

BAWSCA

Bay Area Water Supply & Conservation Agency

BOARD POLICY COMMITTEE

June 12, 2013

1:30 p.m.

BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room
(Directions on page 2)

AGENDA

| <u>Agenda Item</u> | <u>Presenter</u> | <u>Page#</u> |
|--|-------------------------|---------------------|
| 1. <u>Call To Order, and Roll Call</u> Roster of Committee Members (<i>Attachment</i>) | (Mendall) | Pg 3 |
| 2. <u>Comments by Chair</u> | (Mendall) | |
| 3. <u>Public Comment</u> <i>Members of the public may address the committee on any issues not listed on the agenda that are within the purview of the committee. Comments on matters that are listed on the agenda may be made at the time the committee is considering each item. Each speaker is allowed a maximum of three (3) minutes.</i> | (Mendall) | |
| 4. <u>Consent Calendar</u> A. Approval of Minutes from the April 10, 2013 meeting (<i>Attachment</i>) | (Mendall) | Pg 5 |
| 5. <u>Action Items</u> A. Approval of Professional Services Contract with EKI (<i>Attachment</i>) <u>Issue:</u> What resources are needed to achieve results during FY 2013-14 while transitioning the new Sr. Water Resources Engineer. <u>Information to Committee:</u> Written and oral reports <u>Committee Action Requested:</u> Comments and questions. | (Sandkulla) | Pg 21 |
| 6. <u>Breif Reports</u> A. Investment Advisor Appointment B. July Board meeting scheduled with RFA Meeting | (Jensen) (Jensen) | |
| 7. <u>Special Reports</u> A. Long-Term Agency Planning – A Necessary Perspective (<i>Attachment</i>) | (Jensen) | Pg 25 |
| 8. <u>CLOSED SESSION</u> A. CONFERENCE WITH LABOR NEGOTIATOR Agency designated representative: Irene O'Connell Unrepresented Employee: CEO/General Manager | (Mendall) | |
| 9. <u>Recruitment of a New CEO and General Manager – Status Report</u> | (O'Connell) | |
| 10. <u>Comments by Committee Members</u> | (Mendall) | |

11. Adjournment to the next meeting on August 14, 2013 at 1:30pm in the 1st floor conference room of the BAWSCA office building, at 155 Bovet Road, San Mateo. (Mendall)

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Directions to BAWSCA

From 101: Take Hwy.92 Westbound towards Half Moon Bay. Exit at El Camino Northbound (move into the far left Lane) Left at the 1st stop light which is Bovet Road (Washington Mutual Building will be at the corner of Bovet and El Camino). Proceed West on Bovet Road past Albertson's to two tall buildings to your left. Turn left into the driveway between the two buildings and left again at the end of the driveway to the "Visitor" parking spaces in front of the parking structure.

From 92: Exit at El Camino Northbound and follow the same directions shown above



BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

Committee Roster:

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, Estero MID

Irene O'Connell, City of San Bruno (BAWSCA Chair)

Tom Piccolotti, North Coast County Water District

Barbara Pierce, Redwood City

Louis Vella, Mid-Peninsula Water District

John Weed, Alameda County Water District

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE

April 10, 2013 – 1:30 p.m.

BAWSCA Offices, 155 Bovet Road, San Mateo, 1st Floor Conference Room

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| MINUTES |
|----------------|

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

Committee Chair Rob Guzzetta called the meeting to order at 1:30 pm. A list of Committee members present (8) and absent (1), and other attendees is attached. The Committee took the following actions and discussed the following topics:

- 2. Comments by Chair:** Chair Guzzetta recognized the BAWSCA staff for their professionalism and institutional knowledge, and for keeping the agency functioning and producing results.

He noted the five action items on the agenda, and reminded the committee that the body represents a regional agency, and that members of the committee and the full board are stewards of BAWSCA who are responsible for the success of the organization.

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

- 4. Consent Calendar:** Approval of Minutes from the February 13, 2013 meeting.

Director Pierce made a motion, seconded by Director Mendall, to approve the Minutes of the February 13, 2013 meeting. The motion carried unanimously.

5. Action Items:

- A. Recommended Funding Plan for Other Post-Employee Benefits:** Mr. Jensen stated that the information being presented is in response to discussions by the committee at its December and February meetings, and with the Board in January and March. He introduced Marcus Wu from Hanson Bridgett, who specializes on Employee Benefits and OPEB matters.

[The following notes from the Board Policy Committee incorporate consistent terminology related to OPEB components and funding.]

Mr. Jensen noted that he revised the recommendation in the staff memo to clarify: (a) that the \$63,000 needed to fund all of the Annual OPEB cost starting FY 2013-14 could come from the General Reserve, and (b) that whether to deposit the funds in a bank or a trust should be fully evaluated prior to the funds being deposited. Mr. Jensen explained that the deposit could be made as late as November, giving appropriate time for informed decisions.

BAWSCA provides only one post-employment benefit, which is medical care.

Mr. Jensen presented the three OPEB funding alternatives.

Alternative #1 would continue the current pay-as-you-go approach, in which medical premiums are paid for retirees, but no funds are set aside to pay premiums for future retirees. This alternative is not recommended, because the net OPEB obligation continues to accrue. Under this alternative, BAWSCA's estimated cost in FY 2012-13 for its two existing retirees' medical benefits is \$30,978. The estimated cost for FY 2013-14 is \$37,109. Under this alternative, the net OPEB obligation would grow from \$129,491 by the end of FY 2012-13 to \$257,994 by the end of FY 2013-14.

Alternative #2 would fully fund the total Unfunded Actuarial Accrued Liability (UAAL). The total UAAL due to the past 18 years of employment is \$1,371,709 as of July 1, 2012. This alternative is not recommended because it is an inefficient way to fund the outstanding obligation. Typically, agencies amortize the unfunded liability over a fixed period, for example 30 years, and build a fund balance, including interest earnings, to cover the liability. [This alternative was removed from further consideration].

Alternative #3 includes two possible approaches for funding OPEB Annual Required Contribution (ARC) starting in FY 2013-14: One would deposit money in a bank account, and the other would deposit money in an irrevocable trust. Both approaches 3a and 3b fully fund the ARC.

The first approach would deposit the entire ARC of \$165,612 in a bank account. The actuarial analysis performed for BAWSCA assumed a long-term investment return of 4%, and that the premiums for the existing retirees can be paid out of this account. The net increase to the FY 2013-14 Operating Budget would be \$129,491. Mr. Jensen noted that this approach provides higher liquidity. However, because the funds could be used for other purposes, BAWSCA's financial reports would continue to show a large unpaid liability.

The second approach to Alternative #3 would fund the ARC starting FY 2013-14 with deposits into an irrevocable trust. Because the funds could not be used for other purposes, the actuarial analysis assumes higher interest earnings and results in a lower annual cost. The cost is \$99,650 for FY 2013-14, with net increase to the FY 2013-14 Operating Budget of \$62,541. The assumed long-term investment return is 7.61%.

Mr. Jensen presented a table that shows how the OPEB funding alternatives impacts the operating budget.

BAWSCA reviewed randomly selected BAWSCA agencies to see what funding approaches they currently use. Several agencies fund all or a portion of ARC by depositing money in a trust. One agency continues to use a pay-as-you-go approach. None of the agencies sampled deposited money in a bank account.

Mr. Jensen noted that the Board can leave the funds in the General Reserve until it makes a decision to use a bank or a trust.

Mr. Jensen stated that additional information will be provided to the Board at its meeting in May, including impacts on results of the actuarial analysis due to the CEO's retirement and new hires.

Chair Guzzetta stated that discussions by the committee may generate some questions that can be addressed over time, but the issue the committee must address at this meeting is whether to fund the Annual Required Contribution for BAWSCA's OPEB obligations each year.

The Committee discussed the alternatives in detail, the increasing trend of the OPEB obligation, and potential impacts of BAWSCA's current benefits structure on the annual OPEB costs.

Director Weed noted several factors that can affect future OPEB liability, including: health care costs increasing at a higher rate than that assumed by actuaries, interest earnings at lower rates than those assumed actuaries, the number and types of post-retirement benefits provided, and whether retirees elect to use health plans provided by spouse or other retirement programs.

In response to a question from Director Piccolotti, Mr. Jensen explained that BAWSCA's only post-retirement benefit is medical coverage. BAWSCA's program was initially modeled after the one at ACWD, but the ACWD program had since expanded, and then retracted retiree benefits.

Chair Guzzetta noted that this level of discussion is good for the health of the organization moving forward. However, he noted that the current amount BAWSCA have to budget beginning FY 2013-14 is less than 5% of the budget.

Director Weed cautioned that a revocable trust would not likely earn an average return on investment of 7.61%, over the next 30 years. He reported that ACWD selected 7.25%, which he believes is too high. He stated that Corporations have set theirs at 6% due to the IRS. He suggests 4% as a reasonable expectation over a period of 30-years.

Chair Guzzetta agreed that the projected yields may not be conservative, however, the action before this committee is whether to pay the net present value of BAWSCA's OPEB obligation (Alternative #2) or to put money aside in a trust or bank account (Alternative 3a or 3b). He emphasized the assumptions can be refined moving forward, and that the board will have the opportunity to address those issues in subsequent budgets.

Director Weed stated that he supports using an irrevocable trust, however, he recommends augmenting it to ensure that the liability does not continue to increase.

Director O'Connell clarified that how much BAWSCA puts in to an irrevocable trust to address BAWSCA's OPEB obligations can be modified every budget year. Over the course of time, the assumptions will become more real and the Board can make the necessary adjustments.

Director Weed noted that a risk to irrevocable trusts is that as much as the interest rates go up, it can also come crashing down.

Director Bronitsky agreed with Director Weed's comments, and suggested that BAWSCA should consider depositing the yearly OPEB obligation in a very safe investment, and take a greater risk for the actuarial portion. He added that he believes the 7.61% is too high.

Director Mendall clarified that the \$1.5 million current unfunded obligation will decrease over the course of 30 years according to the assumption of, among others, 7.61%. He stated his support for Alternative #3b, under the condition that the Board, at its meeting in May, be provided with the estimated costs if the investment return assumptions were at 7% or 6%, and let the Board decide what percent it chooses to assume. He believes the 7.61% is unrealistically high, and he would encourage BAWSCA to set it realistically low.

Mr. Jensen asked the committee to state what additional information and concerns it recommends staff to have reviewed and present to the full Board at its May meeting. For example, other assumptions that are included in the actuarial analyses, such as changes in future health care costs.

Director Bronitsky suggested an excel spreadsheet with locked-in formulas for costs calculations, and the interests rates and medical inflation numbers can be plugged in a field to calculate the costs.

Director Piccolotti stated that NCCWD contracts with a consultant that does that kind of analysis at its Board meetings.

Chair Guzzetta suggested the committee decide whether to increase the operating budget to meet its annual OPEB obligations. The information that is available today will continue to change due to changes in the market, health care costs and additional factors that this committee cannot predict. He said it would be a higher risk for the Board to settle on an interest rate without the guidance of experts that would do the actuarial analysis each year.

Legal Counsel, Allison Schutte stated that the Board will receive an actuarial report at least every two years moving forward.

Director Mendall made a motion that the Committee recommend Alternative 3b at a return investment assumption of 7% instead of 7.61%. That the FY 2013-14 Operating Budget be increased by an additional \$63,000 from the General Reserve, and that trust alternatives be fully evaluated before funds are deposited, no later than November 2013. Director O'Connell seconded the motion.

Discussion of the Motion:

Director Pierce asked if an irrevocable trust provides BAWSCA different investment strategies. Marcus Wu explained that if BAWSCA invests in a managed Trust such as the Cal PERS trust, BAWSCA will not have control over the investments. BAWSCA would need to create its own trust to have discretion over the investments.

Director Mendall clarified that his motion is silent on that issue, and goes along with the staff recommendation that the alternatives for depositing the funds in a trust be fully evaluated before the funds are deposited.

The motion carried by a vote of 6 to 2. Directors Weed and Bronitsky opposed the motion.

Chair Guzzetta commented that the issue is highly complex, and that providing alternatives to the Board in May is premature. Deciding to address this issue is a good first step, however. More information is needed for further discussion by both the Committee and the Board before alternatives can be considered on how and where to invest the funds.

Mr. Jensen stated that the decision the Board makes in May will be for the purposes of budgeting only, and not for investing BAWSCA's funds.

Director O'Connell added that the table presented was confusing and should be clarified for the Board.

B. New Employee Pay and Benefits: Several directors' comments at the March 21st Board meeting suggested that employee benefits be modified before new employees were hired. After an examination of changes being considered by other agencies and the reasons for those changes, and legal counsel's review of the agency's authority with respect to benefits programs, the following recommendations were presented to the Committee:

- a. Postpone consideration of the revisions to BAWSCA employee and post-retirement benefits until after completion of a comprehensive staff position compensation survey this coming fall, and further analysis of the applicability of PEPPRA to BAWSCA's compensation and benefits structure; and
- b. Consider any actions needed to comply with the California Public Employee Pension Reform Act for Prompt implementation.

Mr. Jensen stated that the goal for employee benefits should be to attract and retain high-quality employees in today's market, and to ensure the agency is fiscally responsible and financially sustainable. He noted that these two goals are inextricably linked.

Mr. Jensen noted that the Board's discussion at the March meeting highlighted the financial situations other agencies are experiencing, which, negative or positive, can be useful when examining and considering alternatives for BAWSCA. However, they should not serve as the starting point.

Mr. Jensen said that one matter not discussed at the March Board meeting was what benefits BAWSCA currently offers and whether the benefits package created any problems that needed to be fixed.

In order to achieve the goal for employee benefits, Mr. Jensen encourages the Board to examine BAWSCA's existing benefits program and identify what, if anything, needs to

be fixed. He said the program should be examined as a whole as well as in parts because it is the package that attracts employees.

Data on benefits for comparable positions can be gathered as part of the compensation survey for staff that is scheduled to be conducted this fall. Mr. Jensen reported that a compensation survey is included in the proposed budget for FY 2013-14.

Mr. Jensen noted that much of the current market trend for employee benefits is in response to attempts to change existing MOU's for represented employees. BAWSCA has no MOU's or contracts. Only the CEO/GM position has an employment agreement. All of BAWSCA's employees are at-will employees. He stated that while BAWSCA is free of constraints that other agencies may have, it is also true that BAWSCA employees may not enjoy the security that MOU's provide employees in other agencies.

The evaluation of the existing benefits program could be scheduled in the work plan for FY 2013-14. Mr. Jensen does not recommend adding to the operating budget, but recommends using the contingency budget as a source of funds.

Mr. Jensen recommended that revisions to BAWSCA's benefits should not be rushed, nor should it delay hiring new employees to ensure the agency's productivity.

He reported that BAWSCA's Board-approved personnel handbook states that "*...BAWSCA reserves the right to modify, change or terminate benefits as business needs may require and to the greatest extent permitted under law.*"

Mr. Jensen suggested that the offer letter for the new hires can highlight the fact that the Board can elect to make changes to the benefits package.

The process moving forward include the completion of the compensation survey for the CEO and the staff positions, filling the position of the CEO and the new position, if it is approved in the budget, and assessing whether additional resources will be needed to evaluate changes in existing or new employee benefits.

Director Pierce stated that when doing the compensation survey, the factors that need to be considered to retain high-level employees should be clearly identified.

Director Pierce made a motion, seconded by Director Mendall, that the Committee recommend the Board to:

- a. Postpone consideration of the revisions to BAWSCA employee and post-retirement benefits until after completion of a comprehensive staff position compensation survey to be completed this coming fall and further analysis of the applicability of PEPRA to BAWSCA's compensation and benefits structure; and**
- b. Consider any actions needed to comply with the California Public Employee Pension Reform Act for Prompt implementation.**

The motion carried unanimously.

- C. Proposed FY 2013-14 Work Plan and Budget:** Mr. Jensen reported that the discussions of the preliminary work plan and budget by the Committee in February and the Board in March were thorough. While no actions were taken, there were no objections to the recommended results to be achieved, the proposed new position, the size of the budget, and the alternatives for funding the budget.

Outstanding issues following the March Board meeting include the impact of funding BAWSCA's OPEB obligation beginning FY 2013-14, when to fill the new position, and how much, if any, allowance to budget for merit increases for existing staff positions.

Mr. Jensen presented a table that breaks down, in dollars, the allowance for the new position's salary and benefits, showing the factors that cause the increase over this fiscal year's budgeted amounts.

Mr. Jensen explained that COLA, if approved by the Board, is not automatically applied to the salary of incumbent BAWSCA employees. It is applied to the salary range for each position. Merit increases are under the discretion of the CEO/General Manager, and are capped so that no employee can earn more than the top step salary for their position.

Chair Guzzetta asked for confirmation that the merit increase allowance is a maximum of 5% this year, so that if the board does not approve a COLA adjustment, and a position is 3% below their top step, that position's merit increase could only be up to 3%. Mr. Jensen confirmed that was correct.

In response to the comments and discussions by members of the committee, Mr. Jensen explained that the top step salary ranges for each position of the agency have been approved by the Board, and adjusted by COLA only if approved by the Board.

BAWSCA tries to maintain top step salaries at the median of the market for like positions in other Bay Area agencies by doing compensation surveys every two years. A compensation survey was not done in FY 2011-12 because data were fluctuating widely in response to financial pressures.

In the interim years when there are no compensation surveys, a COLA adjustment, if approved, is applied to the salary ranges to keep the ranges within the market. Mr. Jensen stated that the compensation survey proposed to be done in FY 2013-14 could lead to recommendation to adjust salaries for some positions, effective in FY 2014-15.

Mr. Jensen described the three alternatives presented in the budget memo: approve a COLA adjustment to top step salaries and up to 5% for merit increases for staff positions, for a total of \$30,763; approve to 5% for merit increases but without increasing top steps salaries by COLA, for a total of \$22,000; or approve no merit allowance for staff positions. The last alternative would reduce the proposed budget by \$30,763.

Mr. Jensen reported that the proposed budget can be funded using assessments and the General Reserve. The funding plan does not recommend a change in assessments at this time. The decision to fund all or a portion of OPEB will increase the operating

budget by roughly \$100,000, and the implications to the funding plan will be presented at the May Board meeting.

The proposed work plan and operating budget achieve the agency goals, produce critical results on necessary schedules, and provide resources needed for the next five to ten years. The proposed budget also represents the least-cost alternate that produces the critical results, maintains the General Reserve within the Board's guidelines, and does not change the assessments.

Chair Guzzetta stated his support for adjusting the salary ranges of positions based on the COLA adjustment, and the allowance that provides merit increases up to 5% at Mr. Jensen's discretion.

He noted that the agency will undergo big changes with the change in CEO, and the value of the agency is with its staff. He said the Board has the responsibility to ensure the agency goes through this transition successfully. Additionally, in reviewing the data provided in the agenda packet, Chair Guzzetta noted that the salary increases at BAWSCA average 1 ½ percent over the past four years.

Chair Guzzetta also cited that while the Committee is passionately deliberating a \$30,000 allowance for merit increases out of a \$2.8 million budget, there is a Calaveras Dam project under the SFPUC's WSIP that, as reported to the Board at its March meeting, will be \$50 million over budget. If this Committee and the Board are going to go through the costs flowing through to its water customers, he encourages the Committee and the Board to think about the increasing cost of the WSIP that BAWSCA staff help minimize.

In response to Director Weed's question, Chair Guzzetta clarified that the proposed budget includes the hiring of the new position.

Director Pierce made a motion, seconded by Director O'Connell, that the Committee recommend the Board to adopt:

- a. The FY 2013-14 results to be achieved**
- b. The recommended Operating Budget of \$3,116,189;**
- c. Funding the budget with no changes to assessments and a transfer of \$599,188 from the General Reserve, including \$300,000 for a one-time study.**

Discussion of the Motion:

Director Weed said he opposed the motion because the OPEB payment is not reflected in the proposed budget. He proposed adding \$129,000 for the OPEB obligation for FY 2013-14 in place of hiring a new position.

Chair Guzzetta explained that if the new position is postponed, the work plan will have to change based on the available resources.

Director Bronitsky asked if the General Reserve would be below the level that it should be, if \$129,000 was taken out of the General Reserve to pay the OPEB obligation for FY 2013-14.

Mr. Jensen explained that the General Reserve will decline, and the Board will have to decide whether to increase assessments in FY 2013-14 or FY 2014-15 to bring the General Reserve back to up to 35% of the operating budget.

Director Bronitsky moved to add \$129,000 in the Operating Budget for the OPEB for FY 2013-14.

Legal Counsel, Allison Schutte, clarified that the previous Committee action for OPEB is to recommend Alternative 3B, which funds the OPEB cost at \$99,650.

Director Weed explained that the previous action was to recommend 3B, but to get a better discount rate instead of 7.61%. The \$99,650 will change, and since that number is unknown, he recommends a higher number to ensure adequate coverage.

The Committee amended the motion to add up to \$129,000 to the Operating Budget to cover the OPEB obligation for FY 2013-14. Director Pierce who made the first motion, and Director O’Connell, who seconded the first motion, accepted the amendment.

Director Pierce commented that if what was allocated in the budget is not enough, there is money in the General Reserve, as well as time to make necessary adjustments.

The motion carried 7:1. Director Mendall opposed.

- D. Approval of Professional Services Contracts for FY 2013-14:** Mr. Jensen reported that there are 12 Professional Services contracts that need to be approved by the Board so that they can be in place by July 1, 2013 for continuity of service. Professional services for subscription based conservation programs are included.

A memo for each professional service is included in the Committee’s packet.

Director Weed commented that the exclusion of BAWSCA’s OPEB liability in the audit report is a major oversight of the auditor.

Mr. Jensen agreed, and reported that he has discussed the matter with the auditor as well as with internal staff. He has clarified the audit scopes, staff assignments, and the expectations the CEO/General Manager for the next audit, so that this contract can be presented to the Committee and the Board with confidence.

Director O’Connell reported that BAWSCA’s Lawn Be Gone program was applied to San Bruno’s fire station in the Spring of 2012. The process was filmed by a San Bruno Cable Station crew member who lives in Hayward. She applied the process to her own home and is being recognized by the City of Hayward for her water conservation efforts.

Director Pierce motioned, seconded by Director Bronitsky, that the Committee recommend approval of the twelve contracts for legal, engineering, financial, strategic, and water conservation services needing to be in place by July 1, 2013. The motion carried unanimously.

E. Compensation Adjustment for Chief Executive Officer and General Manager:

BAWSCA Chair O'Connell reported that based on the CEO's performance evaluation and significant accomplishments delivered in FY 2012-13, she proposes a 10% salary adjustment for the CEO/General Manager, retroactive to July 2012.

Director Weed expressed his concern with the public policy implications of retroactive pay. He stated that there are constitutional provisions that prohibit retroactive pay. Additionally, CalPERS has policies that affect what can be included as part of PERS retirement compensation. He also expressed concern about the public impression due to an adjustment being made close to someone's announced retirement. He asked how the constitutional criteria of not giving retroactive pay be avoided.

He added that moving forward with the new CEO/General Manager, the Board may consider revising the pay scale significantly. Lastly, he strongly encouraged the Board to retain Mr. Jensen as a consultant for the agency.

In response to Director Weed's question, Ms. Schutte explained that the recommendation should be revised to remove the word retroactive because the possibility of adjustments to the CEO/General Manager's salary was discussed with the former Chair and Vice-Chair during his evaluation prior to the close of the fiscal year, and there was uncertainty as to his salary for the ensuing fiscal year.

Director Bronitsky stated his high regard for the CEO/General Manager, personally and professionally. He, however, would vote against the recommendation, for two reasons. The first is the public perception of a 10% increase for a public employee who is about to go on PERS. Second is because of the current circumstances for many public agencies including his own, that prevent merit raises to staff who are also well deserving of a salary increase. He stated that it is a hard decision because he recognizes the value Mr. Jensen provides the organization and its member agencies.

Director Mendall stated that he voted against the budget recommendation because he could not support the raise for the staff, and therefore, he will vote against the raise for the CEO. He thinks highly of the BAWSCA staff, however, he is not in a position to support the compensation increase provided the economic circumstances of his city.

Director Pierce asked how 10% was chosen and whether a combination of COLA and a percentage was considered.

Director O'Connell stated that the 10% was chosen as a starting point and as a maximum amount.

Director Vella commented that agencies have to be able to justify their actions in the current economic circumstances. He added that a 10% salary adjustment at the end of

someone's career raises a red flag, and that the adjustment could be viewed as the level of pay an incoming CEO/General Manager might expect.

Director Piccolotti suggested consideration of a 5% increase in place of 10%.

Director Guzzetta stated that perception is not always founded in facts, and noted that during the course of the CEO's career with BAWSCA and its predecessor organization, the CEO/General Manager salary has been adjusted at 0%, 3%, 0% and 0%. The Board has to do the right thing for its employees. The rate of 10% is a justifiable number that the Board can explain to those who asks why it was the right thing to do. Director Guzzetta recommends proposing 10% to the full Board for discussion.

Director O'Connell made a motion, seconded by Director Pierce, that the Committee recommend a 10% salary adjustment for the CEO/General Manager for the FY 2012-13. The motion failed by 3:5 votes. Directors Bronitsky, Mendall, Piccolotti, Vella, and Weed, opposed.

Director O'Connell made a second motion, seconded by Director Piccolotti, to recommend a 5% salary adjustment for the CEO/General Manager for the FY 2012-13. The motion carried by a vote of 5:3. Directors Bronitsky, Mendall, and Weed opposed.

Director Weed encouraged the Committee to receive a legal review of how the words bonus and retroactive are included as they relate to existing law.

6. Reports:

- A. SFPUC Wholesale Water Rate Proposal: Mr. Jensen reported that the SFPUC will have a public hearing in May on the Wholesale Rate Proposal for FY 2013-14. Information will be circulated to the member agencies for their budgeting information. The information will also include the BAWSCA surcharge for the prepayment of the Bonds.
- B. Amendment to the Water Supply Agreement – Status Report: Mr. Jensen reported that the last few agencies acted on the adoption of the resolution on April 9th, with the possible exception of Palo Alto, which is reviewing the language of the resolution. Ms. Schutte will schedule a meeting with SFPUC General Manager to get his signature on the signature pages of the amendment for each member agency.
- C. SFPUC Water System Improvement Program – Update: Ms. Sandkulla reported that the SFPUC has a second notice of changes to the WSIP this year, and is scheduled to have a public hearing in the next few weeks.

The increase to the program cost is \$76.3 million, or about 2% of the total program budget, which is a different number than was cited by the SFPUC at the March 21st Board Meeting.

Two critical water supply project schedules that will extend the WSIP past July 2016 include the Calaveras Dam Replacement Project, and the Alameda Creek Recapture project. The completion date for Calaveras extends to August 2018, and completion for Alameda Creek extends to April 2019. Ms. Sandkulla stated that the completion date of April 2019 for Alameda Creek is highly speculative because it is in the early conceptual engineering process and will require extensive pilot studies to quantify the water supply reliability provided by the project.

Ms. Sandkulla noted that these two projects are important because they protect wholesale customers from water supply shortages. BAWSCA is concerned with the ability of the SFPUC to meet its Level of Service goals for drought reliability, specifically with the yield of the Alameda Creek Recapture Project.

To address the SFPUC's proposed changes, BAWSCA is reviewing all technical and supporting data, and has requested additional information and analyses from the SFPUC. WSIP Program Director, Julie Labonte, has been responsive to BAWSCA's requests, and continues to meet with BAWSCA technical and program management experts.

BAWSCA's review will also identify or request information be provided on the increased risk to public health and safety, whether all possible cost savings have been achieved, and whether the SFPUC has implemented appropriate measures to minimize the risk of future cost increases.

BAWSCA is preparing comments and recommendations for submittal to the Commission.

In response to Director Mendall's questions, Ms. Sandkulla explained that work on the Calaveras Dam Project progressed significantly before geological problems were discovered. The question of whether to continue the project was presented by BAWSCA to the SFPUC when the problem was first encountered. Because the dam could not be used before the project began, and because the storage is so vital to the region, it is not advisable to stop the project.

Ms. Sandkulla explained that while there remain site uncertainties and potential additional risks with the Calaveras Project, there are no critical design decisions that are outstanding. The Program Environmental Impact Report (PEIR) adopted in 2008, as well as the early engineering design process addressed all the major design issues for the project.

In response to Director Piccolotti's question, Ms. Sandkulla stated that from the beginning, John Ummel and now Christina Tang, works diligently to track the accounting of the costs and expenditures of the program, and keeping the costs of "retail customer projects" inside San Francisco separate from the regional projects, for which wholesale customers pay two-thirds of the cost.

Director Weed noted that the Calaveras Dam is critical to BAWSCA member agencies. He stated that the level of uncertainty with the project remains unknown until the full excavations have been done and stable ground is found. Additionally, the Calaveras fault is remarkably close to the dam.

In response to Director Vella's question, Nicole explained that under BAWSCA's recommendation, total bid savings of approximately \$175 million which the SFPUC received in the early stages of the WSIP were put in a Project Management Reserve. The Reserve was used to fund the first change for Calaveras, and the balance of that reserve is now zero.

Director Guzzetta encouraged Board members to attend a tour of the Calaveras, if one will be scheduled, to understand the scope of the project.

Ms. Sandkulla agreed, and stated that she will request a tour with the SFPUC in June or July. A tour of Calaveras is the best way for members of the BAWSCA Board to understand the magnitude and importance of the project.

- D. 10-Year Anniversary: Mr. Jensen reminded the Committee that the objective of the event is to strengthen BAWSCA's identity among its constituents, allies, and adversaries, and is an opportunity to note BAWSCA's delivery of valuable, concrete results for its members and their constituents.

The event will be held in the Foster City Recreation Center, which is a more feasible venue for accommodating the expected number of attendees. Mr. Jensen presented the draft order of events for the evening, and stated that a modest 30 minute reception will begin at about 6:15 or 6:30pm, followed by the regularly scheduled Board meeting at 7pm. Former board chairs and elected officials who have assisted BAWSCA in achieving its results will be invited to speak. Remarks will be scheduled in the first 45 minutes of the Board meeting, followed by a short break, so that guests may leave and the Board can address the business items on the agenda.

Invitations will be sent out to appropriate people, including former board members, elected officials, and labor and businesses organizations.

An inexpensive brochure is being developed for the event highlighting BAWSCA's 10-year results and future challenges.

Strategic Counsel, Bud Wendell, noted that as the Board thinks about the future challenges of the organization, he would encourage the Board to look at the support and governance the BAWSCA Board provided the CEO, as well as the leadership the CEO exhibited in the legislature and elsewhere.

Mr. Jensen added that labor, business and community organizations, provided valuable support, and that the City/County Association of Governments (CCAG) and the Cities

Association of Santa Clara Counties (CASCC) were helpful with the amendment to the Water Supply Agreement.

Director O'Connell reported that the City of San Bruno passed a resolution acknowledging BAWSCA's accomplishments, which she plans to present at the May 16th Board meeting. She asked members of the Committee to urge their governing bodies to consider a similar resolution, and to bring it to the 10-year event.

- E. Board Policy Calendar: Mr. Jensen reported that there are additional water reliability related issues that will have to come before the Board in the Summer and Fall. An updated calendar will be presented to the Board at its meeting in May.
 - F. Water Supply Update: Mr. Jensen reported that water supply conditions for the year remain dry with the most recent storm occurring in late March.
7. **Comments by Committee Members**: Director Piccolotti stated that having been a member of the BAWSCA Board for the past 10-years, he felt that Director Pierce has been the most effective and inclusive Board Chair in terms of getting agencies and directors involved. He noted her development of an effective evaluation process for the CEO/General Manager that the agency can use moving forward.

Director Weed encouraged the Board to stay on top of potential rate impacts given the cost overruns on the WSIP, and the SFUPC's unfunded OPEB liability for which the wholesale customers may be responsible for two-thirds. He noted that the SFPUC is not currently funding their OPEB obligations. He also noted upcoming ACWA meetings in April and May.

Chair Guzzetta reported that he will be attending the AWWA conference in June and will not be able to Chair the next committee meeting.

Mr. Jensen noted that he will be out of town in August, and will teleconference into the August Committee meeting, if necessary.

- 8. **Adjournment**: The meeting was adjourned at 4:15pm. The next meeting is June 12, 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 – April 10, 2013

Roster of Attendees:

Committee Members Present

Rob Guzzetta, California Water Service Company (Chair)

Al Mendall, City of Hayward (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, City of Redwood City

Louis Vella, Mid-Peninsula Water District

John Weed, Alameda County Water District

Committee Members Absent

Randy Breault, City of Brisbane/GVMID (BAWSCA Vice Chair)

BAWSCA Staff:

| | |
|------------------|--|
| Art Jensen | CEO/General Manager |
| Nicole Sandkulla | Water Resources Planning Manager |
| Anona Dutton | Sr. Water Resources Specialist |
| 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 Sargent | San Francisco Public Utilities Commission |

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Professional Services Contract with Eler and Kalinowski Inc. to Provide As Needed Specialized Water Resources Services**

Summary:

This item requests authorization for the CEO/General Manager to negotiate and execute a contract amendment with Eler and Kalinowski Inc. (EKI) to provide specialized water resources services for FY 2013-14. These resources are needed to backfill the vacancy caused by the departure of Anona Dutton, and the needed services would be provided by Anona Dutton.

The recommended action will provide critical resources necessary to complete activities associated with the adopted FY 2013-14 Work Plan while the vacancy is being filled and for a transition and training period following the completion of a successful hiring process. The CEO has already entered into an initial \$25,000 contract with EKI under his discretionary authority in order to avoid delays and interruption of work already in progress.

The recommended action would increase the compensation by an additional \$120,000 for a total contract amount of \$145,000, modify the scope to address activities anticipated through October 31, 2013, and extend the contract term.

Fiscal Impact:

The need for these outside resources was unanticipated during the budget process. The initial \$25,000 contract was funded using available unspent funds in the FY 2012-13 budget. The proposed amendment for an additional \$120,000 for FY 2013-14 can be funded through the General Reserve. Sufficient funds exist to cover this one-time expense. Funding this need will not impact the timing of decisions for managing the General Reserve, as presented at the May Board meeting.

Recommendation:

That the Committee recommend the Board 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.

Discussion:

At its May 2013 meeting, the Board adopted the FY 2013-14 Work Plan and Budget. The Work Plan and budget assumed continued availability of existing staff resources, including the Senior Water Resources Engineer/Planner, as well as the immediate hiring of a junior-level Water Resources Engineer/Planner.

In late May, Ms. Anona Dutton provided BAWSCA with notice that she would be taking a position as Vice-President for EKI. As a result, the Senior Water Resources Engineer/Planner position has been vacant since June 1st.

In order to achieve BAWSCA's critical planned results for the remainder of FY 2012-13 and the beginning of FY 2013-14, the CEO determined that the best way to meet BAWSCA's near-term resource needs would be to hire Ms. Dutton through her new firm, EKI, on a temporary and part-time basis.

The CEO entered into a \$25,000 contract with EKI under his signature authority to provide the needed resources immediately and without interruption. The Board would need to approve a contract amendment to provide continued access to Ms. Dutton's expertise during the hiring and transition process.

Ms. Dutton's services would be used in two ways. First, during the recruitment process while the staff vacancy exists, Ms. Dutton would be performing key tasks previously delegated to her that are critical to BAWSCA's adopted results to be achieved including development of the Long-Term Reliable Water Supply Strategy, development of a Plan for a Pilot Water Transfer, and implementation of BAWSCA's award winning conservation program. During this period, it is anticipated that Ms. Dutton will be working for BAWSCA 35% to 50% time.

Second, after a new employee has been hired to fill the vacant position, Ms. Dutton would serve as a resource to educate the new employee about the critical work and support the transition of the new employee through the end of October. During this period, it is anticipated that Ms. Dutton would be working for BAWSCA 25% and 35% time.

Ms. Dutton is a talented individual with unique knowledge of BAWSCA's goals, programs, member agencies. With her experience and knowledge, Ms. Dutton is able to provide the necessary support in an efficient and cost-effective manner.

Alternatives:

Two alternatives to the recommended action have been examined and rejected.

The first alternative would be to not secure assistance during the recruitment process. This is not recommended as it would require an immediate modification of the adopted Work Plan and would result in extensions to the schedules for completing the Updated Water Demand Projections Project, the Water Transfer Pilot Plan, and the Long-Term Reliable Water Supply Strategy.

The second alternative would be to secure alternative outside consultant resources. This alternative is not recommended as Ms. Dutton's experience at BAWSCA enables her to provide the most cost-effective and efficient resources to BAWSCA during this transition period.

EXHIBIT A

**TO THE CONSULTING SERVICES AGREEMENT
Between the Bay Area Water Supply and Conservation Agency
and Erler & Kalinowski, Inc.**

SCOPE OF SERVICES (proposed revised)

Purpose

To provide specialized services to BAWSCA related to water resources and water resources planning.

Work to be Performed

At the direction of Nicole Sandkulla, Anona Dutton will provide specialized water resources and water resources planning services for BAWSCA including the following:

- **Water Conservation/Resources Support, As Needed**
 - Support implementation of the water conservation programs
 - Support work on the WCDB
 - Support completion of the Annual Water Conservation Report
 - Support completion of the Annual Survey
 - Prop 84 Reporting/Invoicing
 - Prop 84 Round 2 Initiation

- **Regional Water Demand and Conservation Projection Project**
 - Manage MWM; provide input on project direction
 - Participate in meetings and calls
 - Review and revise draft reports and other work products (e.g., surveys and presentations)

- **Long-Term Reliable Water Supply Strategy**
 - Manage CDM; provide input on project direction
 - Participate in meetings and calls
 - Review and revise draft reports and other work products (e.g., technical memoranda)
 - Develop information on non-potable alternative supplies (stormwater, rainwater, greywater)

- **Pilot Water Transfer**
 - Provide strategic and technical support to BAWSCA in securing a water transfer
 - Participate in meetings and calls
 - Prepare or review reports and other work products (e.g., technical memoranda, presentations)

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BAY AREA WATER SUPPLY AND CONSERVATION AGENCY

BOARD POLICY COMMITTEE MEETING

Agenda Title: **Long-Term Agency Planning – A Necessary Perspective**

Summary:

On May 16, 2013, the BAWSCA Board received an update on the Long-Term Reliable Water Supply Strategy, including a timeline for coming policy discussion and decisions. This special report will review some of that same information and preview a presentation that will be made to the San Francisco Public Utilities Commission (Commission) on June 25.

The Commission asked that its staff and BAWSCA's CEO provide a joint presentation on long-term water management planning activities. The original objective was to see how, or to what extent, the two agencies work jointly on planning activities.

The SFPUC and BAWSCA coordinate their planning activities where the other party needs to be involved or might be affected (e.g., water operations modeling, use of Regional Water System facilities, clarification of the intended uses of water from SFPUC transfers or specific projects, and clarification of beneficiaries and cost allocation).

However, the various planning activities are not conducted *jointly* in the sense that the two agencies do not share common needs and objectives, nor are there mutual agreements specifying work plans, deliverables and cost allocations.

At this time the stated objective for the presentation to the Commission is to identify what issues each agency is addressing and whether there are issues that neither agency is addressing.

The oral presentation to the Board policy Committee will clarify the basis for BAWSCA's work, the underlying assumptions and the differences between the issues San Francisco pursues and the issues BAWSCA addresses.

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