SUMMARY MINUTES OF THE FINANCE COMMITTEE
ZONE 7 BOARD OF DIRECTORS

April 8, 2013
4:00 p.m.

Directors present:	Sandy Figuers	Zone 7 Staff:	Jill Duerig, General Manager
	A. J. Machaevich		Tom Hughes, Asst. Gen. Mgr., Admin.
	Sarah Palmer		Tamara Baptista, Finance Manager
	(for Angela Ramirez Holmes)		JaVia Green, Staff Analyst, Finance
			Judy Rector, Board Secretary

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

1. Public Comment – None

2. Draft Interim Reserve Policy

Tom Hughes, Assistant General Manager, Administration, reminded the Finance Committee that in 2012 the Board directed staff to revisit the Reserve Policy. Over the past year staff has been working with retailers and our new financial consultant, Robert Porr of Fieldman, Rolapp & Associates, to develop revised reserve policies. Director Figuers confirmed with staff that all retail customers had reviewed the Interim Draft Reserve Policy and incorporated their comments. Because the policy is subject to change when a Financial Plan is developed, it is called an Interim Reserve Policy. President Palmer asked if there will be succession of Interim Reserve policies but Mr. Porr explained that a financial plan is always interim and changes as economics change plus it provides flexibility.

JaVia Green, Staff Analyst, Finance, stated the objectives of the Interim Reserve Policy are to establish prudent and fiscally responsible practices consistent with the Zone 7 Financial Framework that is dynamic and adaptable to change, integrates the Zone 7 planning processes such as the budget, water rate structure and capital improvement program, and provides adequate funding for capital projects for both the flood control system and water.

She showed a slide presentation and discussed the four Water Enterprise Reserves: Rate Stabilization, Operating Reserve, Emergency Reserve and Drought Contingency. The balances are based on the FY 11/12 audit and are actual balances but will change at the end of this fiscal year. In addition she discussed the State Water Project Operating Reserve, Flood Control Reserves, Water System Capital Reserves, and the Flood Protection & Stormwater Drainage Development Impact Fee Fund Capital Reserve.

Director Figuers asked what is the difference between the Rate Stabilization Reserve and the Drought Contingency Reserve. Ms. Green responded that the Rate Stabilization Reserve offsets increases or spikes in water rate increases. Mr. Hughes clarified that the Rate Stabilization Reserve is to stabilize the rates. The Drought Contingency Reserve is to supplement the loss of revenue from water sales if the State reduces the amount of water for this year or there is a massive drought for three years. Director Figuers said both cover costs under either outside imposed losses of water supply or the Board deciding not to charge the full amount for water, same function but different terms.

Director Machaevich says he sees the difference and the Rate Stabilization Fund is for unexpected operating expenses or capital expenses that change during the year that would affect the water rate. The Drought Contingency Reserve is used in a drought situation. Mr. Hughes added if the CPI and our operating expenses go through the roof and/or operating costs go up, the Board can use the Rate Stabilization Reserve to keep the rates down.

Mr. Porr pointed out that if you have a year with lots of rain, the Board may not want to fund a Drought Contingency Reserve of 20%. You can also use the Rate Stabilization Reserve to smooth out and stabilize water rate increases. The Drought Contingency Reserve supplements losses in revenue to the Agency and provides funds when there are drought conditions. It protects you in either circumstance and provides flexibility to the Agency. General Manager Jill Duerig said the Rate Stabilization Reserve is something we can plan in advance to use; the Drought Contingency Reserve is for events you cannot plan for in advance such as a wet spring and therefore reduced revenue from reduced water sales.

There was a discussion about the name of the Drought Contingency Reserve and whether it should be called the Water Supply Contingency Reserve or Water Operating Contingency Reserve along with the purpose of each reserve. Director Figuers noted that the Operating Reserve is to address variations in the shortest term, the Drought Contingency Reserve could cover impacts over six months, the Emergency Reserve is used when we don't know when it will hit and is indeterminate. President Palmer reminded the Directors that the retailers did not like the name Rate Stabilization when it was applied to something to be used for drought contingencies.

The four Building Sinking Funds were discussed and the combined purpose is to potentially buy the North Canyons building when the lease expires.

Director Figuers noted that there are 10 separate reserve funds and asked why so many and approximately $140 million in reserves excluding the ISA. He asked if it was because of the accounting methodology. Ms. Green explained that there are 10 reserves spread among 5 different discreet funds from different funding sources.

Mr. Porr said that restricted funds are restricted by law. Designated reserves have the flexibility for the Board to allocate resources differently as and when needed (Drought Contingency, Water Supply Contingency, and Rate Stabilization Fund). The reason there are so many is because of the three separate areas (Water Enterprise, Flood Control and State Water Facilities Operating Reserve) and money is kept segregated for financial management purposes; different funds are for specialized purposes.

Director Machaevich repeated for clarification that any changed use of designated reserves has to be approved by the Board but that unrestricted reserves have no imposed restrictions as to their use and the General Manager can use these funds up to $50,000 without Board authority.

Director Figuers asked about a catastrophic event and where would Zone 7 get money if the funds were exhausted? Ms. Duerig said you could do short-term loans between accounts as long as you were paying interest. Director Figuers countered with an example where an earthquake takes out a major chunk of our water supply. Mr. Porr agreed that State funds would not be sufficient because they would be allocated for its own needs. He reassured the Directors that part of planning is that Zone 7 would never fall below the minimum amounts in the reserves and a painful option could be to raise rates but that would not allow a rapid influx of money. President Palmer asked how long it would take to extract those funds and make them useful? Mr. Hughes said Zone 7 would have access to $20 million from the County within 24 hours. Ms. Duerig said as we develop our own investment policies, it could be that we would not need the cash up front and we will be addressing the investment policies as part of developing the Financial Plan. Our investments might be diversified and could take longer to access. Director

Machaevich added that we could borrow from our own reserves for quick cash or get another ISA if needed if the County could not get Zone 7 the money. We have some flexibility and maybe the reserves do not need to be so high and they can be tweaked if necessary but at least we know, and can tell the public, where we stand.

Ms. Green recapped that staff met with the retailers and they reviewed the policy and expressed general support but wanted to know when the reserves could be used and requested "trigger" language for use of the Rate Stabilization Reserve. Language was added to the policy that whenever our projected rate increases are two times the CPI, we would take into consideration using the reserve to buffer increases.

President Palmer asked if the financial structure allows a place for an investment? Mr. Hughes replied our investments are controlled by the Treasurer of Alameda County so we don't have the ability to invest. Ms. Duerig added it depends upon what the asset is and what it is used for if it drew down a particular reserve and if it was an asset as opposed to an investment. President Palmer asked what would differentiate between an asset and an investment? Mr. Porr said they are similar. A capital asset is an investment but a long-term asset that helps deliver service, is physical, and depreciates over time. An investment is a short-term instrument that allows you to get a return on your money but not necessarily assisting you with long-term service operations.

The Directors felt they have a better understanding of reserves and balances. President Palmer asked how much of the total budget is reserves? Ms. Green said a ballpark for reserves would be 70% of the total operating budget. Staff will find out that number for the Directors.

Public Comment

John Archer, Dublin San Ramon Services District Finance Services Manager, said DSRSD set up three Operating funds with a similar structure with a maximum cap on the total reserves. If the total of all reserves goes over that cap, it goes back to the Board or Committee for consideration.

President Palmer moved that staff be directed to finalize the policy for adoption at a future Board meeting and Director Machaevich second the motion. The motion passed by a verbal vote of 3-0.

3. Verbal Reports

President Palmer commented on travel expense reimbursement by the County. She feels that Zone 7 employees unable to afford out-of-pocket expenses for training or conferences may miss out on those opportunities due to the County taking so long to reimburse them. She asked if a fund could be onsite for reimbursement. The County's Manual of Accounting Policies & Procedures (MAPP) provides the rules for reimbursements that are followed.

Ms. Duerig said that County departments like Zone 7 are no longer allowed to have petty cash funds for minor reimbursements and accumulated reimbursements are now the only way to submit expenses. Zone 7 does not have any input and it can impede agency travel. President Palmer asked if the Board of Supervisors of Alameda County could change this policy.

Mr. Hughes said he will have staff research the issue and get back to President Palmer.

4. Adjournment

Since there were no further issues or comments, the meeting was adjourned at 4:50 p.m.