

ZONE 7 BOARD OF DIRECTORS
SUMMARY NOTES OF THE FINANCE COMMITTEE

March 5, 2019
9:00 a.m.

Directors present: Sands Figuers
Dick Quigley
Angela Ramirez Holmes

Staff present: Valerie Pryor, General Manager
Osborn Solitei, Treasurer/Assistant General Manager - Finance
JaVia Green, Financial Analyst
Amanda Rogers, Acting Executive Assistant

President Ramirez Holmes called the meeting to order at 9:03 a.m.

1. Public Comment on Items Not on the Agenda

There were no comments from the public.

2. Discussion of the Current Reserve Policy

Mr. Solitei gave a presentation of the current reserve policy. He discussed:

- Unrestricted Funds
 - Fund 100 – Water Enterprise Operations Reserves/Reserve Policy
 - Fund 120 – Renewal/Replacement and System-Wide Improvements
 - Fund 300 – Water Facilities Fund
 - Fund 310 – Water Supply and Reliability Fund
 - Fund 140 – Vehicle & Equipment Replacement
- Restricted Funds
 - Fund 110 – State Water Facilities Reserves
 - Fund 130 – Expansion
 - Fund 200 – Flood Protection Operations
 - Fund 210 – Flood Protection Development Impact Fee
- Reserve Funds Survey
- Retailer Comments on the Current Policy

Director Quigley thanked Mr. Solitei for the comparison of reserve levels from other agencies. He found it very helpful.

Director Figuers liked the idea of a drought contingency but wasn't sure about automatic triggers. He suggested doing some drought rate pre-planning and having the Board vote on it.

President Ramirez Holmes noted that we already have an automatic trigger set up with our drought policy. Mr. Solitei explained that a Water Shortage Surcharge was set in the 2015 Urban Water Management Plan Water Shortage Contingency Plan. A surcharge for each Water Shortage Stage was determined in the plan. There is no automatic trigger; the Board will determine when a surcharge is necessary. The surcharge automatically sunsets after six months unless extended or modified by the Board. Ms. Pryor stated that she doesn't particularly recommend it because it sends a confusing message to the customers who are being asked to conserve water. Since droughts are going to be here every few years, she recommended collecting a little money on an ongoing basis to prepare for those droughts rather than raising the rates at the same time that we are asking customers to conserve.

President Ramirez Holmes requested all of the data from the survey. She said that the amounts listed were misleading because we can't be compared to bigger agencies. She felt percentages would give a better comparison.

President Ramirez Holmes wanted to know how the previous Reserve Policy has changed. She said she wants to compare all the data equally to be able to decide how much reserves we need at Zone 7.

In response to President Ramirez Holmes' questions about the Debt Service Rate Stabilization Fund, Ms. Pryor stated that the term can be confusing, but the fund is required by bond covenants and most municipal bond issuers. She explained that most bond covenants require that one or two years of debt service is set aside in a Debt Service Reserve Fund (DSRF). These reserves are used by an agency to pay debt service if revenue are insufficient to satisfy annual debt service requirement. Citing a case study in an American Water Works Association report, President Ramirez Holmes asked if debt service reserves were legally required for Zone 7. Ms. Pryor explained that reserve funds are different for every agency; and a Debt Service Reserve Fund (DSRF) is different than a Debt Service Rate Stabilization Fund. Zone 7 has the Debt Service Rate Stabilization Fund, but not the Debt Service Reserve Fund. These are funds set aside from the Agency own available fund balance.

Director Quigley encouraged staff to look at the problem of not having enough storage to capture all the water lost in this rain event. He felt that those increments of free water affect our financial accounting, reserve policies, and particularly our drought contingency planning.

President Ramirez Holmes said that we now have a Water Shortage Surcharge policy we have some flexibility. She thought that it could be added to our Reserve Policy or maybe take it out of the Urban Water Management Plan and make it a separate policy. Ms. Pryor replied that it is required to be in the Urban Water Management Plan, but there is no reason why it couldn't be in both places. President Ramirez Holmes agreed that we need to do that. She said it's important that people understand that we've learned things from the drought such as storage, local control, and planning for drought. We've also changed the way we collect rates in terms of fixed and variable. Given that change, how much do we need in the reserves? Mr. Solitei replied that he didn't know offhand, but will provide that in the next reserve discussion.

Director Figuers stated that he understands a short-term emergency to mean something that occurs relatively instantaneously and can get fixed within four to five months. He asked if we have ever had any of those emergency events. President Ramirez Holmes clarified that according to the reserve policy, this meant catastrophic events or disasters such as, but not limited to, earthquake, fire, terrorist event, or storm. Director Figuers said that the closest we've come to that was the loss of Del Valle Branch Pipeline, but that was taken care of by DWR. He felt that the amount of money we are putting away is miniscule compared to what we would need in a true emergency. He asked if it would be possible to get a long-term line of credit for \$20 to \$30 million dollars to quickly cover an emergency. Ms. Pryor explained the pros and cons of a line of credit. She said that the pros are that you're not holding on to your own cash. The negatives are that you have to pay fees every year. The day you access the line of credit you start paying interest and then it counts against your bond covenants. She said that staff can look into it and get some ideas on pricing. However, the last time she arranged for a line of credit the annual cost was a big number and it was never used. Director Figuers stated that we are never going to be able to save the amount of money needed for a major repair and \$5 million or so dollars is not going to cover it. Ms. Pryor responded that \$5 million or so dollars is probably not going to cover an entire emergency, but it's the working capital for the first 30 to 60 days while we figure out other options.

Ms. Pryor stated that staff is hearing the message that there's probably not going to be a rate stabilization fund and that fine. Staff won't be pushing that then.

Director Quigley suggested looking at what is broke in the current policy in order to make the policy better.

Ms. Pryor suggested possibly changing the rate stabilization reserve name to reserves for economic uncertainties or something in those lines. President Ramirez Holmes agreed that we may need to call it something different.

Director Figuers said that the Board needs to be better at annual forecasting for water rates and take action earlier rather than reacting to a situation.

Mr. Solitei stated that the next Finance Committee meeting for April has been cancelled, but we have another scheduled for May. President Ramirez Holmes said that's fine as long as we can get the policy change in time for the budget. She asked if we are doing budget this year. Mr. Solitei replied that we are doing mid-cycle budget amendment for FY 2019-20. President Ramirez Holmes said that she wants to make sure there is time to discuss the reserve policy at the Finance Committee.

Director Figuers stated that since we've been through three droughts, we now know how they affect us and their financial costs. This should give us the ability to give a reasonable projection of what can happen in the future so that we can come up with reasonable estimates.

3. FY 2018-19 Second Quarter Revenue & Expenditure Report

Ms. JaVia Green gave a presentation on the FY 2018-2019 Unaudited Second Quarter Revenue and Expenditure (R&E) Report. She gave highlights on the various funds, including projected balances of unrestricted and restricted funds.

Director Quigley asked where the money from the quarry goes. Mr. Solitei replied that it goes into Fund 300. Director Quigley noted that he has never seen an increase in the amount we receive from the quarries yet the cost of gravel and cement has gone up exponentially over time. He asked if there was a mechanism in place to adjust that amount. Ms. Pryor replied that staff can look into it and report back to the Committee.

Director Figuers asked if Fund 200 is only funded with property taxes. Mr. Solitei replied yes.

4. Investment Report as of December 31, 2018

President Ramirez Holmes asked why the Agency has a lot of money invested in Federal Home Loan Banks. Mr. Solitei replied that it is more stable.

5. Verbal Reports

President Ramirez Holmes announced that the April Finance Committee Meeting is cancelled. We will meet again in May to discuss the Reserve Policy, the Third Quarter Revenue and Expenditure report and an Investment Report.

6. Adjournment

President Ramirez Holmes adjourned the meeting at 10:20 a.m.