

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

**June 12, 2013 – 1:30 p.m.
BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room**

MINUTES

1. Call to Order: 1:30 p.m.

Committee Vice Chair Al Mendall called the meeting to order at 1:30 pm. A list of Committee members present (7) and absent (2), and other attendees is attached.

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

- 2. Comments by Chair:** Vice Chair Mendall commented that he was very pleased with the 10-year anniversary reception held on May 16th prior to the Board meeting. He learned a lot from the attendees and the speakers, and commented that the event was both functional and enjoyable.

Director Vella added that he was amazed at what everyone had to say. The speakers shared interesting perspectives on the goals and achievements of the agency. As a Board member since 2003, Director Vella stated that he is impressed with the agency's accomplishments in the period of 10 years.

Mr. Jensen confirmed that there were photos taken which will be shared with the Board.

- 3. Public Comments:** There were none.

- 4. Consent Calendar:** Approval of Minutes from the April 10, 2013 meeting.

Director O'Connell made a motion, seconded by Director Vella, to approve the Minutes of the Board Policy Committee meeting held on April 10, 2013. The motion carried unanimously.

5. Action Items:

- A. Approval of Professional Services Contract with EKI:** Mr. Jensen reported that EKI is the firm at which Anona Dutton accepted her new position. The purpose of the agreement with EKI is to obtain temporary resources needed while filling the vacancy created by Ms. Dutton's departure from BAWSCA.

The specialized water resources services provided by Anona Dutton will complete the work in progress in the current fiscal year, maintain the momentum of critical activities associated with the adopted FY 2013-14 work plan, and support the transition of the incoming staff following the completion of the hiring process.

Mr. Jensen reported that he has already entered into an initial agreement with EKI for a not-to-exceed \$25,000 under his discretionary authority to get through the work in progress in the current fiscal year, and up to the July 18th Board meeting. He noted that Ms. Dutton is not working full time under the contract. He emphasized that should the current contract fall short of what the agency needs through July 18th, he may need to reschedule some work or authorize work beyond his authority. In either case he would inform the chair of the Board. Mr. Jensen does not anticipate having to take such measures, but said the Committee should be aware that it is a possibility.

The action before the Committee is to recommend that the Board increase the contract by an additional \$120,000, for a total of \$145,000, for a scope of activities anticipated through October 31, 2013, and extend the contract term to the end of the calendar year.

The initial contract was funded using available unspent funds in the FY 2012-13 budget, and the additional \$120,000 for FY 2013-14 can be funded through the General Reserve. Mr. Jensen reported that the action would not change the projected balance of the General Reserve dramatically, nor would it affect the timing of the decisions the Board might make regarding how to manage the General Reserve balance. The timing for the Board's consideration of a 4% increase in assessments would also not be affected.

The not-to-exceed cost of \$145,000 is for Ms. Dutton's services on a part time basis. Mr. Jensen noted that the hourly rate was negotiated by Ms. Sandkulla so that BAWSCA is not billed for Ms. Dutton's services as an officer of the firm, but as a high-level engineer instead.

In response to a question from Director Breault, Mr. Jensen reported that he will review how the \$145,000 equates to a percentage of time before the July Board meeting.

Director Piccolotti commented that it appears that Ms. Dutton was taken off of BAWSCA's payroll, and put on EKI's payroll but at BAWSCA's expense.

Mr. Jensen explained that Ms. Dutton was hired away from BAWSCA by EKI, and that BAWSCA is hiring Ms. Dutton as a consultant of EKI to maintain progress of ongoing work. She will be paid at the rate of a high-level engineer, instead of at a rate for the firm's VP of Water Resources, the position into which she was hired.

In response to Director Vella's question, Mr. Jensen anticipates having the replacement for Ms. Dutton's position in August or September.

Director Pierce made a motion, seconded by Director O'Connell, that the Committee recommend the Board to authorize the CEO/General Manager to negotiate and execute a contract amendment with EKI that would increase the total not-to exceed amount to \$145,000 for as-needed specialized water resources services for FY 2013-14, and authorize the transfer of \$120,000 from the General Reserve. The motion passed unanimously.

6. Brief Reports:

- A. Investment Advisor Appointment: Mr. Jensen reported that the appointment of an investment advisor was done under his discretionary spending authority and requires no action from the Committee or Board. He reported three companies were solicited, and BLX was selected for a not-to-exceed contract amount of \$6,000.

Mr. Jensen explained BLX will provide expert advise on how to invest bond proceeds used to establish a stabilization fund, and bond surcharges that will be received from agency payments. Funds are automatically deposited into money markets with the Bank of New York in a manner consistent with the Board's investment policy. The Board's investment policy has certain parameters and criteria including Security, Liquidity, and Interest Earnings. BAWSCA does not have in-house expertise on how to distribute the money to safely maximize the investment return.

BLX will also perform the arbitrage rebate calculations which are necessary toward the end of the year. Mr. Jensen reported that BLX is familiar with San Francisco and BAWSCA's bond issuance, and was the best fit for BAWSCA's needs.

As required by Board policy, uses of the CEO's discretionary spending authority are reported in budget reports submitted with each Board packet. Because of the sums of money on deposit, this contract engagement was worthy of mention to the Committee in addition to the written budget report to the Board.

Director Weed asked about an additional report that he thought BAWSCA, as a public agency, might have to submit regarding its reserves because it has certain investments and returns limitations. He recommends that BLX be given responsibility for preparing such a report in addition to the arbitrage rebate calculation.

To address Director Weed's comment, Mr. Jensen will provide a list of all the documents BAWSCA is required to file with respect to the bond issuance.

In response to Director Mendall's question, Christina Tang, BAWSCA's Senior Administrative Analyst, clarified that the \$6,000 contract with BLX is for the investment advisory services, and that the arbitrage calculation services is an additional \$2,000.

- B. July Board meeting scheduled with RFA Meeting – Mr. Jensen reported that the July Board meeting will coincide with the bi-annual meeting of the RFA Board. The agenda will include the approval of the minutes from the January 17th Board meeting, and approval of a budget of \$1,400 for FY 2013-14.

7. Special Reports:

- A. Long-term Agency Planning – A Necessary Perspective: Mr. Jensen reported that the SFPUC Commissioner Anson Moran asked him and Steve Ritchie to provide a joint presentation on what each agency is doing with respect to long-term water supply

planning, and how the two agencies are working together. At the present time the stated objective for the presentation to the Commission is to identify what each agency is doing and whether there are issues neither agency is addressing. The presentations will be made on June 25th.

The presentation to the Board Policy Committee serves three purposes. It is a preview of what will be presented to the Commission, but more importantly it reviews material presented to the Board on May 16 and connects important concepts that the Board will be addressing in critical policy decisions over the next several years.

Mr. Jensen stated that his presentation to the Commission will emphasize BAWSCA's goal to provide a reliable supply of high quality water at a fair price, augmented by the words "with certainty".

Mr. Jensen explained that "with certainty" is used to capture the essence of sound business and policy decisions. The words "with certainty" are not meant to suggest predictability in weather, hydrology or climate change. Instead, the words mean that the BAWSCA Board intends to have sufficient information with which to make confident decisions.

Mr. Jensen presented two quotes from Lincoln, which he believed demonstrate what BAWSCA is doing for its member agencies: "*The best way to predict your future is to create it,*" and "*Things may come to those who wait, but only the things left behind by those who hustle.*"

In a series of bullet points, Mr. Jensen reported that action or inaction by the City and County of San Francisco has created uncertainty for BAWSCA member agencies. Mr. Jensen explained that the SFPUC has made no commitment to meet the member agencies' future water needs and has reserved the claim that it has no obligation to do so. The SFPUC unilaterally limited water deliveries to the wholesale customers, including San José and Santa Clara, to 184 MGD through at least 2018.

Mr. Jensen noted that the Level of Service (LOS) goal the SFPUC adopted in 2008 includes rationing of up to 20% system-wide during droughts. For the wholesale customers, shortages would exceed 20% and economic losses are estimated to be billions of dollars for a single year of drought. The SFPUC is not yet able to meet its adopted LOS goal. Beyond 2018, San Francisco may or may not continue serving the cities of San José and Santa Clara.

Mr. Jensen emphasized that the above bullet points are facts, and are not disputed by San Francisco.

Mr. Jensen said the BAWSCA communities cannot flourish in the face of such large uncertainties in their water supplies, and BAWSCA's Long-Term Reliable Water Supply Strategy is designed to address and resolve these uncertainties.

Mr. Jensen then presented a series of reasonable assumptions that form the foundation of BAWSCA's planning and analyses. These assumptions include: The SFPUC will meet its LOS goal for drought reliability; the SFPUC will not provide greater drought reliability than its LOS goal; the SFPUC will provide 184 mgd to Wholesale Customers after 2018 (the contractual and perpetual supply guarantee for BAWSCA agencies other than San José and Santa Clara); the SFPUC will not provide *more* than 184 mgd; San Francisco will defend all of its water rights; and lastly, San Francisco will never deliver more than an average of 265 mgd to the Bay Area.

Mr. Jensen emphasized that these assumptions are fact-based, conservative, but reasonable for making business and policy decisions.

As presented by Ms. Dutton at the May 16th Board meeting, the BAWSCA Board will be asked to consider whether to adopt a regional level of service goal for drought reliability. A question the Board can think about relative to the upcoming action is how much does it make sense to invest in increased drought reliability? Alternatively, does it make sense to *not* invest in more reliability?

The Board will be presented with information on the economic impacts at various levels of water shortage. The costs of potential means to enhance reliability will be presented in November. The information will lead to further discussions such as beneficiaries and cost allocations.

Mr. Jensen presented BAWSCA's future challenges in the next 10 years as listed in BAWSCA's 10-year Brochure. They include San Francisco's completion of the Water System Improvement Program, threats to supply reliability as a result of FERC proceedings and issues with the Delta, completing and implementing BAWSCA's Long-Term Reliable Water Supply Strategy, water supplies for San José and Santa Clara, whether San Francisco decides to provide additional water, and preparation of a new drought allocation plan among BAWSCA members. It is critical that BAWSCA addresses these challenges and remains engaged in discussions with San Francisco.

Director Pierce asked how the information will be presented to the Commission and how it will be framed so that there is clarity with the value of working together despite the differences in goals.

Mr. Jensen stated that he plans to have a copy of the memo to the BPC included in the Commission packet along with a revised version of his presentation.

He explained that the SFPUC staff and Commissioners recognize that BAWSCA's goals are different from theirs, and stated that this recognition is key to the success of the two agencies working together.

Director Weed brought up contingency water supply and encouraged BAWSCA to look at its alternatives in a worse-case scenario should the San Francisco Regional Wa-

ter System be unable to provide water supply to its wholesale customers for more than 24 hours. Secondly, he stated that the SFPUC has 60 mgd for which they don't have customers. He noted that there is a risk of losing water rights to supply if it is not used. He said it would be to the member agencies' mutual advantage to maximize consumption of that water, and to the SFPUC's advantage to maximize sales of the supply, but added that this might not be the time nor the place to discuss his idea.

In response to Director Mendall's questions, Mr. Jensen reported the water consumption is down for San Francisco and the BAWSCA service area on both overall and per capita basis.

Director O'Connell commented that the presentation, when presented in July, should clarify the purpose for the Board.

Mr. Jensen explained that the information is relevant to critical decisions the Board will face beginning this Fall. Considering the available facts and reasonable assumptions, ignoring the issues is not an option. Mr. Jensen stated that *what* the Board chooses to do is another matter, but ignoring the issues should not be a choice.

Mr. Jensen stated the economic impacts are estimated to be in the billions of dollars per year of drought. Some dispute the estimates or the basis of the economic analyses. He added that even if the results are off by a factor of 100, the impacts would be tens of millions of dollars per year.

He said that if a drought occurs and the regional economy suffers such impacts, the public, businesses, communities and media will be asking why, when we knew the impacts could occur, this agency did nothing to prevent them. BAWSCA is the agency that has the authority to address these anticipated challenges.

The Committee suggested that the presentation should provide the board with that explanation. The Committee also suggested that Mr. Jensen's presentation to the SFPUC Commissioners on June 25th should include the fact that many San Francisco residents work in the areas that are affected by the economic impacts of water supply shortages.

Peter Drekmeier of Tuolumne River Trust provided public comments in support of the reasonable assumptions presented in Mr. Jensen's presentation. Where he disagrees with addressing additional water supply needs is in the billions of dollars in costs. He reported that Estero Municipal Improvement District was able to reduce their water use by 33% through a budget based water rates approach. He stated that if current consumption remains the same, it is almost at 20% below "BAWSCA's cap." He encourages BAWSCA to focus on water-efficient landscape irrigation and stated that TRT looks forward to working with BAWSCA on a forum in the Spring of 2014.

8. **Closed Session:** The Committee adjourned to Closed Session at 2:28.

9. **Re-convene to Open Session:** No actions were taken during closed session
10. **Recruitment of a New CEO and General Manager – Status Report:** Chair O’Connell reported that the Ad Hoc Committee for the CEO Recruitment has met seven times. Robert Burg of Ralph Anderson and Associates is leading the recruitment. Recruitment closed on June 7th with 27 applications received. The process is confidential to protect the candidates.
- Mr. Burg found seven candidates he believes the Committee should consider interviewing. The Committee’s job is to recommend the best qualified candidate to the Board by July 18th. The Committee is meeting on June 13th to determine the short list of candidates to be interviewed.
11. **Comments by Committee Members:** There were no comments.
12. **Adjournment:** The meeting was adjourned at 3:45pm. The next meeting is August 14, 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 – JUNE 12, 2013

Roster of Attendees:

Committee Members Present

Al Mendall, City of Hayward (Vice Chair)
Randy Breault, City of Brisbane/GVMID (BAWSCA Vice Chair)
Irene O’Connell, City of San Bruno (BAWSCA Chair)
Tom Piccolotti, North Coast County Water District
Barbara Pierce, City of Redwood City
Louis Vella, Mid-Peninsula Water District
John Weed, Alameda County Water District

Committee Members Absent

Rob Guzzetta, California Water Service Company (Chair)
Charlie Bronitsky, City of Foster City

BAWSCA Staff:

Art Jensen	CEO/General Manager
Christina Tang	Sr. Administrative Analyst
Lourdes Enriquez	Assistant to the Chief Executive Officer
Allison Schutte	Legal Counsel, Hanson Bridgett, LLP
Bud Wendell	Strategic Counsel, Management Communications

Public Attendees:

Peter Drekmeier	Tuolumne River Trust
Marilyn Mosher	City of Hayward
Michelle Novotny	San Francisco Public Utilities Commission