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

REGULAR MEETING
September 16, 2009

President Quigley called the regular meeting to order at 6:00 p.m. The following were present:

DIRECTORS:	SANDY FIGUERS JOHN GRECI STEVE KALTHOFF CHRISTOPHER MOORE SARAH PALMER DICK QUIGLEY
DIRECTORS ABSENT:	BILL STEVENS
ZONE 7 STAFF:	JILL DUERIG, GENERAL MANAGER AMY NAAMANI, GENERAL COUNSEL KURT ARENDS, ASSISTANT GENERAL MANAGER, ENGINEERING VINCE WONG, ASSISTANT GENERAL MANAGER, OPERATIONS JOHN YUE, ASSISTANT GENERAL MANAGER, FINANCE TAMARA BAPTISTA, SENIOR STAFF ANALYST JAVIA GREEN, STAFF ANALYST TOM PICO, HUMAN RESOURCES ANALYST BARBARA MORSE, BOARD SECRETARY

Item 3—CLOSED SESSION—6:00 p.m.

a) Conference with Legal Counsel - Existing litigation pursuant to Subdivision (a) of Government Code Section 54956.9: 4 cases

1) Alameda County Flood Control & Water Conservation District, Zone 7, et al. v. California Department of Water Resources, Sacramento Superior Court Case No. 05AS0177

2) Central Delta Water Agency and South Delta Water Agency vs. California Department of Water Resources, et al.; United States District Court Eastern District Case No. 1:09-CV-00861

3) Alameda County Flood Control & Water Conservation District, Zone 7 v. Dennis E. Baca, et al., Santa Clara County Superior Court Case No: 1-08-CV-123203

4) Alameda County Flood Control & Water Conservation District, Zone 7 v. Oakland Scavenger Company, et al.; Alameda County Superior Court Case No: VG06293139

b) Conference with Labor Negotiators:
Agency Negotiator: G.F Duerig
Employee Organization: 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

Unrepresented Employee: Production Manager
Represented Employee: Water Systems Superintendent
Represented Employee: Construction Maintenance Laborer

c) Government Code Section 549547: Public Employee Performance Evaluation
Title: General Manager

Item 4—OPEN SESSION AND REPORT OUT OF CLOSED SESSION—7:20 p.m.

a) Existing Litigation:

Ms. Naamani reported that in the matter of Alameda County Flood Control and Water Conservation District, Zone 7, v. Oakland Scavenger & Waste Management, the Board of Directors by unanimous vote, approved the settlement of the eminent domain case to acquire property from the defendants for $87,500.00 inclusive of interest and costs.

b) Conference with Labor Negotiators:

Director Moore moved for the adoption of Resolution No. 10-3328 approving an adjustment to the salary of the position of Water Systems Superintendent, Zone 7, to be effective for the period June 28, 2009 through June 27, 2010. The motion was seconded by Director Kalthoff and passed 6-0-0 by a called voice vote.

Director Moore moved for the adoption of Resolution No. 10-3329 approving an adjustment to the salary of the Construction Maintenance Laborer, Zone 7, to be effective for the period June 28, 2009 through June 27, 2010. The motion was seconded by Director Greci and passed 6-0-0 by a called voice vote.

Director Moore moved for the adoption of Resolution No. 10-3330 approving an adjustment to the salary of the Production Manager, Zone 7, to be effective for the period June 28, 2009 through June 27, 2010. The motion was seconded by Director Kalthoff and passed 6-0-0 by a called voice vote.

There will be a Special Closed Session Meeting on September 29, 2009 at 6:00 p.m.

President Quigley stated that there were no further reports out of Closed Session.

Item 5—Citizens Forum

Mr. Jim Horen, Principal Engineer, Water Supply Engineering, addressed the Board about what he called a major, systemic issue at Zone 7. He said the fact that this issue has arisen was a source of great sadness for him because he has always thought of Zone 7 as an excellent organization with a great Board and staff. He requested that the Board create either an ad hoc committee or use some other mechanism, to immediately investigate, via direct interviews, to obtain the widest possible staff feedback on the state of Zone 7 and what can be done to make it a better organization. He believed this would improve the low state of staff morale which exists in the agency today. He gave several examples of why he was making this request:

1) A recent document given to the Board which implies that the reason the Zone 7 Principal Engineers joined the management union, ACMEA, was because they may have a problem with accountability. Mr. Horen stated unequivocally that this was not the case. Neither he nor any of the other Principals have a problem with accountability. The reason the Principals joined ACMEA was to have a “voice” to be better able to communicate with Zone 7’s Executive Management.

2) Mr. Carl Morrison, Morrison & Associates, was recently awarded a contract to assist Zone 7 in preparing a strategic plan. As part of this work, Mr. Morrison conducted detailed interviews with Zone 7 managers (both executive management and mid-level

managers). Many employees bared their souls to Mr. Morrison in the hopes that the information would be communicated to the Board and that it would ultimately be used to develop a plan that would make Zone 7 a better place in the future. That hoped for result absolutely did not occur. The eight-page draft strategic plan prepared by Mr. Morrison reflected very few of employee comments; it was as if Zone 7 management employees had never been interviewed.

3) The draft Management Partners report. In the current challenging economic times, it is recognized that each organization must take a critical and comprehensive look at the way it does business to ensure efficient operations. Everyone at Zone 7 understands the need for us to do the same. However, it is the part of the proposal that recommends handling personnel matters internally through a Zone personnel commission rather than through the existing Alameda County Civil Service Commission that has many people very concerned. Disregarding any inefficiencies of the current system, we all understand that the existing system at least represents a third party review of any disputes. An internal review body, by definition, cannot provide this same level of objectivity. In addition, the answers, and lack of same given recently to staff regarding this proposal have not helped to calm the widespread concern over this potential change.

4) Lastly, a recent hastily jammed through, seemingly underfunded, review by consultant Tully Pruitt of about 30 management staff members current job responsibilities, has some concerned about potential demotions or other major personnel changes.

Mr. Horen wrapped up by urging the Board to take additional time to directly communicate with a wide range of staff to best evaluate and Zone 7's future path and to make it a successful one.

Mr. David Lunn, Principal Engineer and Water Resources Manager for Zone 7, stated that he has worked at Zone 7 since January 1980.

Mr. Lunn told the Board that it has always been a privilege to stand before the Board and discuss the wonders of water management. The community needs to hear and we all need to understand how the integration of surface water and groundwater provides the reliable water that our community needs. He continued that it had been a pleasure dedicating his career to studying our watershed, groundwater basin and the state water system. It has been a pleasure to work with the community on developing an integrated plan to manage the Valley's water resources over the first 20-25 years of his career.

He noted, however, that tonight he did not have a pleasant topic to discuss. It saddened him to have to speak on this matter because he always thought that loyalty to Zone 7 also meant supporting the management appointed by the Board, working through the established communication channels and working as a team member. He had come to the realization that this has not been working. He commended Athena Watson and others for having the courage to speak to the Board last month.

The culture at Zone 7 has changed—changed from serving the community to serving the General Manager. He felt there are many things that he could talk about but the most important is that executive management excludes the talented, knowledgeable, and experienced staff from the decision making process. These dedicated people are shunted aside, kept out of discussions, unaware of agency strategies on key issues. The monthly agenda package is often the main source of information and observing board meetings provides the only window into what executive management thinks.

Mr. Lunn continued by saying that he felt it was time for the Board to control the direction of Zone 7. The Board needs to talk to many people: staff, the community, the retailers, to untreated water contractors and to other landowners within the watershed. Then synthesize its own assessment of what is going on and how best to move Zone 7 forward. He warned the Directors to be very wary of "word-smithed" talking points. The Board needs to do its own homework because the future of Zone 7 as a water resources management agency is at stake. The choice is either to follow the opinions of an exclusive group or work inclusively on providing good water resource management for the whole community.

Mr. Lunn closed by stating that he and many others are willing to discuss specifics with the Board in a different forum, and he thanked the Board for listening to his point of view.

There were no further public comments.

Item 6—Minutes of the Special Meeting of August 18 and the Regular Meeting of August 19, 2009

It was noted that some typographical errors in the two sets of minutes had been found and corrected; namely, Mr. Wong attended neither meeting; and at the regular meeting of September 19, 2009, the meeting was called to order by President Quigley not President Palmer.

On a motion by Director Palmer with second by Director Moore, the Board unanimously approved the minutes of the Special Meeting of August 18, 2009 with corrections as noted.

On a motion by Director Greci with second by Director Palmer, the Board unanimously approved the minutes of the Regular Meeting of August 19, 2009 with corrections as noted.

Item 7 —Consent Calendar

On a motion by Director Moore with second by Director Greci, the Board approved Consent Items 7a and 7b by a vote of 6-0-0. The following resolutions were approved:

Resolution No. 10-3331	Approving request to nominate Director Quigley to ACWA's Local Government Committee and authorizing his attendance and reimbursement for actual and necessary expenses at any additional ACWA meetings this membership may entail. (Item 7a)
Resolution No. 10-3332	Authorizing Director Palmer's and Quigley's participation in ACWA Region 2 Program and Bus Tour, "Northern California's Critical Need for Surface Water Storage," October 15, 2009. (Item 7b)

Item 8—Staffing Update

a. New Employee Introduction: Ms. Duerig introduced Mr. David Albrecht, Electrician, in the Maintenance Department at Del Valle Water Treatment Plant.

b. Employee of the Month: Ms. Duerig announced that the Zone 7 Employee of the Month program is beginning as the result of a Board action in April 2009. A nomination committee met in August and selected the first Employee of the Month according to the established program guidelines. For July 2009, the honoree is Mr. Rich Gould, Water Facilities Supervisor. Mr. Gould will get one day off. Future winners of this honor will be announced at board meetings.

Item 9—Preliminary Treated Water Rate for 2010

The Board heard a presentation on the Preliminary Treated Water Rate for 2010 by Ms. Baptista.

Highlights of the presentation:

Purpose/Background:

- Treated water rates are set annually to:
  - fund annual operations and long-term capital needs of the Water Enterprise;
  - enable Zone 7 to fulfill its mission within funding limits and regulatory requirements
- Water rates are developed within set guidelines:
  - 3% target for budget increases
  - designated reserves to offset increases in areas over which there is little control, i.e., chemicals, personnel and utilities.
  - 2004 Asset Management Plan (AMP) recommended increasing annual contribution to Renewal/Replacement & System-Wide Improvement Funds from $4 million to $10 million. This was to be accomplished in phases; however, Zone 7 has never achieved the $10 million transfer.

Recent Issues

- Bay Delta issues/increased operating costs.
  - Court rulings which have decreased water supply from the Delta.
  - Conservation efforts have resulted in decreased revenue.
- Slow housing market translates to less revenue from connection fees and lower water sales.
- Chemical costs to Zone 7 which are higher than budgeted estimates.
- New program: Mocho demineralization—O&M will be funded from the enterprise fund.

Water Rate Components

A. 5-year Retailer Water Delivery Request.

B. Operating expenses.

C. Water Rate Contribution to Capital Fund. *Annual transfer from the Water Enterprise to the Renewal & Replacement System-wide Improvement Fund. AMP is being revisited to determine the appropriate amount of the transfer.*

D. Financial Management/Planning

E. Rate Stabilization Fund.
  - Purpose is to mitigate water rate fluctuations.
  - Current balance is $5 million.
  - Though approved for use in CY 2009, the Rate Stabilization Fund was not used.
  - Rate Stabilization Fund may be needed for CY 2010.

  - Operating Expenses

- $35.5 M for FY 2009/10
- $35.1 M for FY 2010/11 (0.4% decrease)
- Increases in some areas are offset by the soft hiring freeze. Additionally, some maintenance costs for contractors are being shifted to personnel costs as permanent employees are hired.

Alternative Steps Summary

At the Finance Committee meeting of August 27, 2009, Five Alternatives, each using different assumptions, were presented. Those Alternatives are summarized below:

Alternative 1— Baseline with updated FY 08/09 actuals; and 5-year retailer delivery requests, using same assumptions as last year. numbers; uses same assumptions as last year: 15% increase.

Alternative 2—Recognizes the 20% in 2020 legislation by adding $800K/yr for conservation programs until 2020 and removed the 5% discount budget factor: 11% increase.

Alternative 3—Included cost saving initiatives, e.g., soft hiring freeze: 9.5% increase.

Alternative 4—Adds $1M for 3 years to the fund transfers, plus a 1.5% temporary infrastructure charge in recognition of the slow housing market: 9.5% increase.

Alternative 5—Alternative 3 with a reduction of $400K/year for conservation programs until 2020: 9.25% increase. *The retailers requested the decreased amount for conservation programs.*

The Finance Committee recommended Alternative 5.

Alternative 5 recommended rate:

- Treated water rate for CY 2010 of $878/AF *($74 increase over CY 2009)*
- Estimated cost increase to customer is $3.08/month

Ms. Baptista then answered questions by Board Members regarding the presentation.

<u>Public Comment:</u>

Ms. Lori Rose, Financial Services Manager at DSRSD, began by thanking Zone 7 for meeting with the retailers early in the process. She wanted to clarify that of the options that were provided, Alternative 3 was the one the retailers felt they could support. They also appreciated staff listening to the retailers on the conservation issue and reducing the amount of money set aside for conservation programs from $800K/yr to $400K/yr. However, the retailers continue to be troubled by the ramp up of the fund transfer which is recommended by the 2004 Asset Management Plan. It is hoped that different results are obtained from the update of the AMP that will be taking place later this year. She explained that it is as if you collect $10M/yr for five years from the current customers and then you build some facility. At that point, you're done, you've spent all the money, and then your transfer would drop dramatically because you're in maintenance mode. So is it fair to have the current customers pay significant amounts year after year to pay for a future facility, and then the customers that are there at the time the facility comes on line, their rates suddenly go down? For the retailers that is the key concept and why most agencies use prudent debt strategies to get through those periods when there are really large projects. The retailers would like the Board to reconsider its position on debt because under certain circumstances it can be a very helpful tool.

Ms. Rose continued by saying that she remembered the days when Zone 7 was very proud that their rate increases were under the CPI. She thought it would be interesting to do another alternative model which used the current CPI increase of less than 1%. What would it look like and what kind of a transfer could it support. She believed that the public would understand a CPI but she did not feel that they understand a 16% increase following years and years of 10% increases. Representing the community, she stated that people are angry and are suffering because of the poor economy. In fact, at DSRSD, five people were laid off, three people took early termination packages and everyone, except Local 39 union, took salary freezes and every employee at DSRSD is taking 80 hours of furlough this year. The other cities have had similar cost control measures. Those are all to be able to control costs. She applauded that Zone 7 is looking at ways to control costs. She could tell that there is a lot of angst in the organization as evidenced by the employees but the Board's job is to balance the community and the agency's needs. The retailers appreciate the Board looking at the alternatives in order to save costs long term.

Ms. Duerig thanked Ms. Rose and stated that DSRSD has been very helpful in looking at cost savings on the personnel side because they have had to take some pretty draconian actions. In terms of numbers of employees, DSRSD is similarly sized to Zone 7. An e-mail from DSRSD's Human Resources Manager, Mary Gordon, stated that their voluntary resignations and layoffs have amounted to a $769,000 savings.

Ms. Duerig continued by saying that Zone 7 is achieving that through our soft hiring freeze. We are at nearly a $1M savings ($978,000). We are lucky in that our attrition has allowed us to achieve that level of savings in this time when we need it most. She sympathizes with agencies that are having to take more draconian steps but Zone 7 is also doing a pretty good job. She also noted that with the soft hiring freeze it means that existing staff must work harder to make up for those positions not filled. Staff does not always get recognition for those efforts but she wanted to make sure they get the recognition at this time.

Mr. Yue thanked Ms. Rose for the comments about the CPI. However, we also have to deal with expense components that have nothing to do with the CPI; for example, Bay Delta costs. Just 18 months ago they were a fraction of what we've been experiencing. Also, no one could have predicted how much chemical costs would increase.

There were no further questions.

The CY 2010 Treated Water Rate will be on the October 21, 2009 agenda for Board action.

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Director Moore left the meeting at 8:10 p.m., because of travel arrangements.

<u>Item 10—Preliminary Untreated Water Rate for 2010</u>

Ms. Baptista then presented the calculations for arriving at the untreated water rate for CY 2010 of $163 per acre foot which is a reduction over the 2009 untreated rate of $181 per acre-foot.

- The Untreated Water Rate is based on the cost of State Water Project water (transportation and facilities charges), Byron-Bethany Irrigation District water and an administrative fee based on actual staff costs.
- A rate decrease of 10% or $18/acre-foot is being proposed for the upcoming year, resulting in an Untreated Water Rate of $163 per acre-foot for 2010.
- The decrease is primarily due to lower per unit estimates from the Department of Water Resources for the cost of transporting water, no additional Delta Water charge and lower administrative costs.
- The recommendation is to adopt an untreated water rate of $163/AF at the meeting of October 21, 2009.

Director Palmer asked if the untreated customers passed on their increases.

Ms. Duerig responded that she didn't know but she assumed it would be passed on in some fashion.

There were no other Board comments.

There were no public comments on this item.

This item will appear on the agenda of October 21, 2009 for action.

<u>Item 11—Draft FY 2010/2011 Capital Improvement Program Document: 10-Year Water System Plan and 5-Year Flood Protection Plan</u>

The Board heard a presentation by Ms. Green on the Draft FY 2010/2011 Capital Improvement Program Document: 10-Year Water System Plan and 5-Year Flood Protection Plan.

- The Draft Fiscal Year 2010/11 Capital Improvement Program document prioritizes projects to be implemented for the Water and Flood Protection Systems, beginning with FY 2010/11.

- The CIP includes: a description of the process used to develop the CIP; a summary of the capital programs, key projects, expected costs over the next ten years (Water System) and five years (Flood Protection System), and a comparison with the FY 2009/10 CIP document; cash flow projections for the various capital funds based on anticipated revenue and planned expenditures; and, an overview of the key issues impacting the CIP.

- The Draft CIP Executive Summary was presented to the Zone 7 Finance Committee on August 27, 2009 and the entire document was distributed to the Zone 7 Board of Directors and the Retailers on September 11, 2009.

- This item is for information and discussion only at tonight's meeting. Staff will incorporate comments from the Board and the Retailers, then will bring forward the CIP for adoption at the October 21, 2009 Board meeting.

Highlights of the presentation:

Water System Summary

- 61 projects totaling $640 million
- 9 program areas including water supply and conveyance, water treatment facilities, transmission and distribution, wells, groundwater basin management, etc.
- Water Conservation programs: $4M over the next 10 years.

Water System CIP Overview

Driven by capital projects/programs needed to:

- Renew/replace existing infrastructure (Fund 72): $36M estimated over the ten-year CIP
- Improve or upgrade existing infrastructure (Fund 72): $69M estimated over the ten-year CIP
- Expand or acquire new infrastructure to meet demands of growth (Fund 73): $536M estimated over the ten-year CIP

Major Changes

FY 2010-2011 CIP is approximately $54M more than the FY 2009-2010.

Fund 72 - Changes

- Increases come from additional projects and increased funding or expanded scopes of work for existing projects.
- The 2004 Asset Management Plan will be revisited to come up with an appropriate fund transfer in order to lessen the burden on water rate payers. Results of the new AMP should be available by spring 2010.

Fund 73 – Changes

- One new project: Cope Lake Facilities and Improvements.
- Fund 73 projects recommended for deferral
    - AWTP Phase 1 to 2016
    - AWTP Phase 2 to 2020
    - Altamont Pipeline, County Reach
    - Second GW demin facility to 2020
    - Well Master Plan Wells 3, 4 & 5 to 2016
    - Sinking funds contributions—stop making contributions until 13/14 when cash flow should improve. Payback will occur with interest.
- Near term funding shown to be adequate to complete projects assuming deferrals (shown above) are made.
- Draw on ISA (Installment Sales Agreement) recommended to make up decreased connection fee revenue and to maintain acceptable fund balance.
- Staff recommending $30 million draw on ISA by end of December 2010.

Installment Sales Agreement:

- The proposed $30M draw on the ISA would reimburse Zone 7 for the cost of the Altamont Pipeline, Livermore Reach.
- The deadline for such a draw is December 2010 (18 months after substantial completion of the AWTP Livermore Reach).

  August 27 Finance Committee discussed the $30M draw on the ISA and felt the full Board should discuss this important action.
    - Feasibility of several small draws.

- Recommendation for month by month cash flow for a better snapshot of when the draw would be necessary.
- Recommendation to reconvene Finance Committee before any draw on the ISA is made.

Highlights of Five-Year Flood Protection System Plan

- Goal: provide flood protection as well as provide community and environmentally sensitive uses of Livermore-Amador Valley streams.

- Funded by:

  - Property taxes (Fund 50)
  - Development Fees (Fund 76)

Fund 50

- First priority are projects that replace and repair existing facilities to maintain the integrity of the existing flood protection system.

- 12 renewal, replacement and repair flood protection projects totaling $9.7M:
  - Administration & Engineering building.
  - Administration & Engineering building-sinking fund.
  - Access road maintenance.
  - Sediment removal from existing channels.
  - Fences and gates.
  - Landscaping and hydroseeding.
  - Embankment repair.
  - Asphalt driveways.
  - Concrete v-ditches.
  - New drain structures.
  - Vegetation abatement.

Fund 76

- Flood Protection and Storm Water Drainage Development Impact Fee Fund.
- Zone 7 Board adopted Ordinance 2009-01 which replaced the Special Drainage Area 7-1 Ordinance.
- Fund 76 holds all fees collected from future development in support of Zone 7's flood protection and storm water drainage activities.
- Ordinance 2009-01 included a five-year phasing schedule
  - Current fee: $0.783/sf of impervious area
  - Year 1 (1/1/10): $0.87 + ENR adjustment increasing in Year 5 to $1.42 + ENR adjustment
  - First five years of fee collection will be used on the top priority project: Phase 1 improvements in the regional storage/detention system at the Chain of Lakes.
  - Zone 7 staff will continue to evaluate additional funding mechanisms to support and implement the SMMP, and, therefore, did not project significant expenditures for future expansion projects over the next five years.

Recommended action:

- Take Board and retailer comments on the Draft CIP and adjust as necessary.
- Present to full Board in October for adoption.

Discussion:

Board discussion centered on the potential draw from the ISA and how economic conditions would affect repayment. It was noted that payments would be interest only but there is a balloon payment that would be due by January 2014. Assurances were given that before a draw was made on the ISA, the Board would be consulted.

Mr. Randy Werner, City of Livermore, called attention to the last slide before the Recommended Actions. On the slide labeled "Fund 76," the bullet for Year 3 of the five-year phasing schedule should reference "collecting agencies" not "retailers."

Director Figuers asked the retailers present if they had any concerns with Zone 7 financing options.

Ms. Lori Rose, DSRSD, stated that as a finance person, she predicted a 3 to 5 year period for recovery of the economy. That is why many agencies borrow. Agencies can raise fees all they want but if nothing is selling, no revenue is coming in. DSRSD borrows. With a good loan it would be prudent to borrow. She also added that if there is no growth then we may not need the Altamont WTP. You have to look at revenue and the need for the facility. The best projections are based on what is happening at the moment.

There was no further discussion.

The FY 2010/2011 Capital Improvement Program Document: 10-Year Water System Plan and 5-Year Flood Protection Plan will be on the October 21, 2009 agenda for adoption.

Item 12—Management Partners Comprehensive Economic and Operations Analysis – Draft Report and Presentation

Mr. Yue introduced Mr. Andy Belknap, Regional Vice-President, of Management Partners to begin tonight's presentation. Other members of the study team in attendance were: Ms. Tammy Letourneau, Senior Manager, and Mr. David Jensen, Senior Advisor.

Highlights of the presentation:

Purpose of Assessment

- Analyze the advantages and disadvantages of Zone 7 continuing to use Alameda County support services to improve the efficiency and effectiveness of Zone 7.
- This study was about how to optimize Zone 7 operations; it is not an evaluation of the effectiveness of County services.

Context of the Study

- Ensure effective and efficient service delivery for Zone 7's rate payers
- Costs of County services vs. in-house
- Concern over time it takes to conduct routine business

Service Areas Analyzed

- Financial Services
- Risk Management
- Human Resources (Tabled for now)
- Information Technology
- Benefit Administration
- Other Support Services

Each service area was analyzed for:

- Efficiency of the service provided
- Cost
- Efficiency improvements from the elimination of duplicate functions have not been cost estimated, but is significant

Results of the Analysis

- Zone 7 is currently spending over $1.2M per year for County services and if Zone 7 separates from the county it would only cost approximately $877,000 annually to perform the services in-house.
- Zone 7 staff have developed extra processes to accommodate and/or work around the County system which creates inefficiencies, e.g., budgeting and payroll. (More detailed examples in the budgeting and payroll were given)
- While difficult to quantify, the second factor (improving efficiency and staff productivity) is much larger than the first.

General Recommendation

- Work with Alameda County to transition support services to Zone 7.
    - Actual transition of services is proposed for two separate phases:
        - Phase 1 – Finance, Risk Management and Information Technology
        - Phase 2 – Human Resources and Benefits (Delay at least six months)
- Retain the general labor contracts with County Public Works and General Services (costs determined to be reasonable and services efficient).

Financial Services Recommendations

- Estimated savings to Zone 7 of $16,829 by doing the work in-house.
- The consultant then reviewed specific recommendations in the areas of budgeting, accounting, internal control, payroll, tax collection services, accounts payable, accounts receivable, and purchasing. Potential cost savings for each area were also given.

- Those included but were not limited to:

    - Change from fiscal to calendar year; review accounting procedures and software; develop own CAFR and other financial reports; keep more accounts payable/receivable services in-house utilizing existing staff; open commercial bank account; consider outsourcing payroll to a private provider; implement a 2-year budget cycle; develop internal purchasing policies and procedures; explore purchase card program.

Risk Management Recommendations

- Estimated increase of $93,289 annually for Zone 7 to take over.
- Pursue membership in a joint power insurance authority for insurance coverage, e.g. ACWA.

Information Technology Recommendations

- Estimated savings of $40,365 annually for Zone 7 to take over.
- Outsource e-mail filtering.
- Assume control of data lines from County.

Human Resources and Benefit Administration Recommendations (Phase II-Future)

- This part of the study is on hold for at least six months.
- Estimated cost savings to Zone 7 of $94,689 by doing the HR work in-house.
- Estimated cost savings to Zone 7 of $22,641 by doing the Benefit Admin work in-house.
- Specific recommendations within the area of Human Resources include: seek county approval to administer Civil Service Rules internally; establish own policies and procedures for recruitment, disciplinary procedures, etc.; administer and manage benefit programs in-house; join insurance pool; administer benefits in-house and address changes through meet & confer process; join joint powers insurance authority or contract with a private insurer; separate MOUs from county to have flexibility to investigate enhanced retirement.

Other Support Services Recommendations

- No change in use of County Public Works and General Services

Summary Financial Impact of Recommendations for All Service Areas

- Revenue
    - Potential revenue increase: $1,000,000 annually (through improved investments)

- Expenditures
    - County charges: reduced by $1,063,663 annually
    - Zone 7 costs: Increased by $708,170 annually
    - Zone 7 savings: $355,493 annually (based on full implementation)
    - Estimated one-time cost for separation of services: $193,000

Transition Planning

- Actual transition of services is proposed for two separate phases
    - Phase 1 – Finance, Risk Management and Information Technology
    - Phase 2 – Human Resources and Benefits

- Draft business plans have been developed for each service area which includes:
    - Key implementation steps
    - Specific action steps

- o Resource needs
- o Position responsible for overseeing each step
- o Timeline

The Board Administrative Committee supports the following staff recommendations:

1. Receive and accept the final report from Management Partners.

2. Direct staff to transition the financial and business services from County support.

3. Authorize staff to continue discussions with County staff to determine the best process to accomplish the separation and timing of the transition for each financial and business service area.

4. Authorize staff to begin discussions with unrepresented staff and, to the extent permitted by the unions and the MOU's, directly with represented staff, regarding the report and HR, civil service and benefit recommendations.

5. Authorize the General Manager to negotiate and finalize a professional services agreement with Management partners not-to-exceed $117,000 for support to transition finance and other non-human resources related activities.

In response to a question from the Board, Mr. Belknap stated that Alameda County is interested in working with us at this time.

There were no further Board questions.

President Quigley asked for public comment, and there was none.

Director Kalthoff moved for the adoption of Resolution 10-3333 which approves the following actions:

1. Receive and accept the final report from Management Partners;
2. Direct staff to transition financial and business services from County support;
3. Authorize staff to continue discussions with County staff to determine the best process to accomplish the separation and timing of the transition for each financial and business service area;
4. Authorize staff to begin discussions with unrepresented staff and labor unions and, to the extent permitted by the unions and the MOUs, directly with represented staff, regarding the report and HR/civil service/ benefit recommendations; and
5. Authorize the General Manager to negotiate and finalize a professional services agreement with Management Partners not-to-exceed $117,000 for support to transition Finance and other non-human resources-related activities.

The motion was seconded by Director Figuers and passed by a vote of 5-0.

Item 13—Committees

a) Administrative Committee: Meeting of August 25, 2009—Minutes presented. Topic was the Management Partners study.

b) Joint Zone 7/DSRSD Liaison Committee: Meeting of August 25, 2009—Minutes presented. Topics related to water supply and recycled water use. *Director Quigley had a clarification to the minutes of the Joint Liaison Committee. On page 4, first full paragraph, Director Quigley said that 80% of Zone 7's water supply is imported. Of that 60% is used for irrigation and much of it ends up in the arroyos flowing out of the Valley.*

c) Finance Committee: Meeting of August 27, 2009—Minutes presented. Topics were annual audit, preliminary treated and untreated water rates and the 10-year Water System CIP and the 5-year Flood Control CIP.

d) Administrative Committee: Meeting of September 10, 2009. Topic was to receive employee comments on the Management Partners study. *Minutes will be available next month.*

<u>Item 14—Items for Future Agendas—Directors</u>

President Palmer brought attention to the Zone 7 Mission Statement. She noted that the version found on the Zone 7 website does not match the original version of the mission statement. She requested that a correction be made to the website. The approved Zone 7 Mission Statement follows:

> Zone 7 Water Agency is committed to providing a reliable supply of high quality water and an effective flood control system to the Livermore-Amador Valley. In fulfilling our present and future commitments to the community, we will develop and manage the water resources in a fiscally responsible, innovative, proactive and environmentally sensitive way.

Ms. Duerig stated that is an oversight, and it will be corrected.

Regarding the website, Ms. Duerig added that Ms. Boni Brewer will be posting agenda items on the Zone's website—something that has not been done in the past.

President Palmer remarked that the Zone 7 website has been looking good and is coming along nicely.

<u>Item 15—Reports—Directors</u>

a. Written report by President Quigley
b. Verbal reports

President Quigley noted that the recent CSDA meeting held at LARPD in Livermore was well attended with 35-38 people in attendance. The whole group is very interested in water and what we are doing at Zone 7.

<u>Item 16—Staff Reports</u> (Information items. No action taken.)

a. General Manager's Report
b. Recent & Upcoming Public Outreach Activities
c. State Legislative Update
d. Evaluation of Ozone and Peroxone for Water Quality Enhancement at the Del Valle and Patterson Pass Water Treatment Plants – Project Status Report
e. Verbal Reports

As an update on the water bills before the legislature, Ms. Duerig noted that the five bills had been consolidated into one and it did not go through. That means a special session may be called to deal with water issues, or it may wait until next session.

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Item 17—Upcoming Board Schedule

(All meeting locations are 100 North Canyons Parkway, Livermore, unless otherwise noted)

a) Special Closed Session Meeting: September 29, 2009, 6:00 p.m.
b) Regular Board Meeting: October 21, 2009

There was no further business, and the meeting was adjourned at approximately 9:45 p.m.