

**ZONE 7 BOARD OF DIRECTORS
FINANCE COMMITTEE**

**Tuesday, September 18, 2018
1:00 PM**

Location: Boardroom
Zone 7 Administration Building
100 North Canyons Parkway
Livermore, CA 94551

President Ramirez Holmes
Director Figuers
Director Quigley

AGENDA

1. Public Comment on Items Not on Agenda
2. Discussion of FY 2017-18 Audit Approach and Status
3. Proposed Calendar Year 2019 Municipal & Industrial Water Connection Fees
4. Draft Untreated Water Rate Study & Preliminary Untreated Water Rate for Calendar Year 2019
5. Verbal Comments
6. Adjournment



ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7

100 NORTH CANYONS PARKWAY • LIVERMORE, CA 94551 • PHONE (925) 454-5000 • FAX (925) 454-5727

DATE: September 18, 2018
TO: Finance Committee
FROM: Osborn Solitei, Treasurer/Assistant General Manager – Finance
SUBJECT: FY 2017-18 Audit Approach and Status

SUMMARY:

- The Agency contracted with Maze and Associates, a certified public accounting firm, licensed to practice in the State of California to perform the Agency Comprehensive Annual Financial Report (CAFR) for FY 2017-18.
- Statement on Auditing Standards (SAS) No. 114 requires the auditors to have communications with “those charged with governance.” The audit standards outline the Auditor’s responsibility and the audit process including:
 - Planned audit scope
 - Audit Timing
 - Management Representations
 - Fraud Considerations
- The Comprehensive Annual Financial Report (“CAFR”) follows the guidelines recommended by the Government Finance Officers Association of the United States and Canada (“GFOA”) and the Agency will be submitting the FY 2017-18 CAFR to GFOA for review and certification.

FUNDING:

N/A

RECOMMENDED ACTION:

Information only

ATTACHMENTS:

FY 2017-18 Audit Approach and Status

Alameda County Flood Control and Water Conservation District – Zone 7
AUDIT PLANNING MEETING AGENDA
For The Year Ended June 30, 2018

Audit standards require us to have communications with “those charged with governance” of our clients to discuss the audit process including:

- Audit Scope
- Audit Timing
- Management Representations

Audit Scope

Audit scope generally includes the following subjects to adaptation from our risk assessment process:

- Perform risk assessment brainstorming and planning
- Create audit plan tailored to the District and sector
- Transactions cycles subject to control testing and sampling:
 - Revenue/Receivable
 - Disbursements/Accounts Payable
 - Payroll/Accrued liabilities
- Transactions cycles testing:
 - Confirmations used when they can be effective
 - Accrual tests at year end
- Transactions and Balances tested in total:
 - Confirmation of cash balances with the County and Banks
 - Capital assets tested via corroboration with schedules of additions and retirements and estimate of depreciation
 - Construction in Progress tested via corroboration with schedules of individual projects
 - Compensated absences balances tested via estimation
 - Claims payable via claims loss run

- Evaluate overall duty assignment including:
 - Focused attention to conflict of duties – employees with access to assets and related records used to control and account for those assets
 - Tests of mitigating controls
- Perform compliance tests
 - Certain Government code provisions applicable to cash and investments
 - Local policy compliance, typically:
 - Investment
 - Purchasing
- Financial Statement preparation assistance
 - Staff has requested that we provide assistance with the preparation of financial statements and disclosures.
 - We are satisfied staff have the capability to perform this task themselves.
 - Financial statement presentation and disclosures are evaluated and amendment proposed as needed

Audit Timing

We have met with staff and agreed to the following schedule:

- Fieldwork: one week of September 2018
- Report Presentation: Estimating December 2018

Management Representations

We will request representations from management that data and assertions provided are complete and accurate. We rely primarily on our audit verification tests and procedures, however, management assertions and judgments unavoidably affect financial data.

If you have any questions, please feel free to reach out to me.

David Alvey, CPA

Audit Partner

davida@mazeassociates.com

925-930-0902 Ext. 227



"We are in the business to help our clients succeed"



ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7

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DATE: September 18, 2018
TO: Finance Committee
FROM: Osborn Solitei, Treasurer/Assistant General Manager – Finance
SUBJECT: Proposed 2019 Municipal & Industrial Water Connection Fees

SUMMARY:

- Zone 7 established the Municipal & Industrial (M&I) Connection Fee Program in 1972 to assess water connection fees to new development in order to fund water system expansion projects required to serve additional water demands from new development.
- The Board resolved with the adoption of the 2002 Connection Fee (Resolution No. 02-2450), that the basic fee be updated annually based on the Engineering News Record Construction Cost Index (ENR CCI), or as warranted to keep current with current plans and projections based on periodic reviews. In 2013, the Board adopted Resolution No. 14-4316 which changed the maximum update interval for comprehensively evaluating the connection fee from every three years to every five years.
- For the 2017 connection fees, Zone 7 hired NBS to conduct a connection fee program update. The update recommended adjusting the fees based on the change in the ENR CCI from September 2015 to December 2016 plus an additional adjustment for the updated program costs. The study and recommended fee increases were adopted by the Board on February 15, 2017 (Resolution No. 17-06) and the new fees were effective May 1, 2017.
- The update also recommended that the connection fees be adjusted annually based on ENR CCI to keep pace with inflation. A 3.6% inflationary adjustment took effect on January 1, 2018 for 2018 fees. For the 2019 connection fees, staff recommends adjusting the current fees by the change in the ENR CCI from September 2017 to September 2018 or 3.2%. The new fees will be effective January 1, 2019. The resulting fees per Dwelling Unit Equivalent (standard 5/8” meter) are in the table below:

	Current Fee	Proposed Fee Effective January 1, 2019
Alameda County (per Dwelling Unit Equivalent)	\$28,170	\$29,070
Dougherty Valley (per Dwelling Unit Equivalent)	\$27,030	\$27,900

- Upon Finance Committee’s concurrence, this item will be presented at the October 17, 2018 Board Meeting for adoption.

FUNDING:

Water connection fee revenue accrues to Fund 130 – Water Expansion

RECOMMENDED ACTION:

Discuss and provide direction



ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7

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DATE: September 18, 2018

TO: Finance Committee

FROM: Osborn Solitei, Treasurer/Assistant General Manager – Finance

SUBJECT: Draft Untreated Water Rate Study & Preliminary Untreated Water Rate for Calendar Year 2019

SUMMARY:

The following table shows the preliminary untreated water rate for calendar year 2019:

Preliminary 2019 Untreated Water Rate	\$/AF
Untreated water rate	\$167

SUMMARY:

- Zone 7 currently has 81 untreated water users with a total maximum annual allocation of 8,104 acre-feet per year.
- Zone 7 directly delivers untreated water to seven “turnout water users” via South Bay Aqueduct Turnouts. The remaining 74 untreated water users (“remote water users”) receive their deliveries through the turnout water users’ respective conveyance systems. Zone 7 only invoices “turnout water users,” who in turn, invoice the “remote water users” they serve.
- To determine the untreated water rate for calendar year 2019, Zone 7 contracted with Raftelis Financial Consultants, Inc. (Raftelis) to conduct a cost of service study for untreated water service for the first time, in parallel with the cost of service study for treated water rates.
- The analysis determined the untreated water rates required to adequately recover the costs of the untreated water program. The proposed untreated water rates are based on a similar methodology applied to previous rates, but with additional cost components related to overall water supply management for the entire service area.
- Staff met with untreated water customers on September 11, 2018 to share the study findings and to get feedback on the preliminary rate. A few refinements were made based on comments received.
- Staff requests direction and recommendations from the Finance Committee on the preliminary rate. Upon the Finance Committee’s concurrence, the rate will be presented at the October 17, 2018 Board Meeting for adoption, with an effective date of January 1, 2019.

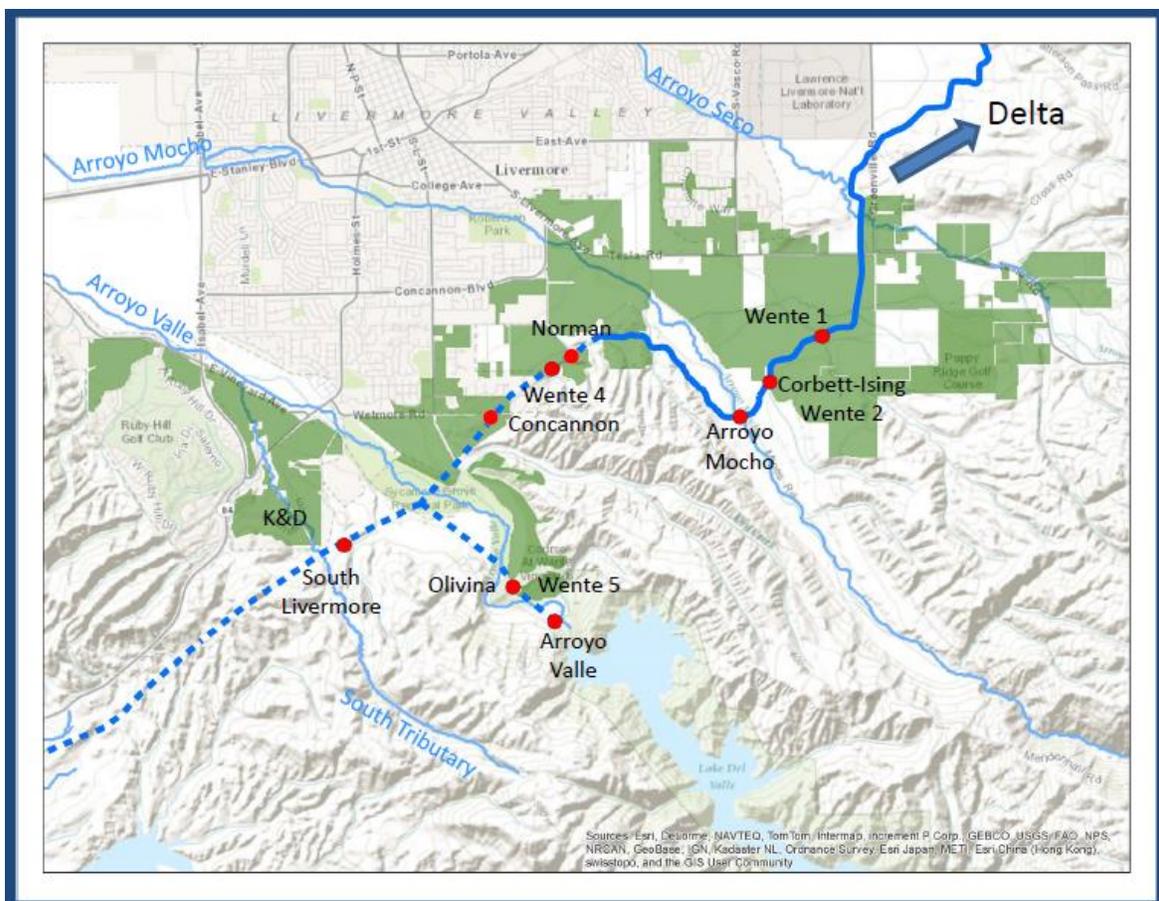
BACKGROUND/DISCUSSION:

Untreated Water Service

Untreated water deliveries to the Zone 7 service area from the California Department of Water Resources (DWR) via the South Bay Aqueduct (SBA) began in 1962. Over the years, deliveries increased with the agricultural development of South Livermore. Zone 7 provides untreated water service to 81 untreated water users who, collectively, may request water deliveries of up to 8,104 acre-feet per year.

While historically Zone 7 has untreated water contracts with 81 separate water users, only seven of these contractors receive Zone 7 water directly from an SBA turnout. These water users are referred to as “turnout water users.” The remaining 74 “remote water users” receive their water deliveries through the turnout water users’ respective conveyance facilities. Zone 7’s practice has been to invoice the seven turnout water users for all water delivered through the SBA turnouts, which includes water wheeled (delivered through their facilities) to remote water users. The turnout water users, in turn, invoice the respective individual remote water users.

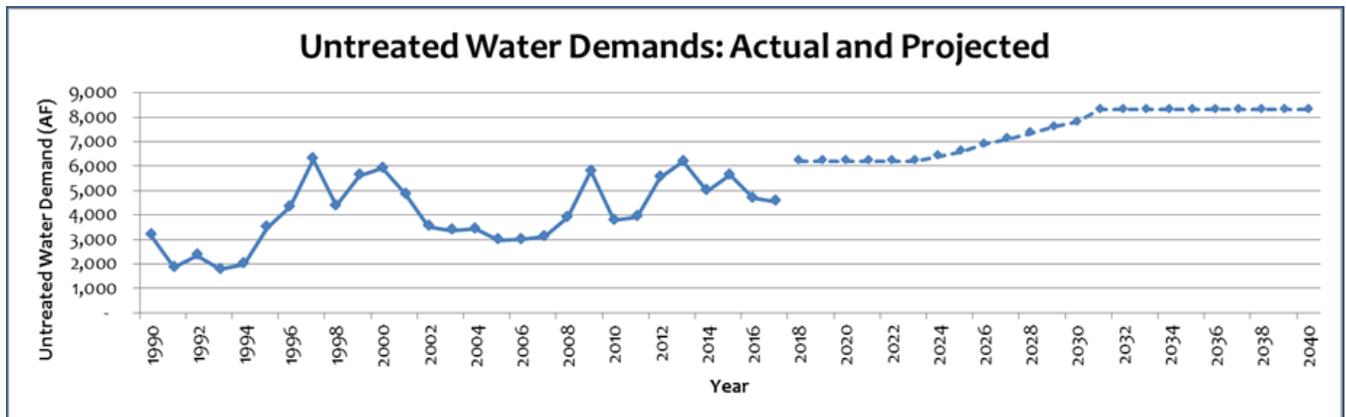
The map below shows the untreated water turnouts and delivery via the South Bay Aqueduct.



In 2011, Zone 7 transitioned from individual contracts with separate users to Rules and Regulations Governing Water Service. The Rules and Regulations Governing Untreated Water Service reflect Zone 7’s actual relationship with the untreated water users, and allows Zone 7 to efficiently administer the untreated water program. The Rules and Regulations retain and clearly document the maximum

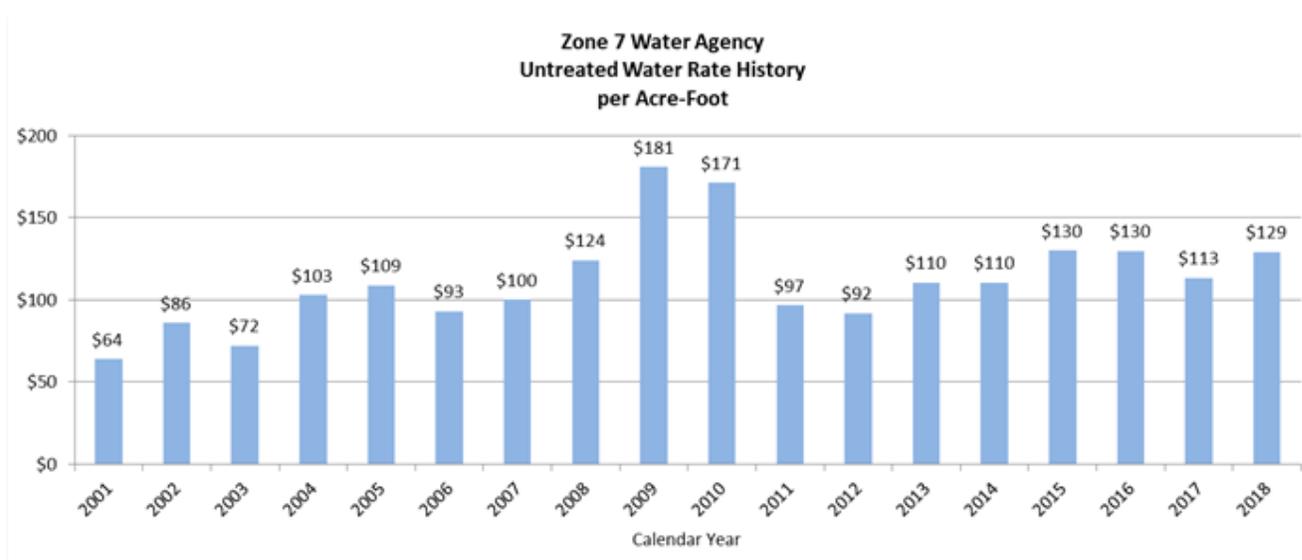
annual allocation amount for each water user and provide a process for water transfers within Zone 7's service area.

A history of untreated water deliveries is shown in the figure below, along with projected future deliveries.



Untreated Water Rates

Zone 7 recovers the cost of providing untreated water service through untreated water rates. The current rate is \$129 per acre-foot of water delivered, billed on a monthly basis. The table below shows a history of untreated water rates.



Historically, the Untreated Water Rate is based on the cost of imported water, supplemental water purchases, Bay-Delta related costs and an administrative fee. The administrative fee is based on actual staff labor spent on administering the untreated water program. The labor is calculated based on the number of hours individual staff work on untreated water-related projects divided by the volume of water.

Cost of Service Study

To determine the untreated water rate for 2019, Zone 7 contracted with Raftelis Financial Consultants, Inc. (Raftelis) to conduct a cost of service study for untreated water service for the first time, in parallel with the cost of service study for treated water rates. Raftelis is an industry leader in utility rate studies and has performed the 2015 and 2018 rate studies for Zone 7's wholesale treated water enterprise.

The analysis determined the untreated water rates required to adequately recover the costs of the untreated water program. The proposed untreated water rates are based on a similar methodology applied to previous rates. Based on the cost of service study analysis, additional cost components are included to encompass Zone 7's entire water supply portfolio, which includes local water, State Water Project supplies, water transfers, local groundwater and offsite groundwater banking programs. Maintaining a diverse water supply portfolio ensures there are adequate supplies to meet the demands of both treated and untreated customers. For example, use of local and offsite groundwater supplies allows Zone 7 to deliver surface water from the South Bay Aqueduct to untreated water customers during droughts or under emergencies while meeting municipal and industrial demands with groundwater. The change in the proposed 2019 rate stem from these additional components, current water supply conditions, operational plan for 2019, overhead and supply costs.

Zone 7 Water Supply Portfolio

The sources described below are used to meet treated water demands from municipal and industrial customers (retailers and direct retail) and untreated water demands from agricultural customers. Excess surface water supplies are placed into storage either locally or remotely for future use as needed. The 2019 Water Supply Operations Plan identifies the subset of supplies available and needed to meet the following year's projected demands. Costs for these supplies are included in the rate calculation for both treated and untreated water customers.

WATER SUPPLY	DESCRIPTION
Table A	This source is Zone 7's portion of the SWP annual allocation and represents the largest portion of Zone 7's 'new' water each year. Zone 7's maximum allocation is 80,619 acre-feet (AF) annually. The projected long-term average allocation is 62% or about 50,000 AF; in the last ten years, the average has been closer to 40,000 AF.
Article 21	This is SWP surplus water that is made available, in addition to Table A water, when there is SWP water available that cannot be stored in San Luis Reservoir because it is full.
Turnback Pool	This is water made available by other SWP contractors who wish to sell excess supply.
BBID	Whenever BBID has surplus supply, water can be made available through a transfer agreement with BBID, a non-SWP contractor, subject to approvals by the Department of Water Resources (DWR) and the Bureau of Reclamation. The amount varies up to 5,000 AF annually. For planning purposes, BBID water is presumed unavailable this year.
Lake Del Valle (Local Water):	Zone 7 has a water right for Arroyo Valle water captured in Lake Del Valle, which becomes available for use once it has been stored for 30 days. The annual average yield of this source is 7,300 AF. Water captured in Lake Del Valle during the current year needs to be used within the following year.
Yuba Accord	This water is available mostly in dry years through agreement with DWR and Yuba County Water Agency. Zone 7 gets about 1% of available water.

WATER SUPPLY	DESCRIPTION
Dry Year Transfer Program	During dry years, the State Water Contractors negotiate water purchases with farmers north of the Delta and makes that water available to interested SWP contractors.
Local Groundwater	Zone 7 recharges the Livermore Valley groundwater basin with surface water and uses groundwater for peaking, dry years, and emergencies. Zone 7 only pumps what it has stored; over the last fifteen years, the average Zone 7 recharge is 8,000 AF per year, with the long-term average groundwater pumping rate at 7,300 AF per year. The estimated maximum pumping capacity is 34,000 AF per year. The basin has 126,000 AF of operational storage capacity, which is the storage capacity above historical lows.
Article 56 (Carryover)	This is unused annual allocation of Table A water, which rolls over as carryover for use in future years by individual SWP contractors. In most years this water remains in San Luis Reservoir, but in wet years such as 2017, as the reservoir fills due to available Delta pumping and DWR needs more storage capacity, this water is gradually converted to SWP water and is lost to Zone 7. When this happens, Article 21 water (see above) is offered to the SWP contractors as surplus water. Each year, Zone 7 typically reserves 10,000-15,000 AF as carryover to provide a buffer against varying Table A allocation.
Offsite Groundwater Banks	Zone 7 has agreements with Semitropic Water Storage District and Cawelo Water District in Kern County for 78,000 AF and 120,000 AF of storage capacity, respectively. Zone 7 recovers water from these banks when needed during dry years (e.g., in 2014 and 2015). Recovered water is delivered via exchange through the SBA as surface water conveyed through the Delta.

Zone 7 Staff Costs Related to Water Supply Management

Zone 7 is committed to providing a reliable supply of high quality water for municipal, industrial and agricultural (untreated) customers. In doing so, staff spends a considerable amount of time managing the Agency's water supply portfolio. The programs applicable to the untreated water program are described in detail below. Note that the programs in italics have been added to the untreated water rate calculation for 2019 based on the cost of service study findings.

PROGRAM	DESCRIPTION
Untreated Water Program	Execution, management, and administration of the Untreated Water Program.
<i>Water Utility Planning</i>	Operational planning of water supply and the water utility and day-to-day water supply management activities.
<i>Supply Source & Conveyance Administration</i>	General administration and support related to the Supply Source & Conveyance Program.
State Water Project	Administration of the State Water Project.
Byron Bethany Irrigation District	Administration of the BBID contract and BBID water purchases.
<i>Bay Delta</i>	<i>Administration related to the Bay Delta, including Bay Delta Conservation Plan, Delta Habitat Conveyance and Conservation Program and now the CalWater Fix.</i>

PROGRAM	DESCRIPTION
<i>Local Water Rights</i>	<i>Acquisition, maintenance, and renewal of local water rights.</i>
Other Water Supplies	Evaluation of water supplies not specific to SWP, BBID, and Bay Delta.
<i>Water Storage Administration</i>	<i>General administration and support related to the Water Storage Program.</i>
<i>Groundwater Basin Management and Monitoring</i>	<i>Groundwater and Storm water monitoring, including toxic site monitoring. Groundwater management, including artificial recharge management.</i>
<i>Semitropic</i>	<i>Administration, operation, and maintenance of Semitropic.</i>
<i>Cawelo</i>	<i>Administration, operation, and maintenance of Cawelo.</i>

Untreated Water Rate Calculation

The untreated water rate is calculated in the following steps:

- Project water deliveries to the untreated and treated water systems based on delivery requests and trends
- Determine staff costs for different programs that serve one or both of the systems. All overhead costs are shared between treated and untreated water deliveries. Untreated water program administration costs are applied directly to the untreated water rate.
- Apply water supply unit costs per unit of water purchased, factoring in certain supplies such as local Lake Del Valle water that have no or minimal cost
- Project amount of water purchased from each source
- Calculate total costs of water supply by multiplying unit costs with amount of water purchased and include all fixed costs (water rights, etc.)
- Divide all costs by the water deliveries of each system dependent upon benefit and use

The projected water delivery for untreated water is approximately 5,500 AF in 2019; for treated water it is 32,784 AF. The water supply unit costs and projected water purchases are based on the 2019 Water Operations Plan. All water costs, excluding fixed State Water Project costs paid through property taxes, are used to calculate the untreated water rate per unit of water.

Attachment A shows the untreated water rate calculation used to determine the preliminary Calendar Year 2019 rate of \$167/AF of water. Note that the items in italics have been added to the untreated water rate calculation based on the cost of service study findings.

Attachment: Attachment A - Zone 7 Preliminary Untreated Water Rate Calculation

Attachment A - Zone 7 Preliminary Untreated Water Rate Calculation
DRAFT

			2019 Preliminary Rate		
Calendar Year	2018 Rate	2019 Preliminary Rate	Acre-Feet	Unit Cost per Acre-Foot	
Planned Treated and Untreated Water Deliveries (Acre-Feet)			37,167	38,290	
Water Supply	Water Transfers				
	Byron Bethany Irrigation District	\$90,000	\$90,000	38,290	\$2
	Other Water Transfers	\$1,138,000	\$1,000,000	38,290	\$26
	Groundwater Banking Programs				
	Cawelo Recovery	-	-		
	Semitropic Recovery	\$1,000,000	-		
	Cawelo Storage	-	\$370,000	38,290	\$10
	Semitropic Storage	-	\$200,000	38,290	\$5
	Semitropic O&M	-	\$480,000	38,290	\$13
	Local Water Supplies				
	Del Valle Water Rights	\$3,000	\$3,000	38,290	\$0
	State Water Project				
	Yuba Costs/Dry Year Program	\$10,000	\$80,000	38,290	\$2
	Bay-Delta Related Costs/Water Supply Reliability Projects	\$210,000	\$500,000	38,290	\$13
State Water Project Transportation Variable Cost*	\$2,079,122	\$2,170,000	38,290	\$57	
Total Water Supply Costs			\$4,530,122	\$4,893,000	\$128
Zone 7 Staff Costs	Zone 7 Staff Costs by Program				
	Byron Bethany Irrigation District	\$8,101	\$4,500	38,290	\$0
	Cawelo	-	\$1,600	38,290	\$0
	Groundwater Monitoring and Management	-	\$944,000	38,290	\$25
	Local Water Rights	-	\$23,000	38,290	\$1
	Other Water Supplies	\$33,140	\$26,000	38,290	\$1
	Semitropic	-	\$3,100	38,290	\$0
	State Water Project	\$158,335	\$127,000	38,290	\$3
	Supply Source & Conveyance Administration	-	\$20,800	38,290	\$1
	Untreated Water Program	\$10,121	\$8,000	5,500	\$1
	Water Storage Administration	-	\$7,200	38,290	\$0
	Water Utility Planning	-	\$290,000	38,290	\$8
Total Zone 7 Staff Costs			\$209,697	\$1,455,200	\$39
Total Water Supply and Zone 7 Staff Costs			\$4,739,819	\$6,348,200	
Untreated Water Rate (rounded) per Acre-Foot			\$129	\$167	\$167

*Factors in zero variable costs for Lake Del Valle runoff.