that they will be discussed with the CEO and Legal Counsel.

Director Klein made a motion, seconded by Director O'Connell that the revisions to the Personnel Handbook be brought back to the BPC for review and discussion at its June meeting, after the CEO and Legal Counsel has addressed Director McLeod's additional items for consideration. The Committee voted unanimously to pass the motion.

5. Action Items:

- A. FY 2012-13 Proposed Work Plan and Budget: Mr. Jensen presented the refinements made to the Work Plan and proposed Operating Budget since the March Board meeting. The recommendation is a proposed Operating Budget of \$2,585,214, no change in the level of assessments, and a plan for managing the General Reserve.

The proposed Operating Budget is within 1% less than the current operating budget for FY 2011-12. It is also \$7,500 less than what was presented at the March Board meeting. Mr.

Jensen explained that at the February BPC meeting, the committee was presented with, and discussed two budget ranges. A higher end included \$435,000 to fund a one-time cost to look at the feasibility of a bond issuance. A lower end excluded that one-time cost as well as a portion of an as-needed consultant budgets, COLA adjustments and salary adjustments to the top-step salaries of two positions.

Based on comments made by the Committee in February, the preliminary budget presented to the Board in March was to be between those two extremes by excluding the bond issuance costs and the small reduction in as-needed consultant costs, but including COLA adjustments to the top step of staff salaries, and salary adjustments for two positions.

Mr. Jensen explained that while the Board memo presenting the Work Plan and Operating Budget presented to the Board in March reflected the Committee's input, the table in the memo presented the lower end range instead of the middle range incorporating committee input.

The memo to the Committee correctly shows an Operating Budget of \$2,585,214. The table in the memo contains the corrected information. The table in the memo shows a significant reduction in the contingency budget from \$106,000 to \$77,500 that result from budgeting as-needed consultants in the traditional fashion. It also includes a reduction in legal cost associated with legislation which is anticipated to be less in FY 2012-13.

Mr. Jensen stated that the results to be achieved remain as they were presented to the Board in March. He noted a refinement in the wording of an item under reliable supply.

The recommendation to the Committee for managing the General Reserve is consistent with what was presented to the Board in March. The Board can choose to use the anticipated excess in the General Reserve towards the issuance of bonds or refund the agencies in FY 2012-13, combined with a reduction of assessments by 7% in FY2013-14. This would put the General Reserve balance within the adopted guidelines.

Director McLeod asked how the take-or-pay provision of the proposed water transfer from MID to the SFPUC fits into BAWSCA's goal of protecting the water supply and financial interests of its members, and whether the transfer will increase wholesale water rates.

Mr. Jensen stated that there are a number of issues to consider with the water transfer including the benefit to the agencies, the cost and allocation of costs. There are two water transfer agreements being considered at this time. Under public comments, the speaker commented on a 2mgd water transfer proposal that is before MID at this point in time. MID and the SFPUC have also discussed the possibility of a second, larger transfer of up to 21 mgd. As presented by the SFPUC, the proposed 2 mgd transfer would benefit all customers, and costs would be allocated to both retail and wholesale customers. The uses of water that might arise from the second transfer, and therefore the beneficiaries of that transfer, have not yet been clearly identified. Therefore the allocation of cost for all or portions of that larger transfer could be significant and BAWSCA has begun discussion with San Francisco as to when those costs would be incurred and how those costs should be allocated.

Director Weed stated that the reduction in water consumption is a national phenomenon, and that there are a number of studies being done across the country and by agencies in California. He suggested that BAWSCA look into the existing studies and literature to develop the method of analysis for water use projections, and build on existing data as opposed to starting from scratch.

Mr. Jensen agreed and stated that the result to be achieved in FY 2012-13 is to review and select a method for making water use projections, and that the application of the method would be scheduled for the following fiscal year. Ms. Sandkulla clarified that the work is not focusing on the reasons demands are low, but on preparing future demand projections. The projections would need to reflect whatever factors are affecting water use. The last regional planning done by member agencies was based on data from a window of 2000-2004.

Director Piccolotti asked what the CPI is and whether it is for salaries that are already at the top of the range. Mr. Jensen said he believed the current COLA index is 3.0. He also explained that at BAWSCA, salaries are not automatically raised by the COLA. BAWSCA adjusts the top step of salary ranges for each position based on Board-approved adjustments for COLA, or recommendations from a compensation survey. Changes to employee salaries are made based on merit, and determined by the CEO.

Director Pierce made a motion, seconded by Director Guzzetta, to recommend Board approval of the proposed Work Plan, the Operating Budget of \$2,585,214, no change in the level of assessments, and the plan for managing the General Reserve balance presented in the memorandum. The motion carried unanimously.

Director Pierce asked that if there are rate increases to water customers as a result of the SFPUC's water transfers, that the Board Policy Committee and Board be notified.

- B. Priority FY 2012-13 Professional Services Contracts: Mr. Jensen reported that the Board will consider ten professional services contracts following consideration and adoption of the budget for FY 2012-13.

The proposed Operating Budget includes a combined total of \$886,000 for these ten professional services. They are legal, strategic, financial, and engineering services.

The BPC packet includes a summary memo covering the ten professional services contracts that need to be in place as of July 1, 2102 for FY 2012-13, as well as individual memos on each consultant contract.

Director Klein asked how much is being spent for the FERC process as compared to the reductions in other areas of efforts for legal counsel. Mr. Jensen stated that the fisheries consultant and potential legislative activities are included in the budget increase for legal counsel.

Allison Schutte stated that the Fisheries Consultant for the FERC process is approximately \$33,000. It was a part of the \$390,000 budget in FY 2011-12, however, the legislation and water transfer activities took priority.

She noted that the FERC process for FY 2011-12 and 12-13 will be incredibly robust and be time consuming. In preparing the budget with Mr. Jensen, every eventuality that can be expected were included to avoid coming back at mid-year for an adjustment.

In response to Director McLeod's question, Mr. Jensen stated that the budget for Strategic Counsel covers communications and other activities associated to the proposed initiative in San Francisco related to Hetch Hetchy Reservoir. Depending on events early next fiscal year, additional work may be recommended and any needs for budget reallocations or additional resources would be brought to the Board for consideration.

Director Pierce stated that it was very helpful that the memos for Legal and Strategic Counsels noted whether funding for activities come from the Operating Budget or the Water Management Funds. She also noted that she is pleased to see the continuance of the Large Landscape Audit Program provided by John Whitcomb at Waterfluence. She appreciates the difference the program is making towards water management in the landscape.

Director McLeod made a motion, seconded by Director O'Connell, to recommend Board approval of the ten contracts for legal, engineering, financial, strategic, and water conservation services needing to be in place by July 1, 2012. The motion carried unanimously.

- C. Request for Authority to Implement Grant Funding for Regional Water: Ms. Sandkulla reported that BAWSCA is a recipient of a Prop 84 grant program by the Department of Water Resources (DWR). The Bay Area Clean Water Agencies (BACWA) applied for the grant on behalf of multiple agencies in the nine-county Bay Area, including BAWSCA. The grant is \$30M for multiple water projects, including a specific allocation for regional conservation programs. The agency responsible for implementing the regional conservation programs is the Solano County Water Agency (Solano CWA). BAWSCA's share of the grant is 863,000 and will be applied to the high-efficiency washing machine rebates, high-efficiency toilet rebates, and lawn replacement rebates.

BAWSCA's next step is to enter into an agreement with Solano CWA to receive our portion of the grant. The agreement is being drafted by Hanson Bridget and will follow BAWSCA's standard form of contract.

Ms. Sandkulla stated that BAWSCA agencies have had no grant funds for the past two to three years, and this is the largest such grant awarded to agencies as a regional group. The funds will help BAWSCA programs, particularly the Lawn Be Gone! Program, and allows agencies to leverage local funds to expand their programs.

In response to Director Weed's questions, Ms. Sandkulla explained that DWR will have a contract with BACWA, BACWA will have a contract with Solano CWA, BAWSCA will have an agreement (MOU) with Solano CWA, and BAWSCA will have agreements with each of its participating member agencies. As the lead agency, Solano CWA will be implementing this grant on behalf of thirteen regional agencies including BAWSCA, Alameda County Water District, and East Bay MUD to name a few.

Ms. Sandkulla noted that it is important to make the implementation manageable for Solano CWA, because without Solano CWA stepping up to be the lead agency, the grant could not be implemented.

In response to Director Piccolotti's question, Ms. Sandkulla explained that member agencies that participate in BAWSCA's programs will have access to the grant. Customers of participating agencies will have access to the grant funds through their application for the rebate programs.

Director Pierce made a motion, seconded by Director Anderson, to recommend Board authorization of the CEO/General Manager, subject to legal counsel's review of the final documents, to enter into an interagency MOU with Solano CWA for the grant-administration of Proposition 84 grant funds to support BAWSCA's Washing Machine Rebate Program, High-Efficiency Toilet Rebate program, and Lawn Be Gone! Rebate program.

6. Reports:

- A. Board Policy Calendar: Mr. Jensen presented the Board Policy Calendar and noted that a resolution on ACWA's administration of health benefits will be presented to the Board in May without the Committee's prior review. The reason for going directly to the Board is that the notification from ACWA was received after the Committee agenda packet was distributed. Staff And legal counsel will review ACWA's request in time for the May Board meeting.

Director Weed noted that Hanson Bridgett, on behalf of ACWD, expanded the proposed resolution with more detail, and the ACWD board considered and adopted it at its meeting on April 10th. BAWSCA is welcome to look at ACWD's resolution.

- B. Long-Term Reliable Water Supply Strategy: Ms. Sandkulla reported that two major technical documents were distributed to each of the member agencies' appointed water supply management representatives for review. The technical documents include the evaluations of the different water supply management projects that were assessed, including the information that supported the water transfer information presented to the board in the workshop.

The final report for Phase IIA is being prepared and will be provided to the Board at the July Board meeting. A study session on the results and conclusions from the report will be held at the July Board meeting.

The next step would be to present recommended actions to the BPC in August for discussion prior to requesting Board action in September

A fifteen page summary is included in the technical memos distributed to the Water Management Representatives.

- C. SFPUC Water Supply Improvement Program – Update: Ms. Sandkulla reported that BAWSCA is working with its technical consultants in preparing a mid-point review of the

WSIP. The review will address important areas of understandings including what has gone well, what has not gone well, what challenges remain, and key project issues in those challenges.

The objective of the report is to layout conclusions and recommendations for moving forward with the next half of the program to ensure completion on time, scope and budget.

Ms. Sandkulla said she shared the outline with Julie Labonte who provided a helpful and thoughtful reply, and that the report may be completed in time for the May Board meeting.

Mr. Jensen stated that Julie Labonte was very positive in her comments about Nicole's work on the outline of this report and on Nicole's work on recommendations that have been provided to San Francisco throughout the first half of the WSIP. Julie said that BAWSCA's recommendations have been very helpful in improving SFPUC's management of the WSIP.

- D. Potential Bond Issuance to Pre-Pay Capital Debt Owed to SFPUC: In February, the Committee discussed the potential issuance of bonds by BAWSCA to pre-pay capital debt owed to SFPUC by BAWSCA's members. A brief discussion was held with the Board in march and a longer report will be made at the May Board meeting.

Mr. Jensen described provisions in the 2009 Water Supply Agreement related to pre-payment of the capital obligations, and specifically noted the wording: "...the agreement permits prepayment through BAWSCA, in whole or in part, without penalty."

BAWSCA completed a preliminary assessment and is currently in the process of hiring bond counsel to help determine whether the bond issuance is feasible and what actions would be needed for a successful bond issuance.

Work is underway with Assembly Member Hill's office with a bill, AB 2167, to expand BAWSCA's existing bonding authority to include issuance of bonds for this purpose.

The feasibility assessment will be completed in late Spring or early Summer. A recommendation to the Board will be presented in July or September.

Mr. Jensen reported that the State legislation, if passed and signed by the governor, would not be effective until January 1, 2013. The intervening time can be used to become prepared to issue bonds immediately after the first of the year, should the Board vote to do so.

Director Klein asked how the process can be expedited to take advantage of the favorable market conditions.

Mr. Jensen explained that BAWSCA began work on the legislation early this calendar year. Bond counsel is being brought on board using the CEO's discretionary spending authority for timely input to the feasibility analysis and to review the language in AB 2167. To expedite the effective date of the legislation, BAWSCA is considering whether or not to put urgency on the legislation which would require a higher vote in the legislature but would make the bill effective the day it is signed by the Governor.

Director Weed noted that a bond advisor and an underwriter would also be needed in addition to the bond counsel, and it would be wise to allocate time for the selection process for a bond advisor into the time schedule.

Director McLeod asked whether BAWSCA would have the opportunity to back out if the interest spikes up even after the authorities have been granted. Mr. Jensen stated that the legislative authority would not compel the agency to issue bonds and that BAWSCA would only move forward if it would be to the advantage of the water customers.

Ms. Schutte stated that since BAWSCA has never issued bonds before, there is a lot of work that can be done while waiting for approval of the legislation, including developing the offering statements and reaching out to the IRS, if necessary, as those would be time-consuming elements of the process.

In response to Director Pierce's question, Ms. Schutte explained that an agreement between BAWSCA and each of the member agencies may not be needed and is not necessarily the best mechanism as it can be time consuming.

In response to Director Piccolotti's question, Mr. Jensen said that the bond issuance would have no impact on agency assessments to BAWSCA.

Director Klein pointed out that it may result in a slight reduction of the rates that San Francisco charges the wholesale customers.

Director Weed commented that in ACWD's recent experience with issuing bonds at \$47M, there was a nominal cost outside of the bond proceeds. He was surprised to see BAWSCA's \$400,000 estimated out-of-pocket cost. He asked whether the total amount of \$2M to issue bonds is a percentage of actual fixed cost or are contingency costs included.

Ms. Schutte explained that the financial advisors prepared the documents and included all potential expenses which were estimated at a high end because this is a first-time and unusual issuance for BAWSCA. Reviewing the issuance with San Francisco's bond counsel and disclosure counsel proved that it will be a challenging issuance

The \$400,000 is a preliminary estimate of BAWSCA's out-of-pocket cost, including getting rating agency letters, regardless of whether BAWSCA decides to move forward or back out from the bond issuance. All costs for the second round of work, provided that BAWSCA will move forward with the bonds, would be contingent and will not be paid until the deal closes.

A portion or possibly all of the \$400,000 could be attributed to the cost issuance if BAWSCA moved forward with the bonds.

- E. SFPUC Wholesale Water Rate Proposal – Status of agency comments and schedule for consideration by the SFPUC Commission: Mr. Jensen reported that the SFPUC distributed a report to its wholesale customers on its proposed rate structure and unit rate in February. BAWSCA met with the member agencies on March 1st, and submitted comments and suggestions to the SFPUC in April. Individual member agencies have submitted their

comments to San Francisco separately. Mr. Jensen expects a report from the SFPUC that mirrors the comments and suggestions made by BAWSCA. The Commission hearing on the rates is scheduled for May 8th.

Mr. Jensen reported that San Francisco had evaluation criteria for looking at various rate structures and alternatives, but that those criteria reflected San Francisco's perspective. BAWSCA's comments included an evaluation based on criteria relevant to both San Francisco and the Wholesale Customers. BAWSCA also listed potential financial impacts to member agencies that have not yet been fully examined. Mr. Jensen explained that the financial impacts were related to San Francisco's proposed mechanism that would allow San Francisco to raise rates at mid-year.

While some member agencies stated they were indifferent with respect to the size of the adjustment that the SFPUC was proposing in their report, BAWSCA's concern was that San Francisco would have ability to change a water rate structure in subsequent years with numbers that may or not be favored by some agencies.

BAWSCA suggested to avoid mid-year rate changes by setting rates on prudent, but not overly conservative water purchase estimates. Doing so could ensure that San Francisco would collect enough revenue and avoid the uncertainty and budgetary impacts of a change in rates in the middle of the year.

BAWSCA's comments also suggested a rational process for examining possible future changes in rate structure. The suggested process would envision San Francisco, BAWSCA and Wholesale Customers working together to identify their respective objectives, consider various possible rate structures, and evaluate them with criteria that are meaningful to both San Francisco and the Wholesale Customers. The member agencies support this approach.

BAWSCA will keep the agencies apprised.

Director Weed noted that ACWD sent a letter suggesting 135 mgd as the base line or a 9% increase. ACWD's budgeted amount is in excess of its contractual minimum. By reducing ACWD's purchases, the district will be able to stay within budget. However, that adds to the cumulative reduction in demand.

Director McLeod commented that with the rising cost of treating and making high quality water available, member agencies have a vested interest in ensuring the public has clear understanding of the value of having access to clean water, and not taking that privilege for granted.

Director Pierce stated that she has invited the CEO to share with the Redwood City Council with his presentation on why water rates increase when customers use less. She said it emphasizes that we are really paying for the infrastructure and the ability to have water. She believes that it might be beneficial for other councils to hear that presentation at their meetings when there is public presence and broadcast on local channel.

- F. Hetch Hetchy Reservoir – Protecting the Water Users: Chair Klein began the item by asking if there were any public comments. Spreck Rosekrans, Director of Policy for Restore

Hetch Hetchy (RHH) stated that RHH is committed to restoring the Hetch Hetchy Valley. He said RHH fully understands that the water and power made possible by the reservoir will have to be replaced. It supports BAWSCA's goal of a reliable supply of high-quality water at a fair price. He said RHH has done technical studies, but has been unsuccessful at the political level and with the SFPUC. As a result, RHH is taking the issue to the San Francisco voters this Fall.

Mr. Rosekrans stated that the ballot initiative would establish a panel, on which BAWSCA would participate, to direct a study that would determine water supply options, costs, and implementation. RHH would like to work with BAWSCA.

RHH believes that the proposal to restore Hetch Hetchy is doable while maintaining a reliable supply of high-quality water to San Francisco and all of its Bay Area customers.

Mr. Jensen stated that BAWSCA's goal is to protect the water users outside of San Francisco who pay more than two-thirds of the cost of the system. If the measure passes, BAWSCA would immediately seek means to obtain a yes or no vote for the wholesale customers on whether any plan to drain the reservoir should go forward.

In the meanwhile, BAWSCA will continue to provide the Board, member agencies and others with factual information.

- G. Mr. Jensen announced that Home Depot reached out to BAWSCA and Bay Area water agencies to participate in their parking lot events that promote water efficient landscape products and practices. BAWSCA and other regional water agencies are participating at several of the locations within its service area between April and July. These events mirror those that took place in Southern California last year, which were driven by water agencies. The events in the Bay Area are driven by Home Depot.

Ms. Sandkulla noted that a bonus of participating in these events, besides water customers having access to water conservation program information for landscaping, is the relationship BAWSCA gets to build with Home Depot for its indoor water conservation programs.

7. Comments by Committee Members:

Director McLeod stated that in reviewing the personnel policy, she was curious to know if BAWSCA has a policy that restricts solicitation for support during campaigns so that no pressure is put on staff. Ms. Schutte explained that AB 1234 includes mandatory restrictions on such activities.

Director McLeod commented on the FERC process, saying that she wanted to ensure that FERC based its analyses on current data for 1) projected demand of wholesale customers, and 2) environmental conditions. She said doing so would ensure the CEQA analysis was sound and could not be successfully challenged.

Director Pierce and Mr. Jensen noted that the last Board meeting packet included abbreviated minutes from January 19th meeting, showing only the actions taken by the Board. Mr. Jensen

received no comments from Board members, and asked the committee whether they had a preference on how the Board Minutes and Board Policy Minutes should be written.

Director Weed stated that the action items on the Board minutes are sufficient, but that the Board Policy Committee summary report and minutes should continue to be complete so that Board members who are not part of the BPC can have reference of the discussion.

Mr. Jensen explained that Board Minutes are currently written to include action items as well as back and forth discussions by the board. While the minutes serve as a helpful reference for those who were absent or who want to refresh their memories of what was discussed, it can be time consuming to produce. Mr. Jensen noted the Board meetings are recorded and transcribed and those materials can be made available for reference.

Director O'Connell stated that it is valuable to have the Board Policy Committee summary report and minutes to be full so that readers can get a grasp of how much the Committee delved into each issue before making a recommendation to support or not support an item. Action minutes for the Board minutes are sufficient, unless there is significant discussion of an item that is worth including.

Director Weed suggested including the numbers of ayes and the nays for each vote, when necessary, and to record the results of roll call votes.

Director O'Connell announced that San Bruno will host two pilot projects and landscape workshops in front of the fire station on El Camino in May.

Director Anderson reported that Stanford has a symposium on April 16th to discuss the interrelationship between water, food, energy and climate. Breakout sessions will be led by students, faculty and staff. The event will be from 12:30-6:30pm in the alumni center.

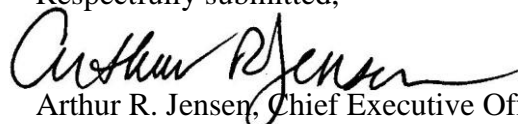
Director Weed stated that he has asked ACWD's consultants to develop "no irrigation" commercial landscape alternatives that are currently not allowed in local city ordinances in that district's service area.

There are two upcoming ACWA meetings, and the first one directly related to the SFPUC is a tour of the Sunol Valley Projects on June 5th. The ACWA spring meeting will be in Monterey on May 9 through 11th.

Director McLeod announced that there is a movie titled "Last Call of the Oasis" which highlights the international water crisis.

8. Adjournment: The meeting was adjourned at 3:00pm.

Respectfully submitted,



Arthur R. Jensen, Chief Executive Officer and Secretary

ARJ/le

Attachments: 1) Attendance Roster

**BAY AREA WATER SUPPLY AND CONSERVATION AGENCY
Board Policy Committee
April 11, 2012**

Attendance Roster

Committee Members Present:

Larry Klein	City of Palo Alto (Chair)
Rob Guzzetta	California Water Service Company (Vice Chair)
Ruben Abrica	City of East Palo Alto
Robert Anderson	Purissima Hills Water District
Jamie McLeod	City of Santa Clara
Irene O'Connell	City of San Bruno
Barbara Pierce	City of Redwood City
Tom Piccolotti	North Coast County Water District
John Weed	Alameda County Water District

Committee Members Absent:

Randy Breault	City of Brisbane/GVMID
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BAWSCA Staff Members Present:

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

Guests:

Peter Drekmeier	Tuolumne River Trust
Nico Procos	City of Palo Alto
Spreck Rosekrans	Restore Hetch Hetchy
Michelle Sargent	SFPUC