SUMMARY NOTES OF THE FINANCE COMMITTEE
ZONE 7 BOARD OF DIRECTORS

June 2, 2014
4:00 p.m.

Directors present:	Sandy Figuers Angela Ramirez Holmes Sarah Palmer
Staff present:	Jill Duerig, General Manager Tom Hughes, Assistant General Manager, Administration Tamara Baptista, Finance Manager JaVia Green, Staff Analyst Judy Rector, Board Secretary

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

1. Public Comment – None

Director Figuers moved that the agenda be re-ordered so the Proposed FY 2014/15 Budget was heard before the Proposed Drought Surcharge discussion. The other two Committee members agreed.

2. Proposed FY 2014/15 Budget

Tamara Baptista, Finance Manager, and JaVia Green, Staff Analyst, made a budget presentation to the Finance Committee. Ms. Baptista presented a Budget Overview of the three Operating Budgets (Water Enterprise - Fund 100; State Water Facilities - Fund 110; and General Fund/Flood Control - Fund 200) and the three Capital Budgets (Renewal/Replacement and System-wide Improvements - Fund 120; Expansion - Fund 130; and Flood Protection/Stormwater Drainage DIF - Fund 210) with references to each of the new fund numbers and the former fund numbers for clarity.

The drought, economy and the scheduled ramp-up of transfers to fund the Asset Management Program (AMP) have all had an impact on the budget.

Director Figuers asked for definitions of terms used such as FY 2012/13 actuals and board-approved budgets which began a question-and-answer session between staff and the Directors on the definition of other terms used, too. The Directors had many questions and concerns about the headings used in the agenda item and comparing them to other documents.

Tom Hughes, Assistant General Manager, Administration, explained the type of content and timing for different documents including the Monthly Budget Staff Report; an Estimated Actuals report based on current and computer-generated numbers by New World, the new financial software, that is able to project year-to-date dollar amounts based on when the report is run; and the Proposed Budget document.

There was a long discussion regarding numbers in charts presented not matching summary documents in the agenda item which added to the confusion. Ms. Duerig explained that a number like $6.6 million is looked at as an expense and as revenue because when you take an amount out of the first account, it comes out as an expense; but when transferred into the second account, it comes out as revenue which has caused confusion in the past. The goal was to simplify the documents and the numbers are the same except for the AMP transfer from Fund 100 to Fund 120. The difference between appropriations and transfers from funds and reserves were discussed so the Directors could have a clearer understanding of the process.

Director Palmer asked staff in the future to clearly mark revenue and transfer items as “to” and “from” so they can see where the money goes and that would clear up part of the confusion. Director Figuers asked for a column for year-to-date actuals and computer-estimated actuals. Director Ramirez Holmes noted that at board meetings she asks if funds will be coming from the budget for expenditures on projects and not from reserves. If the money has been budgeted and appropriated, then why are there transfers for projects?

Ms. Duerig answered that some of the funds have their own reserves, like Fund 100, that is reported each time so there are Fund 100 reserve levels in Fund 100 already and a transfer is not needed. Director Ramirez Holmes said the reserves have not been reported since it was pulled out in October 2013 and stopped appearing on the Monthly Budget Report. In April 2013 when the Board passed the Draft Interim Reserve Policy, Director Ramirez Holmes said that she expected the information on reserves to come back to the Board on a regular basis and she has not seen it for over a year. Also, in the Draft Reserve Policy, it says “fund balances and target levels will be reviewed by staff and board and public during development approval of each budget.” Ms. Duerig responded that part of what is being done now is to look at each of these reserves and see whether we are meeting the reserve targets. Director Ramirez Holmes felt that it doesn’t explain the drought funding from reserves that were calculated at $3.3 million and is double counted so she wants an explanation.

Discussion continued regarding professional terminology used in the agenda items and tables and definitions understood by Board members. Ms. Duerig said that staff had tried to make the FY 13/14 budget book more transparent and more understandable for people outside of the agency. Ms. Baptista explained each fund and questions were answered one at a time. Ms. Duerig added that expenses increase for chemicals due to poor water quality and for power when the Agency pumps ground water and runs it through the demineralization plant.

Director Palmer offered suggestions for improvement including a formatting change on an Excel worksheet so it clarifies visually what is happening in terms of the range of reserve values, in addition to using her previous suggestion of “To” and “From” so the numbers match.

Director Figuers stated that the purpose of the Finance Committee is to oversee the finances of the Agency but he was frustrated that he could not make sense of the agenda materials in the short time he had to review them. He has suggested more Finance meetings so questions could be answered as the budget year progressed and not wait until the last moment. Ms. Duerig said that this year has been particularly difficult because of the impact of the drought and the numbers keep changing for FY 14/15.

Director Ramirez Holmes asked the following: if there had been a meeting with the retailers about the budget and was told there had not been one; she asked about funds being over budget and was told that if expenses exceed revenues, then reserves are used; and when the proposed budget book would be coming to the Directors and was told that they may be able to get a draft before voting on the budget June 18. Last year they got to see the adopted (not forecast) budget, the proposed budget, the budget from the year before, and the difference. Ms. Duerig explained that in the past, we were criticized for comparing the budget to prior year budgets instead of comparing it to the expenses, so we are now comparing the proposed budgets to current year expenses.

Director Ramirez Holmes asked for a graph of budgets from 2010 to 2014 showing the total using the board-adopted figures and the adopted actuals. Director Figuers asked that it be broken out between flood and water so they can tell which portion has work assigned to it. It was decided that seeing the audited results for the last few years would be very beneficial for the Committee so trends and how much expenditures have increased can be seen. Also a spreadsheet is available which will show how costs have increased. Reserve information on how much was spent out of the reserves and the totals transferred out of reserves into funds in FY13/14 were requested.

Director Figuers asked for public comments before moving to the Surcharge item but there weren't any.

3. Proposed Drought Surcharge

Ms. Duerig explained that there are options with surcharges and staff is seeking guidance from the Committee to see which option the Directors are most comfortable with including taking an additional $2 million out of reserves or, if uncomfortable with taking as much out of reserves, if they want the surcharge higher. Staff came up with the percentages of 0%, 15% and 25% in order to keep it under the 25% conservation amount.

Ms. Baptista's presentation on the Drought Surcharge to the Finance Committee consisted of key points showing why the FY 14/15 budget process was unique including the difficulty of developing the budget due to the uncertainty of the drought; the uncertainty of water supplies; and evolving CIP priorities due to the drought. An assumption made is that the duration of the drought is related to the calendar year 2014 State Water Project allocation.

When Zone 7 suspends or ends the local Drought Emergency declaration, consideration for ending the proposed drought surcharge will take place and Director Ramirez Holmes asked if there is a sunset built in. Ms. Duerig said the sunset can be made for a certain date (but if the drought continued it would have to be re-imposed), or the sunset could be when the drought emergency is lifted, or there could be no sunset at all. Ms. Duerig favors sunsetting the surcharge when the drought emergency is lifted. The Retailers favored a sunset.

Bert Michalczyk, General Manager, Dublin San Ramon Services District, brought up three points and commented regarding how they have a pass-through directly to the customers. He said they may have a strong preference how the surcharge is expressed as either a dollar amount per acre foot, a percentage, or whether it is a surcharge separate line embedded in the rate:

1) In order for them to pass it through under Proposition 218, it can be complicated; 2) They agree there should be a logical sunset to the surcharge whether it is at the end of the drought emergency or on a certain date; and 3) The contract with Zone 7 provides for a process and time frame for rate increases but did not anticipate imposition of mid-year drought surcharges. That contract calls for one rate adjustment per year introduced in September, adopted in October and effective in January. DSRSD does not have any objection to an administrative exchange of letters between Mr. Michalczyk and Ms. Duerig to waive this contractual requirement.

He commented on three other areas regarding 1) Substantiating the supply money for emergency generators; 2) Capital projects: rate payers should not have to pay for a capital asset through the drought surcharge; and 3) Water: Rate payers should not have to pay for the $2.6 million water transfer for Semitropic and Cawelo until the water flows. Tweak the surcharge when the water flows. Commit to take money and replenish the drought reserve fund if not used to buy water. DSRSD is not opposed to the surcharge but he encouraged that it be done right, open and transparent.

Director Ramirez Holmes asked Mr. Michalczyk about DSRSD's tiered structure and whether a surcharge had already been added to this structure. The issue of conservation rewards was discussed with all the Retailers present. The Directors expressed concern about standard usage for residents that conserve now and how can those residents do more? She also asked about the Retailers' cost and time frame to notify residents of the drought surcharge. Director Figuers asked about industrial and commercial users' rates? Recycled water rates are not affected by drought rates. The City of Pleasanton says they are at about the 18 % conservation rate but not hitting 25% yet. The City of Livermore is about 28% for May. Director Ramirez Holmes asked why the untreated customers are not included in the surcharge. Ms. Duerig explained that the rate to the untreated customers has always been a pass-through of what the State Water Project charges plus administrative time as new wells, variations in operations expenses to treat water and projects won't benefit them. Letters were sent to the untreated customers and workshops held letting them know that their rates are not affected but their supplies are cut back 75%.

Ms. Baptista discussed key points including a 25% overall loss of water sales revenue; the FY 14/15 proposed Fund 100-Water Enterprise budget which includes a transfer to Fund 120 of $3.3 million to replenish reserves spent on drought emergency capital projects; and using all of the Drought Contingency ($5.9 million) and a portion of the Rate Stabilization reserves ($6.4 million) to help cover the financial impact of the drought.

Mr. Hughes spoke about the $2.6 million being factored back into the Drought Contingency Reserve if the money was not used to purchase additional water (if available) but we would pay premium rates.

Director Ramirez Holmes suggested using an additional $2 million from the Rate Stabilization reserve to save the Retailers money on mailing notifications to their customers of the drought surcharge.
Ms. Duerig said this is why there are options: use more reserves but then there is more to recover later such as by a bigger rate increase. Director Figuers said he is concerned if we don't purchase additional water but it is put into the rate surcharge, how do we refund the money?

Director Ramirez Holmes suggested that the Finance Committee make a recommendation of 0% surcharge to the full Board at the Special Board meeting June 4th for the following reasons:

- the numbers are not clear enough;
- it costs the Retailers money to notify their customers;
- it punishes people who are conserving; and
- the legality to be able to pass-through the costs to the customer because of the contract between Zone 7 and DSRSD, effective July 1, without any public notification, re-evaluate when water rate increases are done and use the increase as a reason to refill reserves as opposed to having the money sit there unused.

Director Figuers agreed with the recommendation of 0% surcharge.

Director Palmers noted she is worried about next year and is concerned about needing reserves down the road. She does not want the reserves depleted so much and would like to see a drought surcharge because when in the throes of the drought, it is psychologically easier to implement and explain a surcharge than later when rates are raised while it is raining. She wanted to reserve her recommendation until the numbers are clarified.

Director Figuers noted that there were two votes of the Finance Committee to recommend no drought surcharge. The Finance Committee members decided to not make a recommendation to the full Board on the budget.

4. Verbal Reports – None

5. Adjournment

Since there were no further issues or comments, the meeting was adjourned at 6:48 p.m.