SUMMARY NOTES OF THE FINANCE COMMITTEE
ZONE 7 BOARD OF DIRECTORS

January 8, 2015
4:00 p.m.

Directors present:	Sandy Figuers Angela Ramirez Holmes Sarah Palmer
Staff present:	Jill Duerig, General Manager Hossein Golestan, Consultant Tamara Baptista, Finance Manager Judy Rector, Board Secretary

Director Figuers called the meeting to order at 4:00 p.m.

1. Public Comment - None

2. Preliminary Discussion on Approach to FY 2015/16 Budget

General Manager Jill Duerig introduced Hossein Golestan, a consultant who has been working part-time with Assistant General Manager, Administration, Tom Hughes as his number two.

Mr. Golestan explained that the purpose of this agenda item was to provide information regarding the budget schedule, budget issues and assumptions that will be taken into account while preparing the 2015/16 operating budget. The Finance Committee and staff propose coming back to the Committee in May with the proposed budget. The budget will then go before the Board on May 20th and finally to the Board of Supervisors in late June which is consistent with the process followed in past years.

Director Figuers asked about the budget preparation timeline and process. Mr. Golestan said the budget preparation begins in December and takes a significant amount of staff effort and time for results by June. Ms. Duerig added that the budget starts with a pile of wish lists and goes through several management levels but she may not see it until a week before the Finance Committee sees it. Because the process takes a long time, that is why a two-year budget cycle is an idea to consider because a two-year budget would take less staff time every other year. Director Figuers said he thought the Board had voted to do the budget on a two-year cycle and Ms. Duerig agreed but said that was at the time Zone 7 was discussing independence from Alameda County along with shifting from a fiscal year from July 1 to June 30 to a calendar year as the fiscal year so it would line up with the water rate effort. The board approved both but staff has been unable to implement that approach.

Discussion continued regarding a two-year budget and Director Figuers asked if we could use a two-year budget internally as long as each year the County gets numbers, and couldn't the County get an amended version each year? Also, would that save staff time and what would it take to implement a two-year budget? Director Ramirez Holmes suggested matching the budget with the two-year water rates.

Ms. Duerig agreed that staff could look at that idea as it might save staff time. Director Palmer noted that saving time and staff effort and providing retailers the heads up they have wanted would be desirable. Ms. Duerig said it could not be done for this year as we are already two months into the process and the conversion will require extra set-up time. Director Figuers asked when Zone 7 could start a two-year budget and was told probably for the following cycle if started in September or October but it would be for 16/17 and 17/18. Ms. Duerig stressed that she is currently missing two crucial staff members for the budget process but staff might be able to do the ramp up for the next cycle.

Mr. Golestan continued his presentation talking about some of the issues that will drive the 2015/2016 Operating Budget. There is good news with an improving local economy and other factors but nothing that solves any significant problems at this time. The drought continues to be a concern and this year had the biggest impact on the Agency's finances by causing additional expenses and significant revenue losses which caused a projected draw on the reserves of over $11 million in 2014/15. The proposed assumption is that 2015 is a post-drought year and that 2016 will be close to normal for consumption. Ms. Duerig said estimates are about 14% lower than normal for a post-drought year.

Mr. Golestan noted several points that factor into budget assumptions including water rates, purchased water costs, personnel costs, additional State debt service charges, CIP costs and revenue from development impact fees. Zone 7 may get a $3 million grant from the State but currently it is unknown if and when it will come. Money from the State has restrictions so there is not a lot of flexibility in how it is used and all of it will go into Fund 120 to make up for the underfunding in this year's budget.

<u>Public Comments</u>:

Alfred Exner, Pleasanton resident, would like to see more Finance meetings to avoid the time squeeze resulting in little room for public comment or analysis. He suggested that staff and the Committee members look at the prior year when putting budget spreadsheets together and compare to see major deviations and get explanations such as why did training and travel go up in a tough year. He encouraged taking a hard look with a line-by-line analysis at the previous year against the proposed year. Director Ramirez Holmes said she would like to see two Finance Committee meetings before the budget goes to the Board so there is time for questions and answers and not feel the squeeze of the budget timeline.

John Archer from Dublin San Ramon Services District (DSRSD) said that DSRSD is on a two-year budget cycle and agreed that the second year degrades a little when you start out but once you get into a cycle, a two-year budget will save a lot of time and hassle in between. He cautioned not to expect it to be clean the first couple of times and DSRSD made substantial second year adjustments the first couple of times. He said he likes the two-year budget for long-term planning. He said it takes two or three cycles to feel comfortable and preparation will become easier. The biggest challenges are payroll projections and water cost assumptions.

Margaret Tracy told the Finance Committee about her concerns regarding contamination in groundwater and when will there be a cleanup in central Livermore such as dry cleaning places.

Director Ramirez Holmes proposed two Finance Committee meetings before the budget goes to the Board to allow the Directors time to ask questions and make changes without being in a rush. She suggested two consecutive meetings in May with time in between for staff to answer questions. The directors then discussed possible meeting dates prior to the May 20th board meeting when it is adopted. Their primary concerns are variances over cost increases.

Because one of the first questions asked by the Committee is what do the retailers say about the budget, staff now go to the retailers first and then they have time to prepare their comments for the Committee meeting. Director Figuers asked what the retailers are concerned about when they look at the budget from their standpoint. Are they more concerned about fees or increases in water rates?

John Archer said that now that there is a two-year rate plan in place for Zone 7, it takes a lot of the pressure off them for budget review. What he gets are signals for the future and what is coming down the road. Are there major changes that could impact them in two or three years because they may be developing their own rate schedule?

Director Palmer said she would like to see the budget around the same time the retailers are seeing it as a first iteration, not a final document. She wants to see the process and a working type of relationship with the budget. Ms. Duerig said staff tries to meet with the retailers within a week of coming to the Committee so if there are two meetings with the Committee, there will be two meetings with the retailers. Director Figuers asked if the Committee could attend the retailers meeting but Ms. Duerig said it is more like a technical workshop for finance staff.

Ms. Duerig said the third week in May is always the board meeting and staff are scrambling to prepare for the full board meeting. She suggested that the first meetings could be done in the fourth week of April, the second meetings the first part of May, with the full board meeting on the 20th. Staff needs time in between to incorporate changes and write and print staff reports which is why their proposal was to meet with the Finance Committee the first week in May and go to the Board the third week.

3. Discussion of Committee Meeting Schedule

The discussion on the scheduling of meetings continued and Ms. Duerig pointed out that a new last page had been added to the staff report which was an updated table that showed the primary topic of each meeting. This was in response to a request regarding what kind of topics have been at past meetings. Director Ramirez Holmes said they also wanted to set a regular date and time to avoid having to check for Committee members' availability for meetings. If the directors saw the work plan plus any additional topics that the Finance Committee wanted to address, then dates could be set and be on everyone's calendar. Other topics would be a financial policies process, a discussion on reserve policies and the history behind them, setting more of an audit process and timeline for meeting with the auditors early in the process, and the operating budget and other financial policies that the Committee wants to review. If April, May, September and December are the critical meetings for budget, water rates and audit, then they can fill in other things such as the policies at other meetings.

Director Ramirez Holmes discussed writing policies that comply with the standards of audits and she feels that things the Finance Committee have requested are not time or labor intensive and the Finance Committee can have discussions around some of these topics without requiring a lot of work. She also feels there should be a work plan of what the Committee hopes to accomplish so they can implement board direction on financial policies that she feels cannot be delayed because they impact budget decisions.

Director Palmer feels that having regularly scheduled meetings does not mean that it is a staff-directed meeting that requires preparation on staff's part, but more of a public forum work session of the peers on the board to educate themselves and try to understand the subjects better. Ms. Duerig said part of the learning is finding a common language between board and staff. She is not opposed to additional meetings or coming up with policies but she is asking for the Committees' understanding during a period that she is extremely short staffed and people are being reassigned to cover but it is a difficult time to implement new ideas.

Director Figuers said the Finance Committee would like to go to two meetings on the budget, one in April, one in May. Water connection fees are one to two meetings per year in late August or early September, separated by Labor Day. The audit is one meeting before or after Thanksgiving. Then there is a miscellaneous meeting at some time resulting in five or six meetings per year. Dates need to be chosen so everyone knows the schedule for Finance Committee meetings:

- April 23 and May 7 - budget
- July 9 - TBA
- September 10 - water rate or, if not needed, miscellaneous subject or learning session
- November 19 - audit

4. Discussion of Monthly Budget Report Format (including end-of-year in July); Other Possible Staff Reporting (e.g., Reserve Levels) Given Limited Resources

Mr. Golestan referred to the July 16, 2014 Monthly Budget Report and noted that the problem is that it shows year-to-date figures and not the final fiscal year numbers. One of the options is to have the final fiscal year numbers in a later report by mid-September to provide a full picture of the fiscal year.

Director Ramirez Holmes said the Committee was looking for the unaudited actuals for the fiscal year ending 2014. Ms. Duerig asked if the Monthly Budget Report is the kind of format the Committee would like to see because it has budget and actuals and percent deviations and can easily be generated in September when staff has unaudited end-of-year actuals. Director Ramirez Holmes said she had asked for the end of year actuals in the format on Page 19 of the audit with revenue, expenditures and reserves. Ms. Duerig said this report is by fund, shows what the budget was for revenues and expenses with actuals and a percent deviation and would it satisfy the spirit of what was requested?

Director Ramirez Holmes said they wanted the report for Fund 100 that looked like Page 19 and provided in a PowerPoint in 2013 in addition to the audit requirements. The Committee also talked about a quarterly summary of the same information. They wanted audited actuals of all of the funds, not unaudited actuals. Director Ramirez Holmes requested the last column, variances and dollar amounts, not just percentages. Director Ramirez Holmes requested any information in any format. Ms. Duerig said if the format is acceptable and that extra column can be generated, then it would be included as a staff report in the budget package that goes out January 16th. Director Ramirez Holmes said she is also looking for trend and tracking data on budgets and why the budget varies from year to year and deficiencies of revenues over expenditures.

Director Ramirez Holmes noted that Director Figuers wanted to talk about reserve policies and she wanted to discuss a work plan so they want to start to look at those policies. She asked if the Committee would want to set up a meeting to discuss what type of policies they want and a goal for achieving them in 2015. Director Figuers said the reserve policy is not urgent because it is going to be a long-term item and does not require staff input because it is a Board decision. The other topic is what is the meaning of a minimum dollar amount in a reserve. Director Figuers will write up some concept theories and talking points on policies and send to Ms. Duerig. She can distribute the information appropriately to all of them so they can think about it and discuss it at one of the upcoming meetings. Director Ramirez Holmes will ask about policies on different financial subjects and get information.

Verbal Reports – None.

5. Adjournment

Since there were no further issues or comments, the meeting was adjourned at 5:40 p.m.