

ZONE 7 BOARD OF DIRECTORS
SUMMARY NOTES OF THE FINANCE COMMITTEE

September 18, 2018
1:00 p.m.

Directors present: Dick Quigley
Angela Ramirez Holmes

Directors absent: Sands Figuers

Staff present: Valerie Pryor, General Manager
Osborn Solitei, Treasurer/Assistant General Manager, Finance
Jarnail Chahal, Engineering Manager
Teri Yasuda, Acting Accounting Manager
JaVia Green, Staff Analyst
Mike Wallace, Staff Analyst
Lira Walter, Recorder

President Ramirez Holmes called the meeting to order at 1:05 p.m.

1. Public Comment on Items Not on the Agenda

There were no comments from the public.

2. FY 2017-18 Audit Approach and Status

Mr. Osborn Solitei, Treasurer/Assistant General Manager, Finance, introduced David Alvey, Vice President, Maze and Associates, the Agency external auditor, who provided the 2017-18 audit approach. Mr. Alvey gave a brief background of the Statement on Auditing Standards (SAS) No. 99. He explained the purpose of SAS No. 99, consideration of fraud in financial statement audit. I have send an email questionnaire to the Finance Committee Board members regarding SAS No. 99. The Statement of Auditing Standards (SAS) No. 114, the auditor's communication with those charged with governance in relations to an audit of financial statements. The audit standard outlines the auditor's responsibility with the audit process, which includes planning audit scope, audit timing, management representation and fraud consideration.

Mr. Alvey explained the audit has two phases, the interim phase and the final phase. The interim phase includes internal controls for the Agency, for example, evaluate overall duty assignment, segregation of duties, review of cash balances, cash and investment policies and its compliance with the California Government Code. In the interim phase the auditors perform transaction cycle testing, perform compliance tests on the internal controls. And the final phase is the preparation of the financial statements. Mr. Alvey stated that the Agency would pursue the

Comprehensive Annual Financial Report (CAFR) award again this year, and the CAFR will be ready for the December Board meeting.

President Ramirez Holmes asked if there were other new additions GASB requirements. Mr. Alvey stated a new Governmental Accounting Standards Board (GASB) statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* will be implemented this year; GASB 75 amends GASB No. 45 which required the total OPEB liability to be reported as a footnote disclosures in the financial statements. GASB No. 75, requires the unfunded actuarial accrued liability for the plan in the footnote disclosure of the financial statements to be recongnized as unfunded liability on the balance sheet of the financial statements.

Mr. Alvey, stated also that this year CAFR will include the the Agency new debt issuance (the Livermore Valley Water Financing Authority, Water Revenue Bonds, 2018 Series A) and the Agency investment portfolio held by HighMark. For the investments, we will be testing for compliance with the California Code and GASB 40, *Deposit and Investment Risk Disclosures*.

President Ramirez Holmes and Valerie Pryor, General Manager, clarified that OPEB refers to retiree medical benefits. President Ramirez Holmes added that in the past, Alameda County believed that there was no OPEB liability because it was a benefit until it disappeared. Mr. Alvey clarified that it was considered a defined contribution plan, and there would be OPEB liability as long as the funds were aside.

Director Quigley also inquired about the visibility of the unfunded pension liability. President Ramirez Holmes specified that last year's reporting included the pension liabilities for the first time, but this was the first year that the medical component would be incorporated. Mr. Solitei added that the OPEB report comes from the County, so there would be an expected delay in obtaining the report. Director Quigley also asked whether the appropriate use of rolling stock was reviewed as an asset. Mr. Alvey explained that he was referring to a type of fraud called conversion, also known as the misuse of district assets for personal benefit. This was not included in their scope, since there would be no financial impact and it was part of what is monitored locally. Capital assets were reviewed when they were added or removed. The auditors focused on areas where financial fraud could occur due to misappropriation of assets.

President Ramirez Holmes asked Mr. Alvey to confirm whether the Agency's Investment Policy and investment reports will be reviewed as part of the audit. Mr. Alvey ensured that the policy and investment report will be part of the audit and will test in accordance with California Code Section 53600, *et. Seq* for compliance.

President Ramirez Holmes stated how it is important to include credit card monitoring as part of the audit in order to assure the public that an independent oversight outside of the Agency has taken place. Director Quigley agreed, and asked how many credit cards were currently in use. Mr. Solitei stated that the Agency follows the County's policy for credit card usage, and the Agency has about 20 active purchasing cards. Mr. Alvey indicated that credit cards were subject to disbursement testing, but an in depth audit would require a separate scope of work. President Ramirez Holmes and Director Quigley both agreed that they would like to order an extensive

audit with regard to credit cards use. Ms. Pryor added that an additional audit for this purpose is well within her authority. She also emphasized that having more credit cards than fewer can make purchasing more efficient if it is well-managed and properly controlled. President Ramirez Holmes expressed her satisfaction with the addition of an in-depth credit card evaluation, and asked staff to provide an exact count of cards that are currently being used.

President Ramirez Holmes asked if there was a policy in place for employees to anonymously report fraudulent activity. Ms. Pryor indicated that Zone 7 currently does not have its own policy, but there may be a one that the County could provide for the Agency to implement. President Ramirez Holmes stressed the importance of providing employees with the means to report fraudulent activities, and asked staff to work on implementing an Agency policy. Director Quigley concurred. Mr. Alvey explained that the Association of Certified Fraud Examiners relied on fraud detected by tip, and President Ramirez Holmes responded by reiterating that she would like an Agency process put into place for employees to report fraud. Director Quigley asked if their scope included a look into potential information technology (IT) fraud. Mr. Alvey explained that it was not included, as their director in IT specializes only in financial fraud.

President Ramirez Holmes asked for questions from the public. None were received. She thanked Mr. Alvey for his status update.

3. Proposed Calendar Year 2019 Municipal & Industrial Water Connection Fees

Mr. Solitei provided a brief summary of the of the Connection Fee Program, and highlighted the program update that was conducted by NBS in 2017. He stated that the Board has previously resolved to update the water connection fee annually to keep pace with inflation. He explained the proposed connection fee adjustments (per Dwelling unit Equivalent) of 3.2% for Alameda County and Dougherty Valley service areas based on the change the Engineering News Record Construction Cost Index (ENRCCI) . He stated that the current Alameda County service area fee of \$28,170 will be increased by \$900 to \$29,070 and the Dougherty Valley fee of \$27,030 will be will increased by \$870 to \$27,900. The new fees would be effective January 1, 2019.

President Ramirez Holmes asked staff to explain the differences between the two service areas. JaVia Green, Staff Analyst, said, per the agreement between Zone 7 and DSRSD, the Dougherty Valley connection fee does not pay for obtaining additional water entitlements and additional storage as Dougherty Valley developers provided the water entitlements and storage for the Dougherty Valley Service Area. President Ramirez Holmes also stated that the connection fees are charged to new developments for expansion of the system to accommodate the growth. She pointed out that there was a Board policy that stated connection fees are adjusted annually based on the ENRCCI. The Capital Improvement Plan is funded by both existing users (Fund 120) and Fund 130 (new development) . Director Quigley asked staff to clarify the difference with Dougherty Valley. President Ramirez Holmes indicated that Dougherty Valley was a special agreement through Dublin San Ramon Services District (DSRSD) because the Agency agreed to wheel water outside of the service area. President Ramirez Holmes asked staff to prepare the additional information pertaining to Dougherty Valley for the October Board meeting. President Ramirez Holmes asked for public comment. None were received.

4. Draft Untreated Water Rate Study & Preliminary Untreated Water Rate for Calendar Year 2019

Mr. Solitei gave a presentation on the Preliminary Calendar Year 2019 Untreated Water Rate and the cost of service study for untreated water rates. The purpose of the presentation was to provide an opportunity for discussion and to receive direction with regard to the untreated water rate for calendar year 2019. He spoke about the untreated water customer meetings that took place on September 11 & 13, 2018. There was good positive response from the untreated customers and the feedback and recommendations received was incorporated in this report.

Mr. Solitei's presentation highlighted the cost service study 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 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. The water supply management includes: water utility planning; supply source & conveyance administration; Bay Delta; local water rights; water storage administration; and groundwater basin management and monitoring.

In regards to untreated water demands, Ms. Pryor noted that the allocation was included in the Urban Water Management Plan, so untreated water customers were asked for their long-term usage projections in order for potential changes in the Urban Water Management Plan to take place. The untreated water customers planned for increases, so they would be charged based on their usage. Staff also took advantage of discussing long-term water supply at the meetings. Ms. Pryor added that any unused water would become part of the water supply.

Director Quigley inquired about how much the agriculture wells pump. Jarnail Chahal, Engineering Manager, explained that the Groundwater Monitoring Program collects data annually, and it includes the measurement of how much water is pumped each year for about 10 wells.

President Ramirez Holmes stated that it would be helpful to include the 2019 proposed untreated water rate to the graph Mr. Solitei provided. She commended staff for their outreach efforts to the untreated water customers, and asked if they would be distributing copies of the proposal to the public. Mr. Solitei indicated that the Agency possesses a mailing list of untreated water customers in the area, and they would all receive a copy of the report. President Ramirez Holmes asked staff to send the preliminary study, as well as a meeting notices for the October Board meeting to the untreated water customers in ample time. She would like to provide the public with enough notice to attend the meeting and provide an opportunity comment. Director Quigley agreed, and added that he would like to see the State Water Project Transportation Variable Cost line items. He also expressed interest in line items for the Del Valle Water Rights that was recorded at \$0. Ms. Pryor suggested including footnotes specifying the cost breakdown for both. Director Quigley asked if staff could include an itemized list of the Water Supply Reliability Projects.

President Ramirez Holmes inquired whether the water supply reliability project cost is associated with the California WaterFix? And if that cost will be paid through property tax? Ms. Pryor responded, and clarified that it was a combination of the California WaterFix and investments in other water supply reliability projects. She indicated that changes could be made with direction from the Board. President Ramirez Holmes welcomed questions from the public. Alfred Exner, Pleasanton resident, addressed the Committee and staff. He explained that he would like to see a presentation of the fixed costs line items and detailed daily operational costs associated with the fixed component. Mr. Exner believed that untreated water customers should also be obligated to pay a fixed cost. Ms. Pryor responded by explaining the study was conducted by a financial consultant doing the cost of service study for Zone 7. The cost of conducting daily operations was largely represented in the fixed cost. She indicated that untreated water customers were 100% volume-based and no fixed charge component. Changing the methodology would be up to Board discretion. President Ramirez Holmes reiterated Mr. Exner's concerns, and explained that this is a good first step in trying to recover costs to provide relief to the treated water customers. She stated that the preliminary study would be presented to the full Board for discussion at the October meeting. President Ramirez Holmes asked for further comments. None were received.

5. Verbal Comments

President Ramirez Holmes noted regular Finance Committees would be taking place to address issues, as well as other director requested items pertaining to policy changes.

6. Adjournment

President Ramirez Holmes adjourned the meeting at 2:10 p.m.