SUMMARY MINUTES OF THE FINANCE COMMITTEE
ZONE 7 BOARD OF DIRECTORS

August 28, 2012
4:00 p.m.

Directors present:	Sandy Figuers A. J. Machaevich Angela Ramirez Holmes
Zone 7 Staff:	Jill Duerig, General Manager Tom Hughes, Assistant General Manager, Administration Tamara Baptista, Financial Services Manager JaVia Green, Staff Analyst Mike Wallace, Staff Analyst Judy Rector, Board Secretary

Director Machaevich called the meeting to order at 4:08 p.m.

1. Public Comment - None

Director Figuers arrived at 4:11 p.m.

Mike Wallace, Staff Analyst in Finance, gave a presentation covering the following:

2. Preliminary Treated Water Rates for 2013-14

Mr. Wallace presented a power point presentation which included an overview of the discussion, information on water rate components, and a treated water rates proposal. Staff proposed a two-year treated water rate schedule for 2013 and 2014 based on estimated actuals. Staff originally proposed a treated water rate increase of 2.65% (CPI) for 2013 and 2.65% for 2014 along with a proposed new reserve called "Future Delta Improvements". A proposed alternative would be to change the name of the "Rate Stabilization" reserve to "Drought Contingency Reserve". After further discussion with the retailers, the proposal was revised. The new staff proposal for 2013 is for no increase (0%) and a 2.65% increase (approximating anticipated inflation) for 2014.

3. Preliminary Untreated Water Rates for 2013

JaVia Green, Staff Analyst, completed the presentation with an explanation of the untreated water rate increase to $110/af, a 20 percent increase, for 2013 due to a pass through of the cost of importing water, supplemental water purchases and program administration costs.

DISCUSSION

Revenue exceeded expenses by $5.6 million primarily due to the South Bay Aqueduct shutdown and purchasing less water from the Department of Water Resources, lower chemical costs due to participation in the chemical consortium, cost-saving initiatives associated with the soft-hiring freeze, and reduction in professional and maintenance services as Zone 7 has continued to do more work in-house.

Director Figuers stated that there was a confluence of fortuitous events that led to the cost savings.

Director Ramirez Holmes asked questions about the untreated water rate. The untreated water cost last year was $92/af. Ms. Green explained that the $18 increase is due to the rise in the cost of untreated water purchased from the Byron Bethany Irrigation District (the rate that we buy the water has gone up by $8/af) and we pay a variable rate water charge to the State Water Project to convey the water through the South Bay Aqueduct to Zone 7 (the rate has gone up by $12/af). Another component is staff costs. The cost has risen to $20 but staff is recommending an $18 increase. Changes to the untreated water rate are considered annually. The discussion continued about treated water rates and the committee voted on the untreated water rate later in the meeting.

Director Figuers asked what would happen if the rates were decreased by 2.65% for 2013 and 0% for 2014 and asked for a ten minute recess so staff could calculate the numbers for a revised scenario and create Version B.

Director Figuers asked for comments from the retailers in the interim. A meeting was held with the Retailers on August 23, 2012 to review preliminary water rates. The Retailers expressed support for presenting a single proposal covering a two-year period. The Retailers also suggested establishing a workgroup to discuss Zone 7's future financing, including funding for future Delta improvements and debt financing.

Dan Martin, City of Pleasanton, feels Pleasanton's position has been consistent for wanting lower rates. They appreciate Zone 7 looking at the cost savings from last year to reduce water rate increases.

Lori Rose, DSRSD, feels that since DSRSD does a pass-through, decreasing the rate would present a logistic challenge for the retailers. Considering the amount of the funding is not significant, they would like to continue the trend of no increase and holding the rate steady while utilizing the reserves to offset future increases. The retailers do appreciate the alternate proposal for two years of 0% increases.

Darren Greenwood, City of Livermore, agreed and said he would be agreeable to banking some of the reserve money.

John Freeman, California Water Service, supports the 0% increase but if there is a rebate, Cal Water can handle the logistics for customers.

Ms. Rose said that when there are significant undesignated reserves, why raise rates and 0% for two years seems appropriate. The fact that there is $14 million in reserves that are unrestricted is a concern to the retailers. Rate increases may have been implemented unnecessarily in past years. It is prudent to utilize reserves and have increases that are reasonable. Zone 7's rate increases had historically been in alignment with the Consumer Price Index (CPI) but that trend ceased and some significant rate increases were adopted. All of the retailers would be happy to get back into the mode of having the increases related to the CPI for administrative and operating costs.

Tom Hughes, Assistant General Manager, Administration, discussed the challenge of a two-year budget and 0% and 2.65% proposed for the two years. He feels that 0% for both years is gambling that costs won't rise the second year. He encouraged the board members to pay attention to the projection for 2015 because the increase could be 5.5%.

Director Machaevich feels Zone 7 has tightened its belt and controlled rising costs. He also stated that if Zone 7 approves a 0% increase, maybe it should be approved for a single year.

Dan Martin agreed with small increases over time and using surpluses and excess reserves to minimize rate increases.

Darren Greenwood asked if we go back to the first revision, 0% and 2.65%, and at the end of the first year our projections come in higher and there is extra money, rate is 0%, we have extra revenue but are facing a 2.65% increase, what would Zone 7 propose to do then? Go ahead and let the 2.6% happen or approve two years at 0% now?

Director Figuers said it is time to try to help the retailers. His preference is 0% for both years.

Version A: original proposal for 0% in 2013 and 2.65% in 2014
Version B: 0% for both 2013 and 2014
Version C: -2.5% in 2013 and 0% in 2014

Director Ramirez Holmes moved and Director Figuers seconded a motion that staff present Versions A & B to the board at the September 19th board meeting. The motion was approved by Directors Figuers, Machaevich and Ramirez Holmes by a unanimous voice vote of 3-0.

Ms. Green asked the committee for a recommendation for the full board's consideration for the untreated water rate. Director Ramirez Holmes, a new board member, asked for the history of untreated water rates to help her have a better understanding of the background of increases. There was a discussion of how the untreated rate increase is based on the cost of purchasing the water plus actual staff costs so surplus money only affects treated water rates.

Director Machaevich moved and Director Figuers seconded a motion to approve the 20% untreated water increase for 2013 but Director Ramirez Holmes abstained. The motion was approved and the recommendation will be presented to the full board on September 19th.

4. Verbal Reports

Director Figuers asked that the full board look at reserve funds and the financial framework of Zone 7. He would like staff to make a presentation to the Board on all funds and reserve funds. Ms. Duerig reminded the committee members that a Financial Framework has been adopted but that this could be a part of developing a Financial Master Plan and/or reserve policies under the Strategic Plan.

Director Ramirez Holmes asked for a history of debt financing and how it is used. Director Figuers answered that Zone 7 has historically been conservative about debt financing.
Ms. Duerig added that Zone 7 has allowed others to incur debt on Zone7's behalf such as DWR's bonding of the South Bay Aqueduct Enlargement and Improvement Project and Cawelo's capital improvements, both of which are part of the fixed costs in the connection fee calculation.

5. Adjournment

Since there were no further questions or comments, the meeting was adjourned at 5:15 p.m.