MINUTES OF THE BOARD OF DIRECTORS CORRECTED
ZONE 7
ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

REGULAR MEETING

June 18, 2014

President Stevens called the meeting to order at 7 p.m. The following were present:

DIRECTORS:	SANDY FIGUERS JOHN GRECI SARAH PALMER DICK QUIGLEY ANGELA RAMIREZ HOLMES BILL STEVENS

DIRECTORS ABSENT: A J MACHAEVICH

ZONE 7 STAFF:	JILL DUERIG, GENERAL MANAGER KURT ARENDS, ASSISTANT GENERAL MANAGER, ENGINEERING TOM HUGHES, ASSISTANT GENERAL MANAGER, ADMINISTRATION TAMARA BAPTISTA, FINANCE MANAGER JUDY RECTOR, BOARD SECRETARY
COUNSEL:	DAVID ALADJEM, DOWNEY BRAND

Item 1 - Call Meeting to Order

Item 2 - Pledge of Allegiance

President Stevens led a salute to the flag.

Item 3 – Citizens Forum

Item 4 - Minutes of the Regular Meeting of May 21, 2014, Special Meeting/Board Workshop of May 29, 2014, and Special Board Meeting of June 4, 2014:

Director Ramirez Holmes made corrections to the Special Board Meeting minutes of June 4, 2014, and corrected copies were given to Board members at the meeting. President Stevens revised another sentence in the same minutes to say that Director Figuers talked to staff and worked up graphs. Director Ramirez Holmes moved that all of the minutes be approved as corrected and Director Quigley seconded the motion. The minutes were approved by a 6-0 voice vote with Director Machaevich absent.

Director Greci commented that he liked the process of submitting corrections to the minutes to staff in advance of the meeting and thanked Director Ramirez Holmes for her time in reviewing and correcting the minutes.

Item 5 - Consent Calendar

Director Quigley moved for approval of all consent items and Director Palmer seconded the motion. The Board approved all five Consent items by a voice vote of 6-0 with Director Machaevich absent:

Item 5(a) – Amendment No. 1 to the Memorandum of Understanding (MOU) between Members of the Bay Area Regional Mussel Prevention Consortium

Resolution No. 14-4369	Authorized Amendment No. 1 to the MOU between members of the Bay Area Regional Mussel Prevention Consortium. (Item 5a)

Item 5(b) – California Water Action Plan

Resolution No. 14-4370	Supporting both the California Water Action Plan and ACWA's Statewide Water Action Plan. (Item 5b)

Item 5(c) – Airfare Reimbursement Authorization

Resolution No. 14-4371	Zone 7 air travel policy. (Item 5c)

Item 5(d) – Professional Services Contract with Kier & Wright, Inc. for Surveying Support Services

Resolution No. 14-4372	Annual professional services contract with Kier & Wright, Inc. for as-needed Surveying Support Services. (Item 5d)

Item 5(e) – Authorization for Miscellaneous Expenses for Board Meetings and Staff Events

Resolution No. 14-4373	Policy regarding payment for events and increasing the spending limit up to $500, retroactive to January 1, 2014. (Item 5e)

Item 6 - Staffing Update:

Mary Miller was selected as the April Employee of the Month. Ms. Miller works in the Maintenance group as the Maintenance Coordinator and processes all of the purchasing for Maintenance. The Board applauded her in absentia.

Item 7 – Award of Contract for the Patterson Pass Water Treatment Plant Ferric Chloride and Caustic Improvements - Project No. 241-14

Kurt Arends, Assistant General Manager, Engineering, explained to the Board that this is a construction contract awarded for the Patterson Pass Treatment Plant. Ferric Chloride and Caustic Soda share a single secondary containment area but one is an acid and one is a base. The Alameda County Department of Environmental Health requires incompatible materials to have separate secondary containment systems or, in the case of a leak, there could be a reaction between the two chemicals. The current scope calls for raising the concrete wall around the tanks, putting in a concrete wall between the tanks to separate the two chemicals, and coat the concrete interior of the tanks so the chemicals do not seep into the concrete, putting in a new trench with separate lines for the chemicals and a leak detector, eye wash/shower relocation, sump pumps, containment area stairway modifications, and electrical and instrumentation signals.

Three bids were received and Manito Construction, Inc., also the contractor on the super pulsator project, was the lowest responsive and responsible bidder for the bid amount of $294,700. The Engineer's Estimate was low because the complexity of the work was underestimated; however, after review, staff felt the bids were reasonable and the other bids confirm the cost of the work. Mr. Arends included more financial information in the written agenda item due to recent conversations regarding the financing of projects including the original budget amount, the contract amount, estimated labor and any consultants (along with specialty inspections built into the cost). The total project cost exceeds the budget which was seen as a simpler project when budgeted a year and a half ago. Initially it was thought only a concrete wall and focusing on one side of the basin was needed; since then, to meet the County requirements, the scope was expanded to include work on both sides of the containment area, coating the area and trenching/sensors which increased the budget for the project. Staff recommended award of the bid to Manito Construction.

Director Palmer commented on the ramification of possible leaks and mixing of incompatible materials during an earthquake so it is worthwhile to do all these safety measures to separate.

Director Ramirez Holmes asked if this was discovered during a review by Environmental Health or when Zone 7 started to do the project. Mr. Arends said the project was in Zone 7's CIP but they expedited it due to Environmental Health's concerns. Director Ramirez Holmes thanked Mr. Arends for the additional funding information and she feels this offers a clearer picture of not just approving a contract but seeing what the total cost is including staff time. Director Quigley agreed.

Director Palmer moved and Director Figuers seconded the motion which was approved by a roll call vote of 6-0 with Director Machaevich absent.

Resolution No. 14-4374	The Board authorized and approved Project No. 241-14, accepted the bid from the lowest responsive and responsible bidder, Manito Construction, Inc. and authorized the General Manager to execute a contract for a not-to-exceed amount of $294,700. (Item 7)

Item 8 – Proposed Budget for Fiscal Year 2014/15

General Manager Jill Duerig told the Board that the agenda item on the budget was brought to the Finance Committee, discussed at a Special Board meeting, and does not include any drought surcharge. It is staff's best guess at a reasonable budget plus some contingency which is typical of our financial planning. One of the reasons the drought surcharge was not included at this time and staff decided to wait until fall is because we want to have a better idea of what drought costs will be this summer and the Board felt that the emergency reserves were well used in this way.

The Board of Directors received a letter from Dublin San Ramon Services District that emphasized that when Zone 7 sets water rates, use more real numbers. That was the Board's intent in not doing a drought surcharge at this time; although there are some concerns, Zone 7 is fulfilling that request.

Director Figuers invested a lot of time going over budget information and presented what he called "a Board member's impression of the budget process." What he found is how the Board and budget staff interact when it comes to the budget and there is a huge "fog" of language and dates. His handout and example showed "the numbers," the auditors come in and approve the numbers, then explain them to the Board and public. He feels discussions are difficult due to the nature of the language used and because the numbers constantly change. Unless the exact date of the change is known for the numbers used, it is difficult to compare them to other numbers taken at a different date. The Board and the public try to talk to each other and staff, but the Board has to just accept what they say.

He then offered a modified version of the graphs he presented at the Special Board Meeting on June 4 but these graphs show a time flow for an entire year starting in May for Fund 120. His graphs represented two types of funds, Board-approved levels that cannot be exceeded without Board approval, and a revenue level. He then explained his graphs to the Board for the first three quarters of the fiscal year and how the graphs will evolve. He then showed a graph for Fund 100 and emphasized again that dates need to be known or the numbers do not make sense and cannot be compared. He said last year income exceeded expenses and this year expenses exceed income and the results can be seen in the fund balance. When the Board looks at the graphs they will see how they relate to the actual data flow, expenses and expenditures. He also noted the power of language in terms such as audited actuals, estimated actuals, carry over and what those terms mean.

Director Greci expressed concern about being "lost" with Director Figuers' explanation of the graphs and said he is still in favor of seeing numbers and where they were used instead of bars and graphs due to the number of confusing lines on the graphs. Director Figuers said he prefers the graphs and the numbers and both have uses for detecting trends. Director Quigley agreed with Director Greci. The primary need is to have a simple, understandable budget and the second need is a system of financial accountability and responsibilities that accurately track spending.

Director Ramirez Holmes agreed with Director Quigley and said that because Zone 7's budget is made up of many funds, the Finance Committee sometimes did not catch things until they saw the audit. Plus trying to figure things out when they had not had a Finance Committee for six months, the Finance Committee tried to come up with a system that allows things to become clear and consistent so everyone can understand it. She thinks the graphs were a good exercise in trying to understand what they want in the Finance Committee, accountability and tracking, which has not been done.

Director Palmer said that as a member of the Finance Committee, she would like to see something interactive that could be pulled up at any time in different configurations. She would not have to wait for a Finance Committee meeting to track things and understand them. Director Figuers said that idea is a possibility. Director Figuers' questioned how much of the information does the Board actually need to do their job? He ended his presentation with a reference to reserves and sinking funds. Director Quigley agreed with Director Palmer and noted that online tools for complicated funds and assets are very simple to use.

Tamara Baptista, Finance Manager, continued the budget presentation by noting the three Operating Budgets (Water Enterprise - Fund 100; State Water Facilities - Fund 110; and General Fund/Flood Control - Fund 200) and three Capital Budgets (Renewal/Replacement and System-wide Improvements - Fund 120; Expansion - Fund 130; and Flood Protection/Stormwater Drainage DIF - Fund 210). She said there had been meetings with the Retailers on the drought surcharge, the Water Resources Committee on the CIP, a Finance Committee Meeting, a Special Board Meeting, and a meeting with the retailers on the proposed budget and the retailers had comments:

- Concerns with $3.3 million transfer from Fund 100 to Fund 120 to partially replenish reserves used for drought projects.

The $3.3 million is only a portion of the total drought emergency projects' cost and represents the current rate payers' contribution. The projects will be completed soon and will benefit rate payers. Expansion Fund 130 funds are also being used to benefit future users.

The retailers also had some preliminary comments on water rates:

- Keep 2015 treated water rate increase at or below CPI.

- Bring forward only one treated water rate recommendation to Board, and not multiple options.

- Exclude higher priced water from FY 14/15 budget; appropriate when Board approves transaction.

A $2.6 million increase for water purchases is in the FY 14/15 budget and the Retailers would like Zone 7 to exclude this premium for water purchases from the FY 14/15 budget and instead ask for additional appropriations from the Board at the time staff is asking for approval for those water purchases.

- Make a commitment to base water rates on projected end-of-year actuals, not the fully funded budget.

This retailer comment refers to using projected or estimated actuals instead of budget numbers when setting Zone 7's water rate. The practice is to discount the following year's budget and use the projected year-end actuals or estimated actuals for the current year when we do set water rates.

Ms. Baptista discussed the individual funds and included information requested by the Directors at the June 2nd Finance Committee meeting.

Director Ramirez Holmes asked if a certain fund did not spend as much as was budgeted, does the extra go to reserves or carryover? Ms. Baptista gave an example and explained that carryover depends upon timing and if the difference is planned to be spent. Capital project money is not necessarily spent in the year it is budgeted, sometimes a project continues over multiple years, and that is why it is called carryover. Director Ramirez Holmes said that some of the retailer questions might be because we are budgeting for things that were not actually spent, are over budgeting or cost saving, and where those numbers appear. Director Figuers explained that reserves are a big checking account and the money stays there until it is spent and why the word "reserves" is confusing for the Directors.

Director Ramirez Holmes asked questions such as why Zone 7's budget has gone up $27 million in two years, She said the summary on the front of Agenda Item 8 is misleading and makes it sound like we are below our previous budget and on track but the numbers aren't the same as that explanation. She feels there is a need to figure out how to explain the increase in the total budget the agency has had over several years and she asked that it be included in a finance discussion so the directors can be accountable for those numbers. She thanked the Finance staff for the additional information and for being a partner in getting the Board what they need to do their jobs as elected officials.

Director Quigley asked for retailer comments.

John Archer, Financial Services Manager, spoke to the Board regarding DSRSD's comments and said the letter is a culmination of discussions with staff primarily over rate setting. He said DSRSD is asking that Zone 7 not rush into rate setting and that sufficient time is allowed to review the numbers and discuss the impact they will have. The DSRSD letter is written on behalf of the District's rate payers. As a Certified Public Accountant, he said in the budget process, operating funds must be kept separate from capital funds. Carryovers have to do with capital plans and the operating funds are different. There are other ways to budget for capital funds.

He also noted that the summary on the agenda item showed that spending was going down and he agreed that, as a family of funds including the capital expenditures, it is going down but the spending for the operating fund is going up to cover the different contingencies and potentialities from the drought that are included. For clarification he recommended that staff change the presentation with the recommendation to work on the budget in between times, not ask staff to do it "on the fly" which doesn't usually work. Mr. Archer was asked to comment on the phrase "estimated actuals" and said that balance sheets are a snapshot in time usually at the end of a month or a time period. The income statement is continuous and cumulative to some point in time. Estimated actuals are projected year-end balances/results. Ms. Baptista is saying they took the numbers in the books through a point in time and projected what that balance would be based on what they know has been spent and will be spent. The retailers understand that reserves have to be refunded, they are just asking that it be planned and done over time or you take a rate that may jump up and down from year to year. DSRSD tries to use a five-year window because they had some significant increases in the past and the public can't plan and doesn't like it.

President Stevens said that the two agencies have different viewpoints and Zone 7 is thinking about drought next year. Mr. Archer agreed and said his forecast depends upon what happens with water rates. Director Figuers said he is going back to about the mid-70's and track the water rates because he wants to see how the rates have been changing over two droughts (1977 and the late '90's) and he wants to see how reserves reacted. He will also be tracking population and rainfall to show a complete history. Mr. Archer noted that reserves are like expenses and revenue, there are different classifications. Staff has the reserves broken down by classifications developed a couple of years ago based on recommendations, and reserves are tracked based on emergencies, contingencies and rate stabilization.

Dan Martin, City of Pleasanton, said the City of Pleasanton did not have a letter to the Board due to a lack of time to get the information to their elected officials after the meeting with staff last week. One of the challenges with this budget cycle has been that it was compressed. Zone 7 needs an operating budget before the end of the fiscal year but as Retailers, they don't agree with all the components in it especially as they directly affect the rates which will be discussed in the next few months. There are too many unanswered questions, not enough data for representatives of Zone 7's customers and they don't see the justification yet. They are hopeful they can work through the issues with staff , but there are too many unknown factors and it feels like the worst case scenarios are assumed when we don't know where we will be three months from now. They are cautious about allowing the current budget to go through without review, maybe even an amended budget if appropriate, before we get into rate setting.

Darren Greenwood, City of Livermore, said Livermore agrees with the general comments in the DSRSD letter. They understand that things have to be covered in the budget for contingencies but piling those things on the water rates for a single year is not appropriate. Another issue is the capital repayment of $3.3 million since most of those projects are depreciated over a period of time and no need to pre-fund and pay back that reserve. Even without the transfer, the reserve in that capital fund is going to go up $2.2 million because it cuts through the expenditures and the extra million that is being put through the Asset Management Plan (AMP) transfer. Retailers have consistently commented on the $2.5 million component per year in that the AMP transfer is for system-wide improvement projects, basically unidentified projects that were not on the list of things that had to be replaced but for things that came up. If you have that extra money each year, it is difficult to see why in one year we need to pay back the money used by accelerating the well projects. They are looking for a commitment from the Board that staff will be directed to work with the retailers to make sure that the reserves are built up properly.

The recommended action was to adopt the proposed budget for FY 14/15 by approving the resolution.

Director Figuers moved and Director Quigley seconded the motion which was approved by a roll call vote of 6-0 with Director Machaevich absent.

Resolution No. 14-4375 Approved the budgets, including revenue, expenses and the use of fund balance for Fiscal Year 2014/15.

<u>Item 9 – Retreat Agenda Discussion</u>

Ms. Duerig told Board members that this item had been placed on the agenda at the request of President Stevens so the Board could discuss potential topics for the annual Workshop/Retreat. There had been suggestions such as what should be the role of committees. Director Figuers provided a range of options such as should the Finance Committee be more active and get more financial details or remain the same. Director Quigley asked about the Administration Committee and what its role should be. There is a wide variety of topics including subjects deferred from the last meeting asking staff to bring back a discussion on the watershed management planning effort; revisiting the Strategic Plan to see whether any priorities may have changed; improving organizational culture; training components such as Brown Act compliance or board/staff inter-relationships; and the venue for this year's retreat.

Concerns about the use of Director Greci's cabin, which he volunteered to save Zone 7 rental fees, were discussed but, due to a lack of wheelchair access, that location is not ideal. Ms. Duerig said the retreats were not held at Zone 7's office to keep staff's concentration focused on the retreat without interruptions.

Director Ramirez Holmes had suggestions for retreat topics. She said she attended a CSDA government training that included a module on "What Board Members Need to Know about Agency Finances" which was recommended as a discussion item for a retreat. She feels the subject of Zone 7 finances in terms of a better understanding of what they should be doing, tracking and what they need to know while the Board decides the role of the Finance Committee could be a subject for discussion at the retreat. Director Ramirez Holmes also suggested discussing the watershed investment. A work plan/calendar of standard upcoming deadlines (i.e., budget) with an estimate of time would help Board members know when something should be going to a committee or a board meeting for more advanced planning. More discussion on the structure of the committees would be valuable.

Director Quigley said he also is interested in discussing the watershed investment and a finance discussion. Because there were organizational changes and consolidations a few years ago at Zone 7, we have been without a Chief Finance Officer (CFO) and that may need to be revisited.

Director Greci reminded the Board that there isn't a lot of time for productive interactions during the retreat to discuss all these topics. He encouraged the Board members to think about the amount of time they want to spend on each topic to get the most out of it so issues are fully addressed and not cut short. He suggested the agenda be prioritized with the topics and time frames so items could be addressed properly and efficiently with constructive outcomes.

Director Ramirez Holmes asked if this discussion could be continued to the July meeting, especially due to the presence of a new Board member, so there is time to develop the agenda. President Stevens suggested not including a Strategic Planning update. He also thought watershed management planning should not be a part of the retreat discussion and maybe a separate sub-committee meeting could be planned. He proposed the following four items for the agenda: Board/staff interaction which will help the new Board member; the Board's role in financial matters; the role of the Finance Committee; and the idea of a new CFO.

Director Ramirez Holmes said there has been public comment and people want to know more about our goals and objectives for purchasing the Patterson Ranch property. Two months ago when there were comments, it was suggested it be discussed at the retreat. She said she and Director Quigley had requested a public presentation similar to what the Board had regarding the property and a one-page document of talking points about watershed protection at Zone 7. There were some things that have been delayed and, as contracts come up, they were told they would talk about it before the contract was renewed but the contracts were renewed anyway. She said the Board should start the conversation in the retreat.

Item 10 – Committees – Finance Committee, June 2, 2014- notes

Item 11 - Reports - Directors

a. Verbal comments by President

   President Stevens noted that his term as President is ending as of this meeting.

b. Written report by Director Quigley
c. Other Directors' Verbal Reports

Item 12 - Items for Future Agenda - Directors

Item 13 - Staff Reports (Information items.)

a. General Manager's Report
b. Communications Outreach Activities
c. Legislative Update
d. Update Related to the Bay Delta Conservation Plan
e. Drought Update
f. Verbal Reports

Ms. Duerig reported that she received a message from Dr. Amparo Flores who attended the State Water Contractors' meeting the same day as this Board meeting. Dr. Flores said that DWR told the State Contractors today that they underbilled by $60 million so all could expect an adjustment to the Statement of Charges. This means that Zone 7 will likely be getting an extra bill for 2 percent, or $1.2 million, and there is no recourse. This is part of the reason why there is a high level of frustration in the way DWR manages their finances, their billing, their accounting and why the State Water Contractors have a group referred to as the Audit/Finance Group, but it is not a transparent process so there are surprises. Last year there was a huge credit back, over $2 million, due to DWR having overcharged.

The board went into closed session at 8:45 p.m.

Item 14 - Closed Session

(a) Government Code Section 549547; Public Employee Performance Evaluation
Title: General Manager

(b) Conference with Legal Counsel -- Significant exposure to litigation pursuant to Gov't Code Section 54956.9(d) (2): 3 cases

(c) Conference with Legal Counsel -- Potential litigation pursuant to Gov't Code section 54956.9(d) (3): 1 case

(d) Conference with Legal Counsel -- Existing litigation pursuant to Gov't Code Section 54956.9(d) (1):

Alameda County Flood Control and Water Conservation District, Zone 7 v. Pleasanton Gravel Co., Alameda County case no. HG14724177

(e) Conference with Labor Negotiators:
Agency Negotiator: G.F. Duerig
Employee Organizations: Alameda County Management Employees Association; Alameda County Building and Construction Trades Council, Local 342, AFL-CIO; International Federation of Professional and Technical Engineers, Local 21, AFL-CIO; Local 1021 of the Service Employees International Union, CTW; Unrepresented Management.

Item 15 - Open Session and Report Out of Closed Session

The Board came out of Closed Session at 10:56 p.m. and President Stevens reported there were no reportable actions taken in closed session.

Item 16 - Adjournment

The meeting was adjourned at 10:57 p.m.