SUMMARY NOTES OF THE FINANCE COMMITTEE
ZONE 7 BOARD OF DIRECTORS

May 7, 2015
4:00 p.m.

Directors present:	Sandy Figuers Sarah Palmer
Directors absent:	Angela Ramirez Holmes
Staff present:	Jill Duerig, General Manager Hossein Golestan, Financial Consultant Tamara Baptista, Finance Manager Donna Fabian, Acting Board Secretary

Director Figuers called the meeting to order at 4:10 p.m.

1. Public Comment - None

2. Proposed Fiscal Year 2015/16 Budget

Hossein Golestan, Consultant for Zone 7, explained that the purpose of this agenda item is to address questions that came up at the last Finance Committee meeting of April 23, 2015, to address any new questions and to point out changes since the preliminary draft. Mr. Golestan wanted board members to refer to the additional handout that was given to them at the beginning of the meeting. The first attachment is a breakdown of the water expense as it appears in the amended 2014-15 budget and the proposed 2015-16 budget. Mr. Golestan stated that the current year amended budget is $9 million and the proposed 2015-16 budget is $7.6 million. Mr. Golestan wanted to draw attention to the 2014-15 numbers for the Cawelo and Semitropic where the expenditures relate to retrieving water from storage compared to the 2015-16 where the expenses relate to replenishing the water. General Manager Jill Duerig stated that water is based on a calendar year, and while Zone 7 is withdrawing from Semitropic and Cawelo this calendar year, Zone 7 hopes to be replenishing next calendar year, and that spreads across the fiscal year.

Mr. Golestan then referred to hand out number two which is a summary of all the changes that have been made to the budget since the April 23, 2015, Finance Committee meeting. Director Palmer asked what was the reason for the $850,000 difference on the flood control fund. Mr. Golestan said that a complete review was done of the CIP budget and what was in the system, and as a result of verifying those numbers, some errors were discovered and they have been corrected. Ms. Duerig reminded the committee that the April 23rd version was a really preliminary budget.

Mr. Golestan then referred to the third handout which is the history of personnel costs, both budgeted and actual, for fiscal year 2011-12 through current, and shown by fund. Director Palmer asked if the totals for personnel costs projected for this year and the proposed budget for next year are on that sheet. Tamara Baptista, Finance Manager, said those amounts are on lines 19 and 20 on page 9 of the handouts. Ms. Duerig said there was a strategic planning priority to look at where it is cost effective to bring work internally instead of using outside services. Zone 7 added some SCADA staff, engineering technicians, and some contract labor so the bump up was intentional. Director Palmer asked if the proposed 2015-16 budget is the proposed $19.4 million and Mr. Golestan confirmed that it is. Director Figuers asked if it included retirement and health benefits, and how many people hours are included in the calculations. Ms. Baptista said the calculations are based on 2080 hours per year per employee but Zone 7 calculates by FTEs, and Zone 7 has 110.5 FTEs in the proposed budget. Director Palmer asked if that total is actual filled or approved positions. Ms. Duerig stated that these are positions that are intended to be filled in fiscal year 2015-16 and not the total approved positons.

Mr. Golestan then referred to page 4 of the handouts. The original question from the committee was "what was adopted originally to what we are now calling the amended budget?" Ms. Baptista said that this report is what Director Figuers requested be added to the next monthly budget report. Director Figuers said that he would like to add wording to each column that explains why some numbers change during the year and why some remain the same. There was discussion on what the various titles mean in each column and it was requested that there be bullets underneath the table explaining what each column means.

Mr. Golestan then referred to page 5 and stated that it shows the history of ending fund balances over time and by fund beginning in 2007-08. The purpose of this chart is to show what the trend has been and where the fund balances are moving. Director Figuers asked why the flood control numbers dropped considerably. Ms. Baptista stated that the reason they dropped is because of the planned flood control activities that were board-approved in the CIP, and that the funds were used for various projects.

Director Palmer had a question on page 8 of the staff report. She asked about the end of year projections that show $123 million but the amended budget shows $119 million and she wanted to know what was the difference. Ms. Baptista pointed out the difference between the amended budget expenses of $121 million and yearend projections of $116 million. Mr. Golestan stated that that is primarily due to the flood control fund, fund 200. The amended budget was $14 million and the end of year was $9.5 million. Ms. Duerig pointed out that on page 5 on the staff report in the flood control general account, Zone 7 had projected that it would have $7.5 million at the end of the year, and the current projection for the end of the year is over $12 million because there were a lot fewer flood control projects this year than anticipated for a number of reasons, part of which was because it didn't rain that much.

Director Figuers asked if the proposed budget in 2014-15 was caused by the carryover projects that weren't done due to delays because of the drought. Ms. Baptista said that the proposed budget for 2015-16 does not include the carryover yet. She said that when the auditors come in and close the books, staff will look at any unspent projects that staff want carried forward in open contracts or purchase orders. Those will be carried forward and then added to the proposed budget.

Director Palmer had a question on page 2 of the staff report where it said that Governor Brown issued an executive order requiring 25% water conservation measures, and since Zone 7 conserved 29% does the Zone still have to conserve the whole 25% this year? Ms. During said that the state-imposed conservation is based on 2013 numbers but the conservation we did last year was used to set which tiers apply.

Director Palmer had a question on page 6 under the water enterprise renewal replacement where there is a $31 million capital reserve. Ms. Baptista stated that on the reserve policy that was covered at the last Finance Committee meeting the reserve is 100% of the following year's planned CIP projects plus 50% of the next year and because of the large CIP projects planned for 2016-17 and 2017-18, that caused the minimum reserve to be high.

Director Figuers had no further questions and asked if there were any questions from the public. Leonard Olive, Assistant Director of Operations at the City of Pleasanton, asked at what rate structure is the proposed budget predicated. Ms. Baptista said that it is based on the board-approved 3% for calendar year 2015 and 3% for calendar year 2016 so the board had already approved those water rate increases used to prepare the 2015-16 proposed budget. Mr. Olive said that $100 million in reserves over all those funds isn't too bad and he wanted Zone 7 to keep in mind they can borrow between funds. He also suggested that rather than establish a reserve for every fund, to establish one or two funds, for example, one for water and one for flood, and to make it a reserve that will span a number of funds that will give Zone 7 a lot more flexibility. Director Palmer asked if that was possible. Mr. Golestan said that between the water enterprise and the replacement and renewal fund, it could be done, as they are funded with the same source, but when it comes to the expansion fund commingling the reserves, it is risky to the Agency. Director Palmer asked if it added to our operational expenses if we had to borrow between two different funds. Mr. Golestan said that assuming there are no legal restrictions they would have to be in agreement as to the length of the borrowing, the interest rate and make sure that those needs are paid in a timely manner. Ms. Duerig said that that is one of the reasons Mr. Golestan put all of the reserves that could be combined together in that graph that was distributed today adding that those that are separate need to be separated.

Director Figuers suggested that at the next board meeting the Finance section might want to put an explanation stating these funds cannot be commingled. Ms. Duerig said that when the package is put together for the board it is a much more abbreviated package than what is provided to the Finance Committee. Director Figuers asked if flood could borrow out of the water fund. Ms. Duerig said that you can't simply take out of the water funds because water rates have to have a nexus with the services that Zone 7 is providing for water, but you could borrow as long as you are paying market interest, using it as a bank.

John Archer, Dublin San Ramon Services District, asked if Zone 7 is replenishing inventories, and is that what some of the purchases are going into Cawelo. He wants to know in the post drought what does Zone 7 think water purchases are going to be like. He also wanted to know if that water is going back into Cawelo and Semitropic therefore rebuilding the inventories. Ms. Duerig said that since water is done on a calendar year, that between now and December we are still pulling out and paying Cawelo and Semitropic and after January 1st, assuming we get a good water year, plans are to put back into Cawelo, Semitroopic and the local groundwater basin. Mr. Archer said that the next question to come up in a couple of months will be what is the impact on the district as far as rates for customers.

Alfred Exner, Pleasanton resident, asked why general office services and supplies went up 41% and why training and travel went up 117%. Ms. Duerig said that if you look at the previous amended budget for services and supplies, it was $610,000, and in this year's budget it was dropped to $593,000, partly because Zone 7 didn't spend the whole budget last year. As for the training and travel fund, it is only a few percent over the previous budget. She also stated that training is something Zone 7 tries to do as much as possible to help our in-house staff grow, and many times, there is money in the budget that isn't spent. Mr. Exner asked about the backup generators that were brought in last year and he was wondering if Zone 7 was going to carry those into the new budget and if so where are they. Ms. Baptista stated that they are under rental services and Zone 7 put the entire year of rental services in the budget; however, for the proposed fiscal year 2015-16, Zone 7 is planning on putting 1 month of rental in the budget, and if need be, go back to the board to ask for additional appropriations.

Director Figuers asked about general office services and supplies where the fiscal year 2013-14 actual amount was $320,000 and the 2014-15 amended budget was $610,000. He asked if it was a carryover or an actual board approved increase in office services. Ms. Duerig stated that some of that could be related to the records retention program where Zone 7 was going to get some extra equipment, but there has been a delay in the project. She also mentioned if you compare budget-to-budget it has gone down from $610,000 to $593,000. Director Figuers suggested that a comment be added to that line so that the public understands what the difference is.

Director Figuers asked how common is it for training and travel to bounce up and down during the year. Ms. Duerig said that there have been a few things that have really impacted that budget, for example the Sustainable Groundwater Management Act. Zone 7 has had a lot more webcasts and training sessions that staff have wanted to attend to learn about the new Act. Ms. Duerig also said that she hopes there will be a lot of training next fiscal year on the new records management system. Director Figuers suggested that staff be prepared to answer these types of questions when the budget is brought to the full board for approval.

Director Palmer recommended that staff bring the proposed budget forward to the May 20, 2015, board meeting with the Committee's suggested explanatory notes, and Director Figuers agreed. The item passed with a voice vote of 2-0 with Director Ramirez Holmes absent.

Item 3 - Verbal Reports

Ms. Duerig was happy to report that the Stanley Reach Project was a finalist in the Claire Hill Awards at the ACWA Spring Conference, and Zone 7 received a plaque that she will bring to the full board at the May 20th board meeting. Ms. Duerig also mentioned that at the last Finance Committee meeting Zone 7 was looking to refinance the Cawelo bond, but based on recommendation from independent financial advisor, Fieldman, Rolapp & Associates, the refinancing is on hold because they were unable to get the insurance at the rates that Zone 7 had hoped. The financial advisor is putting together a memo and she will provide a copy to the board when she receives it.

Since there were no further issues or comments, the meeting was adjourned at 5:20 p.m.