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

SPECIAL MEETING

CORRECTED

June 4, 2014

Vice-President Greci called the meeting to order at 7:03 p.m. The following were present:

DIRECTORS:	SANDS FIGUERS JOHN GRECI A J MACHAEVICH SARAH PALMER RICHARD QUIGLEY ANGELA RAMIREZ HOLMES
DIRECTORS ABSENT:	DIRECTOR STEVENS
ZONE 7 STAFF:	JILL DUERIG, GENERAL MANAGER KURT ARENDS, ASSISTANT GENERAL MANAGER, ENGINEERING TOM HUGHES, ASSISTANT GENERAL MANAGER, ADMINISTRATION TAMARA BAPTISTA, FINANCE MANAGER JAVIA GREEN, STAFF ANALYST JUDY RECTOR, BOARD SECRETARY
COUNSEL:	DAVID ALADJEM, DOWNEY BRAND

Item 3 – Citizens Forum - none

Item 4 – 2014-15 CIP Projects

Kurt Arends, Assistant General Manager, Engineering, presented a power point presentation to the Board on the Capital Improvement Projects (CIP). The CIP is a long-term plan that looks at funding, cash flow, and revenues. These plans are usually updated every two years. The CIP projects the annual capital expenditures which are then incorporated into the annual budget. Because of the drought and the need for new projects to be added, changing priorities and changing cash flow, it is difficult to do a new 10-year update at this time so only 2014/15 Capital Fund expenditures were reviewed but hope to have a 10-year update next year. This information was presented to the Water Resources Committee on May 29, 2014, for review. The CIP depends upon the projects being funded that particular year and some years involve more improvements than other years. Mr. Arends explained the capital funds as follows:

Fund 120 - Renewal/Replacement and System-Wide Improvements Fund

Funded through annual transfers from Fund 100. Each year the amount is transferred from Fund 100 for the Asset Management Program (AMP).

The main issue is maintaining cash flow along with re-prioritizing the projects identified to see which could be deferred and which need to be funded. Big changes proposed include a Storage/Transmission/ Distribution System Master Plan for short to long-term improvements with the distribution system (pump stations and storage to address water supply needs). Money ($800,000) was added to cover a potential intertie with East Bay Municipal Utility District if there are any grant opportunities. If grant opportunities are not available, those funds are not spent and remain in reserves. The recommendation is an increase of $287,889 which increases the expenditures to a total of $7,986,889, a proposed increase of 3.7%. Director Palmer asked what is the likelihood of the intertie project. Mr. Arends responded not likely this year and grant opportunities not likely either but we are keeping it in the fund for opportunities that we can apply for in the future.

Director Ramirez Holmes said the adopted budget was $14,920,377 and she asked what was actually spent out of Fund 120 in FY13/14? Mr. Arends said between $12 million and $14 million but she said the estimated actuals on expenses in the information received was $22 million. Mr. Arends replied that there is a difference between approved budgets, amended budgets, actuals and carry over funds because in the CIP large projects are budgeted. Carryovers are used to continue a process or project instead of re-budgeting each year. Director Ramirez Holmes said at the Finance Committee she was told information would be provided at this meeting including a list of projects to account for the discrepancy between what was approved and the estimated actual. Mr. Arends showed a list of projects for a total of $14,970,000. There is also project carry over (projects from the prior year that were carried over to fund capital projects), additional appropriations for drought projects that the Board approved, and encumbrance carryovers (contracts that were funded over the year) which, when added up, total $25.9 million.

Director Figuers asked Vice-President Greci and staff to move the budget discussion in front of the remainder of the CIP presentation to try to answer a lot of questions but Vice-President Greci decided that the agenda be continued as planned. Director Ramirez Holmes expressed concern about providing direction on the CIP item if questions are answered two items later.

Ms. Duerig suggested it might be easier to go through the budget item first so questions related to cash flow, different budget numbers, and different estimates would be addressed in the budget presentation.

Director Machaevich requested that directors pull staff aside before the meetings so questions could be answered before the full board meeting. Also any information requested by directors could be provided in advance so it could be reviewed prior to the meeting. Director Ramirez Holmes said that some of these questions were already asked of staff at the finance committee meeting.

Item 6 – Proposed Budget for Fiscal Year 2014/15

Tom Hughes, Assistant General Manager, Administration, asked the Directors to bear in mind that a normal process for staff is to have two or three months to put together a budget but because of the Drought Emergency this year, once staff had finalized the budget numbers, they had a week and half to put together this budget. At the Finance Committee there were a lot of questions due to errors in the calculations on the spreadsheets but staff's presentation will attempt to address most of the questions and there are still some questions we are working on. One of the questions was why year after year the budget number is different from the audit number from last year. There are factors in the audit that are not in the budget because the budget is a planning tool and the audit is an accounting process, i.e., depreciations are not in the budget so unless there is a change in how things are done in the future, those two number will never be the same.

Tamara Baptista, Finance Manager, further explained why the budget process was different this year. It was unique because it was difficult to develop the budget due to the drought, and things are still changing with water supplies, loss of revenue and water conservation. Operations staff meet frequently with the retailers to discuss and update operation plans. The uncertainty of water supplies both in pricing and availability had an impact as well as evolving CIP priorities due to the drought. Staff continues to analyze the impact of the drought to insure that they provide up-to-date information.

Ms. Baptista addressed the Finance Committee's comments and questions from a meeting held two days before. More information was provided on the $3.3 million transfer from Fund 100 to Fund 120 as well as an explanation of the changes from the Board-approved budget to the amended budget. Two tables on water deliveries, one on volume of water and one on cost, were included for FY13/14 and FY14/15. A FY14/15 budget was developed with no drought surcharge; previously the budget was based on a 15% surcharge. Also included was a new budget report showing a column for FY13/14 year-to-date actuals and information on the use of reserves, as requested by the Committee.

Drought projects from Fund 120 were presented in a table showing all the projects listed and a total amount of $3.3 million. The Finance Committee asked for an explanation of the transfer from Fund 100 to Fund 120. The bulk of that transfer is to the Asset Management Plan (AMP) per a Board resolution in June 2011. This year's planned transfer is $9.5 million and, in addition to that, there is $3.3 million for the unplanned drought projects not part of the AMP. The proposed additional $3.3 million transfer from Fund 100 to Fund 120 would replenish the capital reserves in Fund 120 and increase funding available for the planned AMP projects.

Ms. Baptista gave an example of how staff got from the Board-adopted budget to the amended budget for FY13/14. The difference was the Board adopted budget amount + capital project carryovers + additional appropriations for drought + encumbrance carryovers = total amended budget.

There are three operating funds (Funds 100, 110 and 200) and three capital funds (Funds 120, 130 and 210). Only Funds 100 and 120 are affected by the drought and the Asset Management Plan Ramp-Up (the $9.5 million transfer for FY14/15). The Fund 100 budget assumes a 25% loss of water sales for calendar year 2014 and increased transfers to Fund 120 for drought projects, along with increased costs for operations and maintenance such as emergency generator rental. Per the Finance Committee's request, detail was added to the chart for All Funds in FY14/15. Based on the confusion at the Finance Committee meeting, Director Figuers came up with a better way of doing things, talked to staff and worked up graphs. Director Figuers credited Director Ramirez Holmes for triggering this as she spent a lot of time asking questions and delving into the budget detail to understand it and attempt to make things more clear and consistent for everybody. Director Figuers talked to staff and worked up "concept" graphs to show a different way of looking at the budget and said that he feels it will help with understanding it. The graphs are based on a timeline and showed the interaction of several areas instead of a spreadsheet with numbers. He said it takes a while to understand the graphs but once you understand it, it makes sense. These graphs can be created every month and it will be easier to track amounts added to the next budget, see reserves changing, and look at cash flow so mid-year the Directors will have a good idea of the status of the budget. Since funds carried over can be tracked, it will help with making decisions on reallocating money if no longer needed, allows better planning and understanding of the flow of money, plus helps spot trends.

Ms. Baptista continued her presentation by explaining details of the graphs to the Directors. She explained that Fund 100 (Water Enterprise Fund) is for the operation and maintenance of the water system and an additional column for actuals to date for FY13/14 was added to the table per the Finance Committee's request.

Fund 110 (State Water Facilities Fund) is to pay for voter-approved state debt, is a pass-through to pay for the State Water Project's fixed costs.

Fund 120 (Renewal/Replacement & System-wide Improvements) is to pay for existing infrastructure.

Fund 130 (Expansion Fund) pays for the impact the new development has on the water system and capital projects make up this budget for expenses and is funded by connection fees. Although 770 connections are projected, if there are 300 connections less than projected, the reserve balance will fall below minimum Board-approved reserve levels.

Fund 200 pays for current flood control infrastructure. Again a column was added for FY13/14 year-to-date actuals for clarity and understanding. The proposed FY13/14 budget decreased due to one-time capital projects such as watershed investments.

Fund 210, flood protection, pays for the impact that new development has on flood control infrastructure.

The recommended action is that the Board provide direction on the proposed budget.

The Directors had an opportunity to ask questions including how staff time is allocated for capital projects in the budget. There was a brief discussion on staff time and that it is coming out of the same labor pool, not additional staff being added. Vice-President Greci said that wages come out of a big pot for financing purposes, to track money and forecast staff; the final numbers are going to show that the money came from the beginning fund allocated for salaries. Director Figuers said the graph will show all projects with staff included. Ms. Duerig said that staff time is also included in the CIP estimate but not included when a specific contract is approved because that is a specific person or company to do specific work.

Director Ramirez Holmes asked additional questions such as the total dollar amount for projects for the drought and which are for FY13/14 and which for FY14/15? She is trying to figure out which projects were approved and if there is double counting. Mr. Arends said the total of the drought projects exceeded $7.2 million but this is the amount that was planned to be spent this year. Director Figuers said that from the Board's standpoint, another identifier is needed to show what came from which appropriation by project but Mr. Arends said his chart shows total appropriations only from Fund 120. Director Ramirez Holmes asked if she can still get the list of drought projects appropriated by the Board from a transfer from reserves and by fiscal year.

Vice-President Greci complimented Director Figuers on the extra work and time he put in and working with staff on the graphs presented because it is a wonderful tool and easier to read and understand than all the numbers in a table. He also encouraged Director Ramirez Holmes to come in and interact with staff before the June 18th Board meeting if she has additional questions.

Director Ramirez Holmes noted that last year a meeting was held with the retailers on the proposed budget but that did not happen this year so is the meeting planned before the June 18th

Board meeting? Ms. Baptista said they are in the process of scheduling a meeting with the retailers now. She also asked if there would be a proposed budget book distributed to the Board prior to the next Board meeting and Mr. Hughes confirmed that a proposed draft budget book will be given to the Board prior to June 18th.

Director Ramirez Holmes asked a question about Fund 120 as the numbers from the power point did not match the numbers from the board packet. Ms. Baptista replied that Fund 120 has some corrected audited actuals, the numbers from the power point are correct, and the numbers will be corrected in the Board's June 18 packet.

<u>Item 4 – 2014-15 CIP Projects (continued)</u>

Mr. Arends continued his CIP presentation.

Fund 130 - Expansion

The majority of the costs in Fund 130, Expansion, are non-discretionary commitments we have to pay such as a building lease, South Bay Aqueduct Expansion financing charges, etc. In addition we have a $2.9 million credit from the Department of Water Resources (DWR) for off-peak pumping (Dyer Reservoir) which would allow DWR to pump during non-peak hours and save costs. Because we fund a large portion of that expense, we get a large credit back for those savings. Expenditures in Fund 130 are decreasing by approximately $3.7 million for a total of $21.6 million, about a 14.7% decrease primarily from the DWR credit. Fund 130 is funded by connection fees.

Fund 200/210 - Flood Protection/General

Fund 200 is funded through property taxes and Fund 210 through development impact fees (DIF) for impervious surfaces. Most flood control projects benefit both existing and future customers because they typically take place in creeks and improve the water flow through the creek. Funds are combined so the big picture can be looked at rather than splitting project funds. The first big project is the Arroyo Las Positas Treatment Wetlands, a potential detention basin and habitat along Las Positas Creek. Staff is trying to find wetland opportunities between Lin and Shea Homes to create detention facilities in that area for potential grants. Although nothing will be constructed this year, staff is hoping to look for grant opportunities for habitat mitigation wetland type restoration projects because Zone 7 has to show that it is in the budget and something we are planning to do.

The other big project is the Chabot Canal Regional Storm Water Detention in the Camp Parks' area, working with the Dublin Crossings developer for detention facilities. There is potential downstream flooding and Hacienda Business Park experiences problems. Due to culverts and undersized street crossings, it is expensive to replace or fix them. An alternative is to provide detention facilities upstream on Chabot Canal to detain some of those flows from getting into town and causing problems. This is an opportunity to work with the developer who would actually do the construction since they will be doing their own detention projects on site. We are looking for opportunities to expand what they are currently doing or facilitate new sites on that property. Because it is for the Valley and Zone 7's protection, we would reimburse them to construct those additional facilities for us.

We are also working on finalizing our hydrologic models for the Valley and updating the Stream Management Master Plan (SMMP) and potentially it will impact the DIF. This will affect the capital program for the flood control program so a lot of staff time and proposals are included to do those updates with the majority being done in-house. That will identify future projects, funding requirements and expenditures needed to layout and update the SMMP.

Director Quigley asked about the time frame for the SMMP update and hydrology models. Mr. Arends said the modeling should be done by the end of this calendar year and hopefully an assessment of the problems identified. How long it takes to refine those and develop the plan itself has yet to be determined. Director Quigley confirmed with Mr. Arends that the work will be done predominantly with in-house staff. Schaaf and Wheeler will refine our models which are beyond staff's technical expertise.

The recommendation for Fund 200/210 is to increase expenditures by approximately $7 million to a new total of $11 million. A large amount will probably not be spent and the remainder of the funding is going to finish updating the SMMP. Zone 7 agreed with retailers and developers not to increase the development impact fee until the SMMP is updated.

Director Ramirez Holmes asked if the drought projects are not listed because they were listed in the previously-approved CIP. Mr. Arends said the drought projects were not listed in the CIP because they were unplanned at the time and do not show up in the CIP but were implemented in FY13/14. He said the projects he noted are for FY14/15 so the drought projects are not included because they are being done currently. Director Ramirez Holmes then said that in the Drought Surcharge Report it was reported that FY14/15 includes an additional $3.3 million transfer for the drought emergency projects, but those projects are not listed or are they an addition on a separate list? Mr. Arends said those were additional expenditures incurred this year which drew down the funding reserve in Fund 120 in that particular case. The recommendation being made is to replenish that funding reserve because at some point that funding has to be made up. Those projects were not planned originally out of that funding and the AMP did not include those projects so that fund will be short that amount going forward. Now it is associated with the drought and makes sense to include it with the drought action and replenish the funds from Fund 120.

Director Quigley said replenishment is the key and we aggressively spent a lot of money to build two wells that were not planned to be built for years, but we have to replenish the money. He agrees completely with what staff is doing because we spent money we had not budgeted so we adjusted our budget and now we have to replenish that fund.

Mr. Arends also had figures for the drought projects for Director Ramirez Holmes:

Chain of Lakes	$3.6 million
Cope Lake Transfer	$950,000
Busch Valley Well	$1.4 million
Union Pacific Railroad property for the Busch Valley Well	$813,000
County Property	$339,000

And an additional appropriation for the Pipeline of $100,000, for a total of $7.2 million from Fund 120 and Fund 130 for those projects.

<u>Item 5 – Proposed Drought Surcharge</u>

Ms. Baptista said following the Finance Committee's comments and the concerns raised by the retailers on the challenges they will face implementing a drought surcharge, staff recommends a 0% or no drought surcharge.

A meeting was held with the retailers on April 30 to discuss a 15% drought surcharge. After more recent discussions, the recommendation is 0%. The Finance Committee met June 2 and staff will have further budget discussions with the retailers.

Assumptions made were that the duration of the drought is related to the calendar year 2014 State Water Project allocation. Financial impacts include a 25% overall loss of water sales revenue for 2014 ($10 million). The proposed FY14/15 Fund 100 budget includes an increase in drought-related operations and maintenance costs. The proposed Fund 100 budget does include a transfer to Fund 120 to cover Fund 120's share of the drought emergency projects ($3.3 million). All of the Drought Contingency Reserve ($5.9 million) and a portion of the Rate Stabilization reserves ($8.8 million with a 0% surcharge) could be used to help cover the financial impact of the drought.

Depending upon the amount of a drought surcharge, some reserve funding could be saved. All options include using 100% of the Drought Contingency and some of the Rate Stabilization reserve. If we have a 0% surcharge, we would use $8.8 million; a 15% surcharge would reduce that amount to $6.4 million; a 25% surcharge would reduce it even further to $4.7 million; and with a 55% surcharge, we would not use any of the Rate Stabilization reserve.

Next steps: Staff recommendation was originally 15% in April when they met with the retailers. After the June 2 Finance Committee meeting and further discussions with the retailers, the new recommendation is no drought surcharge. Staff recommends consideration of replenishing reserves as part of our regular Fall water rate discussion.

Vice-President Greci said he is in favor of a no drought surcharge because we are getting close to the time when the Board will be considering water rates anyway. The Rate Stabilization reserve is there so it should be used rather than pass anything on to the retailers or the public. Director Palmer agreed.

Director Machaevich asked roughly how long it will take to rebuild the Drought Contingency and the Rate Stabilization funds. Ms. Baptista said it depends upon the water rate increases we have in the future. If we have a higher water rate increase, it will replenish the reserves quicker; a lower one or small, incremental increases will take longer. He then asked how long it took to build the current reserves. Ms. Baptista answered that the rates have varied and a Reserve Policy was just developed last year so these are new categories for staff. They took the reserve balances and allocated them.

Director Quigley said we used the Rate Stabilization fund with the last increase. He is comfortable with 0% but going forward with rate discussions, he would urge the retailers to understand that in order for those reserves to be healthy they have to be protected and managed well. He said it is common for retailers to not want rate increases but when Zone 7 is using reserves and the Rate Stabilization Fund, they have to be replenished and part of the water rate discussion.

Director Ramirez Holmes pointed out that Fund 100 is where the retailers pay us and on the estimated actuals for FY13/14, estimated actual reserves at the end of the year are $35 million and the reserve levels set by the Board to be healthy for Water Enterprise Fund 100 is between $10 million and $29.6 million so we "shot over our reserves." She pointed out to the Board that they are not dipping too far into the reserves because we are already above maximum reserve levels that we set with the Interim Draft Policy. The proposed budget reduces them but reserve levels are healthy and the retailers' concern over the years is that Zone 7 had too much and too many reserves and we should be using them instead of increasing water rates.

Public Comment

Don Kahler, Pleasanton Gravel, asked what are the Professional and Technical Services in the budget. Ms. Duerig explained that those usually include consultant services in any given fund. He then asked what fund is used for attorney fees and was told they are part of the Professional and Technical Services.

Alfred Exner, Pleasanton, asked how we are doing with conservation because we say there is a 25% conservation savings imbedded in the budget but from the Finance Committee meeting, it was understood that no one is really conserving 25%. He would like to see a bar chart on conservation. Ms. Duerig said that information will be included in the next drought report but that at least two retailers have independent pumping of ground water so it is difficult to provide total numbers on how much water is saved because they could be replacing Zone 7 water with additional pumping from their own wells.

Vice-President Greci said a 0% surcharge recommendation will be presented to the Board on June 18th. Ms. Duerig said it will be included in the budget presentation, not three separate items, but based on no surcharge.

Item 7 – Committees - Water Resources Committee, May 29, 2014 - notes

Director Figuers said there was a Finance Committee meeting on June 2, 2014. Notes are pending.

Item 8 – Verbal Reports - none

Item 11 - Adjournment

The meeting was adjourned at 8:50 p.m.