

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

**February 13, 2013 – 1:30 p.m.  
BAWSCA Offices, 155 Bovet Road, San Mateo, 1<sup>st</sup> Floor Conference Room**

<b>MINUTES</b>
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**1. Call to Order: 1:30 p.m.**

Committee Chair Rob Guzzetta called the meeting to order at 1:30 pm. There being several new members of the Committee, Chair Guzzetta asked that committee and staff members introduce themselves. A list of Committee members present (9) and other attendees is attached. The Committee took the following actions and discussed the following topics:

**2. Comments by Chair:** Chair Guzzetta thanked former Committee Chair Larry Klein for his leadership of the committee during the past year, and his management of some critical discussions and decision-making. Chair Guzzetta also recognized the efforts of the CEO/General Manager, Art Jensen, his staff and legal counsel for completing the bond issuance.

**3. Public Comments:** Wynn Grcich provided public comments.

**4. Consent Calendar:** Approval of Minutes from the December 12, 2012 meeting.

**Director Breault made a motion, seconded by Director Pierce, that the Minutes from the December 12, 2012 meeting be approved. The motion carried unanimously**

**5. Action Items:**

**A. Professional Services Contract with Maddaus Water Management, Inc. to Prepare Regional Water Demand and Conservation:** Anona Dutton, Senior Water Resources Specialist, reported that a key recommendation from the Long-Term Reliable Water Supply Strategy Phase IIA report, which the Board adopted in September 2012, was that BAWSCA update the water demand and conservation projections for the BAWSCA member agencies using a common methodology. This would create regional consistency, provide the basis for identifying promising regional water conservation programs, as well as provide strong support for local and regional water supply project decisions and environmental documents.

The Board-approved Work Plan for FY 2012-13 includes the selection of a projection methodology and selection of a consultant.

Ms. Dutton reported that staff from each of the BAWSCA agencies support the preparation of regional water demand and conservation projections. She reported that the Water Resources Committee provided input to the development of the Request for Proposals and the consultant selection process. All BAWSCA member agencies were

invited to participate in the consultant selection process. Twelve agencies participated in the selection of the consultant and demand-projection methodology. Agency staff members from ten agencies served as an advisory group and staff members from ACWD and Mountain View served on the selection panel.

Ms. Dutton noted that the City of San Jose plans to use BAWSCA's consultant to do an expanded analysis for its service area.

Maddaus Water Management (MWM) was selected based on their efficient and rigorous approach for developing water demand and conservation projections. Ms. Dutton reported that the agencies were impressed with MWM's complete overhaul of their model which makes it a more user-friendly tool that will provide lasting value for the agencies. The firm has added the capability to track actual conservation performance and translate that information to water savings.

Ms. Dutton noted that the existing relationship and prior successful work MWM has completed for BAWSCA and individual agencies lessens the time required for data gathering and the time that would need to be invested by BAWSCA and its member agencies. Additionally, members of MWM staff were highly involved in the development of BAWSCA's water conservation database, and they will be able to leverage that experience, making MWM significantly more cost effective than the other short-listed firm.

The total cost for the project is \$365,000, which is equivalent to less than \$13,000 per individual agency model. Similar effort to develop comprehensive and robust models and reports for individual agencies would cost between \$50,000 and \$150,000. Ms. Dutton noted that a benchmark for comparison is the SFPUC's development of demand projections in 2004 to support the Program Environmental Impact Report for the WSIP. That work cost the equivalent of \$24,000 per agency model.

Ms. Dutton noted this project will benefit to the local agencies. Each agency will receive a copy of a user-friendly model for its service area to support future decision-making, regional investment in water supply projects and water conservation programs. The nature of the demand projection methodology will produce robust results that support decision making and high-level environmental review. The model will also provide a "check" for other local demand projection efforts which some agencies used in the past and may continue to use. The models for each agency will be completed in time to be used by agencies for updating their Urban Water Management Plans in 2015 and producing their 20% by 2020 reports.

Ms. Dutton presented the proposed project scope and noted that the design of the effort is to be rigorous and flexible. BAWSCA intends to rely on sound process methodologies and data, as well as recognize the unique characteristics of each member agency. That approach is built-in to all the tasks in the scope, and is emphasized in Task #7.

Task #7 provides an agency the option to pay for additional model development and Support. To the extent that an agency wants additional analysis, model modifications, or wants the consultant to run additional analyses for them, the agency can contract

through BAWSCA, for a fixed hourly rate, to buy more consultant time to complete the effort they require.

This is how the City of San José intends to expand their model to include all of their municipal area. This process is expected to save the City time by procuring the services through an existing, competitively-issued contract through BAWSCA. This process is similar to how agencies participate in BAWSCA's subscription conservation programs, which has a long history of success.

The project will take 15 months to complete. Completion of the project by July 2014 is critical to support key decision points for the Strategy as well as reporting for 2015 UWMP updates and 20% by 2020 reports. Ms. Dutton stated that to meet a schedule for completion by July 2014 means that work would need to begin in April 2013.

Director Mendall asked for confirmation that the approximate cost of \$12,600 is from the \$365,000 divided by the number of models, and that any added cost to the agencies will depend on what additional work an agency wants, and the complexity of that additional work.

Ms. Dutton confirmed his understanding and explained that for example, while the project scope allows for examining the effects of up to three different suites of conservation programs for each agency, some agencies might want to look at 4 or 5 different conservation program options.

While those investigations may be worthwhile for an agency, BAWSCA is not trying cover the cost of open-ended research. Therefore the agencies will have the option to buy additional consultant time at a fixed unit rate, if requested.

Director Mendall asked about the reduction in cost by 50% from the 2004 effort, and what it means for the agencies; for example, will the results be less or has the technology significantly improved that the cost is less? Ms. Dutton explained that consistent information for the region was non-existent prior to the 2004 effort. There was no repository for data, and no one had tried to apply a uniform methodology to the entire area. Now, the Water Conservation Database has been developed and there is a repository for data of all the water conservation efforts and water use statistics. In addition, BAWSCA's coordination of the 2004 effort with San Francisco provides better understanding of the unique features of each local service area.

Director Breault asked if the other proposers were significantly higher in cost. Ms. Dutton stated that they were significantly higher, and validated Director Breault's comment that MWM's past experience working with BAWSCA and the member agencies resulted in the cost-effectiveness of their proposal.

In response to Director Weed's question, Ms. Dutton stated that MWM's deliverables will include technical memoranda, a final report, 29 models, a models' users guide, and data that would be in a format consistent with the reporting requirements by the State to show compliance with 20% by 2020. Ms. Dutton further stated that an additional benefit to the MWM team is that they are knowledgeable of the State reporting re-

quirements. MWM is able to incorporate the State formatting requirements so that the model results can be inserted directly into State reports. .

Director Weed suggested that Task #5 be modified to specific deliverables.

Director Pierce asked whether the individual agency option will be presented to the members through direct communication with technical staff by means of the Water Supply Committee and Water Resources Committee. Ms. Dutton confirmed that was the case. Ms. Sandkulla added that the process will be similar to BAWSCA's subscription program where there is a contract specifying what the results the participating agency expects, authorizing BAWSCA to communicate with the consultant to do the work at the agency's direction, and stating that the agency will pay BAWSCA upon receipt of an invoice.

**With no further questions, Director Pierce made a motion, seconded by Director Mendall, that the Committee recommend Board approval of the following actions:**

- **Authorize the CEO to negotiate and execute a contract with MWM for \$365,000 to provide technical support for the development of Regional Water Demand and Conservation Projections;**
- **Authorize a transfer of \$65,000 from the BAWSCA General Reserve to fund work performed in FY 2012-13; and**
- **Include \$300,000 in the proposed work plan for FY 2013-14, with funding from the General Reserve.**

**The motion carried unanimously.**

**B. Proposed Fiscal Year 2013-14 Bond Surcharges:** Mr. Jensen reported that the bonds were priced on January 31, 2013. The total net present value savings is \$62.3 million over the next 21 years. This represents a savings of 17% of the outstanding debt owed to San Francisco.

Mr. Jensen reported that during the negotiations of the bond sale in New York, some decisions had to be made on the bond structure to achieve an average interest rate of 3.14% for blended, 3.03 for tax-exempt, and 3.46% for taxable.

Mr. Jensen explained that there is not just one bond at one interest rate. There is a series of bonds that mature each year at different interest rates, and all of those were negotiated with a multitude of buyers. Mr. Jensen reported that in every year, except for one, BAWSCA was able to achieve a lower interest rate than San Francisco's most recent bond sale prior to February 12<sup>th</sup>.

It was a great achievement and he acknowledged the work of the Financial Team and San Francisco's role in the process. BAWSCA and the SFPUC worked well together and demonstrated a good model for agency participation. The Commission, at its

meeting on February 12<sup>th</sup>, congratulated BAWSCA for its leadership in achieving a remarkable result as well as their staff for a job well done.

The closing date is February 27, 2013, and that is when the funds will be received by San Francisco.

Mr. Jensen presented SFPUC's preliminary projected water rates over the next several years, and a chart that showed the result of the prepayment to wholesale customers.

The SFPUC's projected FY 2013-14 Wholesale water rate without the prepayment is \$3.18 per Ccf. With the prepayment, the wholesale rate is \$2.78 per Ccf. The surcharge is approximately \$0.35 per Ccf. The total water bill is \$3.13 per Ccf. The net reduction in water cost is \$0.05 per Ccf. Mr. Jensen reported that changes will appear beginning with the billings for July 2013 water purchases.

The committee provided comments on how to clearly present the savings of the prepayment to the Board at the March meeting.

Mr. Jensen continued his presentation by showing the proposed FY 2013-14 monthly Bond Surcharges for each agency. The numbers are calculated based on agencies' water purchases from San Francisco during the prior year. Mr. Jensen noted that a few agencies have asked what they should budget for the next fiscal year. He stated that while the \$0.05 savings is cumulatively important, it is probably within the noise of each agency's ability to estimate how much water it would purchase from San Francisco next year.

Mr. Jensen explained that because the amount of the surcharge is calculated based on a specific formula, there is no policy decision required of the Board, but the Board does have to adopt the numbers. The recommended action is that the Committee recommends Board approval of the proposed bond surcharges presented in the staff report.

Director Weed asked if BAWSCA is entitled to the interest earned from the \$370 million between the time of the bond issuance to the payment to San Francisco. Mr. Jensen acknowledged the question and will provide that information to the Board at its meeting in March.

**Director Breault made a motion, seconded by Director Mendall, that the Committee recommend Board approval of the proposed bond surcharges presented in the staff report to the Board Policy Committee. The motion carried unanimously**

**C. Resolution Appointing John Ummel as Temporary Sr. Administrative Analyst**

**Emeritus:** Mr. Jensen reported that John Ummel served as BAWUA and BAWSCA's Senior Administrative Analyst for 17 years, and following his retirement a year ago, he has served as Senior Administrative Analyst "Emeritus" to provide training for Christina Tang, BAWSCA's current Senior Administrative Analyst.

To comply with PERS regulations and ensure John receives his PERS retirement benefits, the Board is required to act by resolution, making certain findings that his services and expertise are essential to the agency.

Mr. Jensen explained that a big part of what John Ummel used to do, and now Christina Tang, relates to events that occur only once each year. For example, the position must review the annual compliance audit for the Wholesale Revenue Requirement under the agreement with San Francisco. The process ensures the wholesale customers pay only their fair share of appropriate expenditures. Mr. Ummel has worked with Christina to review the compliance audit for FY 2011-12.

The recommended action would continue Mr. Ummel's assistance through the Fall of 2013 to review the compliance audit for FY 2012-13.

In response to Director Vella's question, Mr. Jensen stated that PERS allows a retiree to work no more than 960 hours per year. Also, for a new retiree, there is a waiting period unless the governing body of that agency specifically passes a resolution waiving it.

Director Weed noted that the resolution has to be based on specific criteria. Mr. Jensen stated that Legal Counsel drafts the resolution to ensure all criteria are met.

In response to Director Mendall's question, Mr. Jensen stated that he expects Mr. Ummel's services to total 200 hours.

Legal Counsel Allison Schutte clarified that the 960 hours applies to all work a retiree does for all public agencies in one year. As a retiree, if Mr. Ummel works for another public agency, he needs to be very cognizant of the total number of hours he puts in.

**Director Mendall made a motion, seconded by Director Pierce, that the Board Policy Committee recommend Board adoption of the resolution approving the reappointment of John Ummel to the temporary position of Senior Administrative Analyst Emeritus, and making associated findings in support of such an appointment. The motion carried unanimously.**

**6. Discussion Items:**

7. Preliminary Fiscal Year 2013-14 Work Plan and Budget: Ms. Sandkulla reported that every year, BAWSCA's budget development is based on the results to be achieved and a work plan to achieve those results during the coming fiscal year. The preliminary work plan for FY 2013-14 aligns very closely with BAWSCA's three goals; a reliable supply of high quality water at a fair price.

The preliminary work plan includes all items reported to the Board at its January meeting, regardless of the funding source. BAWSCA's funding sources are the Operating

Budget, the Water Management Charge, and the Subscription Water Conservation services.

Ms. Sandkulla noted that the *implementation* of a dry-year pilot water transfer plan with East Bay Municipal Utility District (EBMUD) is not included in the preliminary FY 2013-14 work plan. The development of the pilot water transfer plan is being produced this current fiscal year, and will be completed at the end of June 2013. However, implementation is not included in the FY 2013-14 budget for two reasons: 1) while this season has been dry, water demands remain low, and rationing is not expected next fiscal year; 2) implementation of a water transfer is a significant budget item and would require a review of the water supply conditions at mid-year, a better understanding of the water supply conditions for the following year, and presentation to the Board of the results of that analysis and an appropriate recommendation for Board consideration. If water conditions remain dry in the fall of 2013, an assessment of whether to initiate work on a water transfer should be considered during the mid-year work plan and budget review.

In response to Director Mendall's inquiry of the development cost, Ms. Sandkulla confirmed that the Board-approved budget for the preparation of the Pilot Water Transfer Plan is \$130,000.

Director Weed noted that EBMUD had some legal questions on the ability to test the Freeport facility until they have a declared dry year. BAWSCA should review EBMUD's ability to test moving water through that facility based on the way EBMUD's agreement is written.

Ms. Sandkulla reported that EBMUD has done an operational test of the system that was successful in making sure that the new facility, the pumps and the pipes were able to move water into EBMUD's Mokulomne aqueducts. She explained that use of the facility, for EBMUD's purposes, is limited to dry-year reliability. The ability for BAWSCA to do a pilot water transfer with EBMUD is when Freeport is turned on as a result of a dry year. BAWSCA would only want to move forward with a pilot transfer during a dry year for two reasons: 1) the restrictions on EBMUD for use of the facility and 2) if EBMUD is using the facility, BAWSCA would not have to pay the entire cost of activating the facility. The cost of using the facility could be high, therefore both EBMUD and BAWSCA could benefit by sharing the costs during a dry year. BAWSCA is investigating what those costs might be with EBMUD and has legal counsel involved in that investigation.

Director Weed noted there may be something in the works for the use of the Freeport facility during both wet and dry years that may enable BAWSCA to do a pilot water transfer without having to wait for a dry year.

Ms. Sandkulla said BAWSCA will look into that.

Ms. Sandkulla reported that the FY 2013-14 work plan and budget focuses on eleven critical results that fall under BAWSCA's goal of ensuring a reliable delivery of high quality water at a fair price. The eleven results account for 98% of the preliminary budget for FY 2013-14.

Ms. Sandkulla went over each of the eleven results, noting that they were closely reviewed to ensure that they were vital results for the member agencies and highlighting those results that were both critical and had limited schedule flexibility.

BAWSCA's continuing relationship with the SFPUC and its transition in working with the new General Manager has been successful to date. She noted that several long-standing commissioners are expected to be replaced in the future and that will necessitate building relationships with new commissioners.

BAWSCA's oversight of the WSIP is an ongoing and a critical item in the work plan, as it has been for several years. BAWSCA's oversight of project scopes, schedules and budgets benefits the member agencies and their customers. It will continue to be vital as the majority of WSIP projects approach completion in 2016, and with the significant changes to the Calaveras Dam Project.

Ms. Sandkulla reported that the SFPUC is ramping up a new 10-year Capital Improvement Program (CIP) for existing facilities and all of the new WSIP facilities that need to be maintained and upgraded over time. Ms. Sandkulla noted that one reason the WSIP is so large is because San Francisco was not maintaining and upgrading its existing infrastructure. It is to the wholesale customers' benefit that San Francisco has developed a CIP for ongoing investment in the Regional Water System. She noted that BAWSCA's predecessor, BAWUA, was heavily involved with the evolution and development of the WSIP beginning in 1995.

The value BAWSCA adds to SFPUC implementing the CIP is to ensure the water system continues to meet the needs from the wholesale customers' perspective. Ms. Sandkulla stated that it is critical to have input from the early stages of the development of the 10-year CIP to ensure the wholesale customers' interests are included. The SFPUC's 10-year CIP currently has an estimated cost of \$500 million, of which wholesale customers would pay two-thirds.

BAWSCA will be pursuing legislation to extend the State oversight of the WSIP. This will be a critical task in FY 2013-14 because the section of the California Water Code that requires State oversight of any changes to the WSIP will sunset on December 31, 2014. Next fiscal year is the last legislative session to amend the sunset date before this section of the Water Code, requiring State oversight protecting public health and safety, and all the other provisions contained in AB1823 (Papan) expires.

BAWSCA's technical involvement with the FERC process will become more critical in FY13-14 as it approaches completion in 2016. While BAWSCA has been monitor-



ing the legal documents very closely from the beginning, active participation in the technical aspect of the process will be important as it will involve identification of what water needs exist and how can it be satisfied.

In response to Director Pierce's question, Ms. Sandkulla explained that the technical involvement is not limited to judging the technical merit of the documents, but also working with San Francisco, as well as independently, to address potential economic, environmental and other impacts to the regional area served with water from the Tuolumne River.

Mr. Jensen added that the SFPUC is working on a Regional Economic Impact study as part of the FERC process. SFPUC's staff and consultant spoke at BAWSCA's Water Supply Management meeting on Feb. 7<sup>th</sup> to report on the status of the effort. Mr. Jensen noted that BAWSCA is very familiar with the member agencies' concerns and needs, and how agencies might react to a report containing information about water demand projections and local economic impacts. BAWSCA adds value to the agencies by working with San Francisco member agencies to ensure their interests are properly reflected.

The improvement of the drought reliability and development of a uniform water demand projections that Ms. Dutton presented to the Committee is a critical part of the FY2013-14 work plan. The schedule for the completion of the Strategy is December 2014 and there is no more room to move the demand projections out without affecting the completion of the Strategy. The demand projections also provide input to the agencies' UWMP's due in 2015.

BAWSCA will continue to implement successful regional conservation programs to provide member agencies the reliable means to meet their committed goals in their UWMP's and 20% by 2020 plans. BAWSCA's conservation programs continue to provide effective results for the agencies at reduced cost and enable the agencies to leverage the effectiveness of their existing staff.

As noted earlier in the meeting, these benefits are also provided by BAWSCA's coordination and support for Integrated Regional Water Management (IRWMP) grant funds. These grants allow member agencies to fund conservation programs that might otherwise be infeasible and increase rebate potential or other benefits for their customers. BAWSCA has been successful in obtaining and managing such grants. Ms. Sandkulla explained that the State has now set up such grants to require regional agencies, such as BAWSCA, to manage grants.

Director O'Connell asked Ms. Sandkulla to provide further information about the IRWMP grants. Ms. Sandkulla reported that the current grant for water conservation is for \$800,000. This offsets the cost for the High Efficiency Toilet Rebates (HET), Washing Machine Rebate Program (WMRP), and Lawn Be Gone rebates (LBG). The grant funds make the programs effective as well as reduce the costs of the programs for

the agencies. BAWSCA partners with ten other agencies in the region in applying for the grants. The Bay Area Water Agency Coalition (BAWAC) expects to be successful in getting the next two rounds of IRWMP grants, estimated to be another \$1 million. Ms. Sandkulla explained that the grant funds can last the BAWSCA agencies for about five to ten years.

In addressing the efforts to drain Hetch Hetchy, BAWSCA will continue to assess the significance and risks associated with local, legal and congressional actions that proponents say they are planning to take.

In ensuring a fair price for the water customers, BAWSCA will ensure the smooth implementation of bond payments, continue to administer the 2009 Water Supply Agreement, and maintain and effective and efficient operation of the agency.

Ms. Sandkulla reported that every year, available staff resources are allocated accordingly to produce each of the results that need to be achieved. The preliminary FY 2013-14 work plan would require allocating 4.5 Full-Time Equivalent for three positions: the CEO, the Water Resources Planning Manager, and the Water Resources Specialist. This significant over-allocation of staff resources is unrealistic and cannot be recommended.

In the past, this process typically results in staff positions being over-allocated, but only in the range of 110% – 130% of an FTE for any position. This is a reasonably acceptable result given the inherent uncertainties in the magnitude and timing of work.

However, it is unreasonable to expect to achieve the critical results with the key staff loaded at over 150%.

Staff examined four alternatives for balancing the work plan with staff and consultant resources. The recommendations differ based on the items included in the work plan and the mix of resources used to achieve the results.

Alternative 1 includes all the results that need to be achieved but attempts to do so with existing staff levels. This alternative provides an infeasible level of staff loading that can negatively impact the desired results and quality of work by the agency. Alternative 2 reduces the work plan. Alternative 3 retains all the results to be achieved, adds a new staff position and provides continuity of work-force for the next 5-10 years. Alternative 4 uses additional consultants to retain the results to be achieved without increasing BAWSCA's staff size.

The recommended Alternative is #3, which requires one new position. Ms. Sandkulla noted that Alternative #3 is the lowest cost alternative that completes the full work plan, as well as provides the resources needed for the next five to ten years. She stated that the critical work items such as the WSIP, the FERC process, SFPUC's new 10-

year CIP, dry-year supply reliability and evaluating of pending action or inaction by the SFPUC in 2018 require continued investigations and action by BAWSCA.

Ms. Sandkulla stopped her presentation to answer any questions.

Chair Guzzetta asked if there is a check to BAWSCA's process of allocating staff hours against the work plan.

Mr. Jensen explained that the check is the 17-years of experience in producing the results contained in each year's work plan within budget. Another check is the mid-year work plan and budget review. Having repeated this process bi-annually since 1995, staff has been able to estimate what it can successfully achieve with the resources approved by the Board.

When asked whether time is logged and checked against estimates made at budget time, Mr. Jensen stated that BAWSCA staff does not complete time cards for that purpose. Staff time cards are used to track regular hours, vacation and other leave. With a staff of seven, using time cards to track hours against work assignments would provide little useful information for the administrative time consumed.

Ms. Sandkulla added that with the water conservation programs, staff does go back and look at what it budgeted for the year against what is billed to the participating agencies. The bill to the agencies includes staff's time for implementing the programs, and that serves as a balance for that portion of the work plan.

Ms. Sandkulla reported that work assignments are shifted as needed to take advantage of staff expertise effectively. For example, Ms. Dutton's time was directed to the long-term Reliable Water Supply Strategy and assistance to agencies on with Urban Water Management Plans to take advantage of her expertise in water management and ability to perform complex water resources analysis. Ms. Enriquez, the CEO's assistant, took on management of the Landscape Education Program and Mr. Porter was assigned customer contact duties for the High Efficiency Toilet, Washing Machine, and Lawn Be Gone rebate programs.

Director Weed asked for clarification on how the conservation element is handled in the workload analysis and whether it represents an additional workload to be distributed among staff. Ms. Sandkulla explained that staff time to administer the conservation programs is included in the workload and within the operating budget.

Ms. Sandkulla explained that for subscription conservation programs BAWSCA cannot predict the volume of rebates or other subscription activities for the coming fiscal year. BAWSCA does track staff time and bills participating agencies for staff time after the activity for each subscription program has taken place.

Director Weed questioned the accuracy of the workload projection since there are elements in the conservation effort that are separately funded. He asked if the percentage of workload for the conservation effort could be subtracted.

Mr. Jensen noted that Alternative #2 examined removing a number of the results to be achieved, some of which were conservation programs. He explained that this option was reviewed to determine how much of the work load would have to be eliminated in order to balance of work with the existing staff level.

At the request of Director Weed, Ms. Sandkulla stated that she can provide the number of hours of workload that would be eliminated and include that in the memo to the Board for its meeting in March.

Director Weed stated that he did not support the addition of a new staff member when it was proposed 2 years ago because his agency, ACWD, believed that the conservation efforts should be fully subscription based. To the extent that the hours involved can be identified it would be helpful.

Director Bronitsky asked whether the total operating expenses shown under each of the Alternatives in the staff report include compensation increase for the fiscal year, and whether staff can provide the total operating expenses for each of the Alternatives if compensation increases were not included.

Ms. Sandkulla said yes, and explained that it is included as a merit budget and will be further explained in the next few slides.

Director Weed asked if staff can determine whether the workload proposed for the coming year is seen as workload at its peak, or an ongoing load. He noted that FERC goes away.

Ms. Sandkulla explained that the efforts classified as critical items for FY 2013-14 will remain critical for the next 5-10 years. The WSIP will continue until 2018, SFPUC's new CIP is a 10-year CIP, FERC will be completed in 2016, but will not go away immediately because there has always been actions following the FERC's issuance of the license that require investigation and action by BAWSCA. Additionally, implementing results of the Strategy will take several years.

Mr. Jensen added that the decisions to be made by the SFPUC prior to 2018 are significant and address whether San Francisco will provide additional water beyond the Supply Assurance, whether San Francisco will continue to serve water to San Jose and Santa Clara, and renegotiation of the drought allocation agreement. Mr. Jensen noted a Level of Service (LOS) goal report that the SFPUC examined on February 12<sup>th</sup> stated that they do not currently have the ability to meet the LOS goals adopted by the Commission to continue the Cities of San Jose and Santa Clara as permanent customers, or to meet future needs of the wholesale customers. The Water Supply Agreement con-

tains specific claims reserved by BAWSCA members about San Francisco's future obligations. Those claims must be pursued, or alternatives developed, to protect the water customers. Mr. Jensen concluded that there are going to be significant policy issues that will need to be investigated and carefully considered.

Director Pierce commented that she appreciates the various alternatives and that staff looked at different ways of addressing the issues. She acknowledged staff's efforts to work with the existing resources when the Board decided not to add a staff person two years ago. She observed it was fortunate for the agency that a significant part of the FERC process has not materialized on the schedule originally anticipated. But that work remains and is now time critical. The timing is also beneficial because the economy is better than what it was 2 years ago.

Director Breault commented that in presenting the work plan, there are tangible results as well as future results that are not easily quantifiable. As an engineer, he expressed his support for staff recommendation for Alternative #3, and stated that others who trust the work of BAWSCA's staff, may support it too. However, he would anticipate criticisms and encourages staff to think of ways to present the critical results more concretely.

Secondly, Director Breault stated that he disagrees with reducing conservation programs because conservation is in BAWSCA's job description. He is not convinced that going with an alternative that removes water conservation from the work plan in order to address critical issues for the agency is an acceptable alternative.

Mr. Jensen stated that Ms. Sandkulla has done a good job at analyzing the critical issues for the agency and building the budget based on those issues. In response to the Directors' comments, the presentation to the Board in March can focus on the advantages and disadvantages of each alternative, noting what is gained and what is lost. The staff report can include specific information on SFPUC's decisions for 2018, and list the anticipated activities that will need to be addressed in the years towards 2018. These activities include decisions that the SFPUC may make that agencies disagree with, and would need to act on, or decisions that agencies may want to codify in the Water Supply Agreement (WSA). Those are examples of tasks that staff anticipated in building the budget.

Mr. Jensen explained that items in the list of results to be achieved were characterized as critical or vital because if they are not done, the agency fails to meet its goals. He noted that while items are critical, they can be prioritized, and that's how each alternative was developed. Alternative #2 for example, removes conservation efforts temporarily and perhaps re-instituted later. Similarly, the FERC efforts could be minimized to legal support. However, staff does not recommend this alternative because of the potentially damaging results. Not doing technical analysis and support in the FERC process would be a huge sacrifice for the agencies. Suspension of conservation efforts

would be for 5 or more years, and rebuilding a program after such a hiatus will be difficult.

Mr. Jensen emphasized that the alternatives consider all possibilities, but staff responsibly recommends Alternative #3.

Director Weed noted that his understanding is that the subscription conservation program was self-funded including the administrative cost. He asked for clarification on what conservation programs would be removed.

Mr. Jensen clarified that the problem is not a funding issue. The issue is the work load on staff. He stated that the purpose in looking at reduced conservation or other programs was not to save money, but because there is not enough staff to do the necessary work. The other alternatives examined adding more consultant resources, or, equivalently, temporary staff. Those alternatives are not recommended for the reasons presented in the staff report.

Director Pierce asked for information on what is included in the 150% FTE overage.

Director Weed suggested providing a breakdown by source of funding as opposed to goal or task.

Ms. Sandkulla continued her presentation to provide information on funding sources and to address the comments from the committee members.

The preliminary operating budget is \$3,118,705. This includes \$140,000 for both salary and benefits for one new staff person, a COLA of +2.31% applied to salary ranges for all staff except for the CEO, an allowance for merit increases of less than 5% for staff positions as a result of the range adjustment, no increase in the CEO compensation, a 0.3% increase in PERS contribution, and an increased budget to cover health premiums. Ms. Sandkulla reported that the Office Manager is currently working with PERS to resolve problems in what PERS has been charging this fiscal year.

Mr. Jensen clarified that COLA is not an automatic salary increase for BAWSCA staff when it is approved by the Board. The COLA increase is applied to the salary ranges for each position. Any increase in an employee's salary is based upon merit and at the CEO's discretion.

In response to Director Bronitsky's question, Mr. Jensen explained that if an employee's current salary is within 1% of the top for his/her position, all they could possibly get is 1%.

Director Bronitsky asked what the dollar amount would be if the board approves a +2.31% COLA. Ms. Sandkulla reported that the allowance for merit totals to \$27,000 for the entire group.

Director Weed encourages BAWSCA to book and fund the required OPEB appropriate for BAWSCA. Director Mendall concurred and stated that it is a real expense that the agency is accruing and should budget for.

Mr. Jensen reported that the information will be provided at the March Board meeting.

Ms. Sandkulla continued her presentation and reported that funding the one-time cost for completing the water demand projections in FY 2013-14 could be paid using a portion of the General Reserve. The remainder of the operating budget to be paid by assessments or other sources would be \$2,818,705. Current assessments are sufficient to cover 89% of that amount. The balance would need to come from the General Reserve or an increase in assessments.

Ms. Sandkulla explained that historically, BAWSCA spends about 90% of its budget. If actual spending next year was 90% of the budget, assessments would not need to be increased. The mid-year budget review, done every year, would ensure that spending remained within budget.

Director Bronitsky stated that the Board should not approve a budget that is purposely high, nor should it have an approach of not funding a budget because expenses have historically been at 90%. The budget and funding should match.

Mr. Jensen stated that in the past few years, assessments have brought in \$2.5 million, and the approved budget has come in slightly over that amount. In approving the budget the Board has authorized the use of a specified amount of the General Reserve, if needed, providing BAWSCA with a balanced budget.

This is the 5<sup>th</sup> year that assessments have not increased. Additionally, because the expenditures have not been as much as the assessments, all unspent funds go back into the General Reserve.

What has been stated for the past two years is that if the level of spending stayed at \$2.5 million, then the assessments would need to be reduced by seven percent to prevent the General Reserve balance from continuing to grow.

With respect to the budget being historically underspent by eight to fifteen percent, Mr. Jensen explained that the budget numbers are good estimates based on the anticipated work plan but contain inherent uncertainty. Art said he would *not* support an approach that would encourage spending the entirety of the budget each year merely to make the numbers look good.

Reviews have been done in previous years to lower consultant budgets and create a contingency pool that could be used if a particular area needed more work, but the potential savings were only about one percent of the budget.

Director Bronitsky stated that while he understands the budget development based on anticipated activities, he expects a realistic budget that was not consistently underspent.

Director Breault commented that part of what he hears from Director Bronitsky's concerns is whether we can look at why we typically spend under 10%. It may not be from the same item every year. He would also not favor an approach of "spend it or lose it."

Chair Guzzetta stated that BAWSCA's budget is based on a sound approach and that, at the end of the day, does not make a difference because the unspent funds go into the General Reserve. If members are uncomfortable with under spending an average of about 10%, the matter should be put on another agenda for further discussion. The recommendation today is to consider a budget that does not increase the assessments.

Mr. Jensen noted that a presentation was made in a prior year that examined the areas of the budget that were unspent. The findings were that small amounts are unspent in a variety of areas and that there is no one area that is consistently over-budgeted. Art suggested he meet with Director Bronitsky separately to review spending versus budget, and to include, if needed, additional information in the March memo to the Board. Director Bronitsky and the Committee concurred.

Ms. Sandkulla continued her presentation and stated that the recommended preliminary operating budget achieves the critical results for the agency, balances the human resources needs, matches the foreseeable needs in the upcoming five to ten years, and is the least-cost alternative that does not sacrifice critical results.

Director Mendall expressed his strong preference to hire the additional staff person needed. He would not want to hire a consultant that costs more to fulfill the need and lose the institutional knowledge and experience in the end. He said we have the need, and we either chop off the work that is critical to the agency, or hire a person and grow that person. Secondly, Hayward is going through concession bargaining where employees are being asked to take pay cuts in their overall take home pay. It would be very difficult to support a seven percent pay increase for BAWSCA staff.

Director Bronitsky concurred with Director Mendall's comments.

Mr. Jensen clarified that the potential increased in employee salaries is not COLA plus a merit allowance of five percent, but that employees do not get COLA, only a merit increase of up to five percent.

Director Weed asked if a temporary hire is an option before it is made a permanent hire.

Mr. Jensen stated that previous experience with temporary hires has not been as successful, but that it is an available option.



Director Pierce stated that she appreciates the idea of further looking at how to make the budget closer to actual spending. She supports the recommendation for full funding of the budget and the addition of staff because there is a long-term need. She also noted that the current state of the General Reserve fulfills critical needs for the agency, and this will not always be the case. BAWSCA will need to manage and monitor that closely. The City of Redwood City has carefully managed its General Reserves so that it can serve as a planned support for the City's budget.

Chair Guzzetta commented that there may be a perception that because the WSIP is ending, the peak of the workload for BAWSCA will go down. He does not believe this is the case, and stated that staff needs to do a better job at communicating this to the full Board. Secondly, the Board would not be serving its constituents if it didn't monitor the SFPUC's maintenance of the \$4.6 billion improvements to the regional water system. This is one of the agency's utmost obligations.

**7. Update and Reports:**

- A. SFPUC Water System Improvement Program – SFPUC Response to BAWSCA Recommendations: Mr. Jensen reported that the SFPUC adopted a notice of change to the WSIP in December. In January, the Board was presented with the SFPUC's preliminary schedule and cost impacts to the program as a result of those revisions. There is now a 25 month schedule delay and \$117 million cost impact to the program due to the Calaveras Dam Project. BAWSCA reviewed the SFPUC's notice of change and provided 5 cost recommendations and 5 schedule recommendations. All of BAWSCA's recommendations were discussed by the Commission and adopted in addition to the SFPUC's staff recommendations at its meeting on January 22<sup>nd</sup>.

Mr. Jensen reported that at the January 22<sup>nd</sup> SFPUC meeting, Commissioner Moran said he found BAWSCA's correspondence constructive and useful. Commissioner Caen said BAWSCA's letter brought issues to her attention. Ms. Labonte committed to meeting the deadlines listed in BAWSCA's letter.

The SFPUC will submit a notice to the Department of Public Health and the California Seismic Safety Commission that will initiate the State's review. BAWSCA will work closely with the State agencies during their review process, and will continue to work with the SFPUC on addressing any concerns from the State. The SFPUC plans to issue a second Notice of Change in the Spring once cost negotiations with the contractor have been finalized.

- B. Water Supply Agreement Amendment – Update on Agency Approval: The pending amendment to the Water Supply Agreement states that the Hetch Hetchy Reservoir cannot be drained unless the Water Supply Agreement is further amended in the future. Because the governing bodies of the Wholesale Customers must approve any future amendment, the reservoir cannot be drained unless those bodies find the resulting water supply reliable, quality and cost acceptable to them.

The SFPUC approved the amendment on January 17<sup>th</sup>. To take effect, the governing bodies of the wholesale customers must approve the amendment (two-thirds by number, and three-fourths by volume of water purchases). Unanimity is desired and is expected, but is not required.

Agencies will each receive the necessary documents for adoption of the amendment.

- C. Board Policy Calendar: Mr. Jensen presented the Board Policy Calendar through January 2014.
- D. BAWSCA 10<sup>th</sup> Year Anniversary: BAWSCA was formed in May of 2003, and it is timely to recognize the anniversary at its meeting in May. Mr. Jensen reported that he has been working with Strategic Counsel on a plan to recognize BAWSCA's 10-year Anniversary. The occasion presents a strategic opportunity. A draft objective statement is to strengthen BAWSCA's identity as a public agency that delivers important results for its constituents, and demonstrate the value of its leadership.

The tone of the event would be serious, forward-looking, and most importantly constituent-oriented and modest.

Ms. Schutte announced that Hanson Bridgett, LLP would be happy to provide some sponsorship for the event.

In response to Director Breault, Mr. Jensen stated that he has started a list of legislative members who will be requested to be present.

Director Pierce commented that the occasion is also a good way to solidify for the member agencies BAWSCA's role and value. BAWSCA in some ways is very invisible and it's an opportunity to gain the visibility as well as emphasize regional strength. Director Mendall said it would be helpful to put BAWSCA's worth in dollar values where possible. It should be highlighted that the savings to the member agencies from the bond issuance alone is more than BAWSCA's annual budget, and all other achievements that are quantifiable should be included.

Director O'Connell added that BAWSCA's work leverages work for the agencies. BAWSCA's efforts with studies and conservation efforts would cost individual agencies significantly more or that those programs might not even be provided. She said the benefits of the IRWMP grant of \$800,000 for conservation programs would not be possible for San Bruno without BAWSCA's work. Director O'Connell suggested extending the invitation to the governing bodies of each member agency. She stated she would be extremely pleased for her council members to see what BAWSCA has achieved over the years.

Director Mendall added it would be valuable if BAWSCA could provide a financial report in a concise format that Board members could share with their governing bodies.

Mr. Jensen noted of all of the members' comments and suggestions.

Mr. Jensen observed that the list included in the preliminary work plan does not include all of things BAWSCA could do that would add value to individual member agencies. There are additional results that can be produced that would benefit the agencies but that are not critical for BAWSCA to achieve its three goals. Mr. Jensen suggested that staff include a list of such results so that such work, while not undertaken, would be visible to the Board. Committee members agreed.

8. **Comments by Committee Members:** Director Bronitsky introduced the City of Foster City's new Public Works Director, Brad Underwood.

Director Weed noted the new FPPC Form 806 that BAWSCA Board members are required to file within their own agencies. Ms. Enriquez reported that the information can be circulated to the City Clerks and Clerks of the Board of each member agency.

9. **Adjournment:** The meeting was adjourned at 3:30pm. The next meeting is April 10, 2013.

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 – February 13, 2013**

**Roster of Attendees:**

**Committee Members Present**

Rob Guzzetta, California Water Service Company (Chair)  
Al Mendall, City of Hayward (Vice Chair)  
Randy Breault, City of Brisbane/GVMID (BAWSCA Vice Chair)  
Charlie Bronitsky, City of Foster City  
Irene O’Connell, City of San Bruno (BAWSCA Chair)  
Tom Piccolotti, North Coast County Water District  
Barbara Pierce, Redwood City  
Lou Vella, Mid-Peninsula Water District  
John Weed, Alameda County Water District

**BAWSCA Staff:**

Art Jensen	CEO/General Manager
Nicole Sandkulla	Water Resources Planning Manager
Anona Dutton	Water Resources Planner
Christina Tang	Sr. Administrative Analyst
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP

**Public Attendees:**

Wynn Greich	Flouride Action Network.org
Fan Lau	San Francisco Public Utilities Commission
Marilyn Mosher	City of Hayward
Brad Underwood	City of Foster City