

SUMMARY MINUTES OF THE FINANCE COMMITTEE
ZONE 7 BOARDS OF DIRECTORS

ITEM NO. 9a

May 4, 2011
4:00 p.m.

Directors present: Sandy Figuers
A. J. Machaevich
Chris Moore

Zone 7 Staff: Jill Duerig, General Manager
John Yue, Asst. General Manager, Finance
Tamara Baptista, Financial & Systems
Service Manager
Mona Olmsted, Associate Civil Engineer
Jarnail Chahal, Acting Principal Engineer
Judy Rector, Board Secretary

1. Public Comment - None

2. Findings and Recommendations of Zone 7's Asset Management Program Update

There had been a staff debate over whether the Asset Management Program (AMP) update should be heard before the Administrative Committee or the Finance Committee, but because concerns expressed by retailers are more financial than technical, the presentation will be given before the Finance Committee.

Mona Olmsted, Associate Civil Engineer in Water Supply Engineering, presented an overview of what Asset Management is about, the asset renewal forecasting methodology used, and the funding impacts.

Why is Asset Management important? Asset Management facilitates renewal decisions, optimizes capital vs. O&M costs, stabilizes long term impacts on water rates and increases system reliability.

The Retailers have reviewed materials submitted to them and provided comments to staff. The purpose of staff presenting the findings and recommendations for funding the Renewal/Replacement and System-Wide Improvement (R/R and SWI) program for review and discussion is to seek the Finance Committee's direction on recommending the acceptance of the Asset Management Program (AMP) Update to the Board at a future Board meeting.

Since 2004, the total asset value for Zone 7's water system has increased by 36%. The total R/R and SWI funding requirements through 2050 has been estimated at approximately \$487 million. Current annual funding is approximately \$5 million, and is insufficient to sustain the program. Existing water rate projections, as previously presented to the Board as part of the budget process, include incremental increases up to \$10.4 million by FY 2013/1014, keeping with recommendations presented in the 2004 AMP. It is staff's recommendation to continue the increases, which will enable Zone 7 to reach \$11.3 million (in 2011 dollars) in annual R/R and SWI funding by FY 2014/2015. This annual funding level recommendation is reduced from the \$12.5M/year originally recommended by HDR in the draft technical memorandum. The AMP funding recommendation no longer includes the Third Demineralization Facility, and the water conservation programs funding previously included in the AMP analysis as a capital expense was moved to the operating budget.

A concern expressed by retailers and Finance Committee members is that a pay-as-you-go philosophy results in existing customers paying for future projects and future customers benefiting without paying. Debt financing allows cost to be minimized and spread out over time.

There was a lot of discussion concerning if the taste and odor project was needed.

General Manager Jill Duerig said that there are other benefits to having ozone in the plant whether it further reduces THMs, whether it oxidizes some of the chemicals that are not yet regulated, or whether it is another tool in the toolbox for regulatory requirements. We are currently the only South Bay Aqueduct contractor who does not have ozone and that is the tool that is needed when treating Delta water.

Director Machaevich added that he was elected into office based on the platform of improving water quality, including taste and odor, so he is in favor of leaving that portion in the AMP and not taking it out. As Jill mentioned, chemicals in water are a concern and we want to address the issue because down the road it will benefit us all.

Because Zone 7 is transitioning from a new operating system when the original water district was created to a system that is middle age, Director Figuers stated that if the retailers don't want the Taste & Odor project, and they are willing to take the complaints from their customers, Zone 7 doesn't have to build it.

Dave Requa, Assistant General Manager and District Engineer, Dublin San Ramon Services District, agreed that it is a policy issue and that the AMP addresses existing assets that have to be taken care of when they reach middle age. Also, water conservation needs to be looked at on an annual basis, focus on future facilities. Can something else be delayed?

Randy Werner, City of Livermore, said that Lori Rose collected data that shows the cities' AMP and how they are putting as much money away as they can because 20 years from now facilities will be older and they have to be able to fix them. More is not good right now so putting money away for repairs later should be minimized.

Directors Moore and Machaevich both agreed that they would prefer to see the Finance Committee move forward with staff recommendations. Zone 7 doesn't have to increase all at once, but can ramp up one step at a time. It is a policy call so take it to the full board with recommendations from staff. Director Machaevich wants to protect the aging infrastructure and while this year may not be the year for rate increases, maybe next year will be better based on the state of the economy.

Director Figuers added that it is a philosophical as well as a financial decision.

Director Moore suggested that the AMP item be summarized for the board because it will be a pure policy call: how much is enough, how much do you want to do it? Retailers are people serving the community and the Finance Committee should listen.

Director Figuers asked if the board said “no” to staff recommendations, what would happen?

Ms. Duerig replied that the recommendations in 2004 said to use \$10 million for AMP and Zone 7 had reserves of \$35 million. Zone 7 chose, with the retailers’ encouragement, to delay ramp up and every time the CIP is reviewed, we look at pushing back every project that we can. Even doing that, we have been using reserves and only doing mission critical projects to keep the place running. We have, over the past 6 years, depleted the reserves and deferred projects; we can’t keep doing this. There are only so many band-aids you can put on a system to keep it running.

Director Figuers asked of those deferred projects, how many are “this would be nice to do” and how many are “we have to do it in 3 or 4 years and if we don’t do it, we are in deep trouble?”

Ms. Duerig cited an example where one of the delayed projects was a clarifier retrofit where there is a lot of corrosion and a lot of patching. If that fails, or it fails this summer, we will lose 12 million gallons a day because all the water goes through Patterson Pass Water Treatment Plant and we would not be able to bring in the pieces quickly enough to fix it, so we are increasing the risk and vulnerability every year we delay things.

Acting Principal Engineer Jarnail Chahal compared Zone 7’s system to a heart and arteries; if our system fails, no one gets water. If one of the retailer’s pipelines fails, they get water from a neighbor.

Director Machaevich suggested that Zone 7 do inspections more often and aggressively look at inspecting structures so the real condition, good or bad, is known. Minor fatiguing issues could be greater than perceived at this point.

Director Figuers suggested a board policy to look at the current situation yearly and see if anything can be deferred instead of saying everything funded will have to be built. The EPA is mandated to come out with new levels every year. Be on top of it in conjunction with the retailers.

Director Moore moved that the Asset Management Plan Update will be heard by the Board at the May or June board meeting. Director Machaevich seconded the motion followed by a unanimous voice vote and the motion passed 3-0.

For the board meeting, Director Figuers suggested that staff reduce the number of slides and improve the titles - make sure the reason for the slide is clear. Director Moore suggested using photographs of equipment that are showing signs of wear because of deferred maintenance such as the clarifier corrosion at Patterson Pass Water Treatment Plant.

There were no verbal reports.

Since there were no further issues or comments, the meeting was adjourned at 5:40 p.m.