

## MINUTES

**Tuesday, January 13, 2015**

**East Bay Municipal Utility District  
Board of Directors  
375 Eleventh Street  
Oakland, California**

### *Special Meeting*

Director John A. Coleman called to order the Special Meeting of the Board of Directors at 9:10 a.m. in the Training Resource Center. The Board met for the Long-Term Financial Stability Workshop #6.

### ROLL CALL

Directors John A. Coleman, Lesa R. McIntosh, Frank Mellon, and Marguerite Young were present at roll call. Directors William B. Patterson, President Andy Katz, and Doug Linney arrived at 9:15 a.m., 9:16 a.m., and 9:17 a.m., respectively.

Staff present included General Manager Alexander R. Coate, General Counsel Jylana Collins, Director of Finance Eric L. Sandler, Treasury Manager Sophia D. Skoda, Assistant to the General Manager Rischa S. Cole, and Secretary of the District Lynelle M. Lewis.

### PUBLIC COMMENT

There was no public comment.

### DISCUSSION

- Filed with the Board was a presentation entitled "Long-Term Financial Stability Workshop 6 Capstone," dated January 13, 2015.

General Manager Alexander R. Coate presented an overview of the meeting agenda. Director of Finance Eric L. Sandler reviewed key topics covered in the workshop series that focused on long-term financial stability. He reviewed accomplishments of the workshops series.

- Workshop #1 (March 25, 2014): *Introduction*. Staff provided a review of workshop topics for the coming year and proposed revisions to the Strategic Plan goal of Long-Term Financial Stability. The revisions focused on three areas including: a) the development of a long range financial plan and assessment of policies, relating to reserves and debt service coverage; b) policies regarding rates and charges; and c) enhancing transparency in financial documents. In addition staff presented the District's financial planning model and a detailed account of how financial policies (e.g. capital financing, debt service coverage, and reserves) drive revenue requirements and rates.
- Workshop #2 (July 22, 2014): *Reserves*. Staff reviewed findings from Workshop #1 and provided information regarding the use of reserves to manage financial risk. This workshop focused on drought-related financial risks and assessed the various tools to manage those impacts—e.g. reserves, supplemental supply surcharge and drought rates. In

the workshop staff addressed the adequacy of these tools to manage drought related risks in both the short and long-term.

- Workshop #3 (August 12, 2014): *Drought Financial Management/Drought Rates*. Staff reviewed some of the findings from Workshop #2, including the financial impact of drought and the various tools used to mitigate these impacts. This workshop focused on the development of a system of drought rates that would be flexible enough to be deployed in stages depending on the severity of drought conditions and could be considered for adoption as part of the Board's FY16-17 budget and rates actions. Staff summarized the history of previous District drought rates, described the existing water rate structure, reviewed the policy objectives of drought rates, compared potential drought rate structure features, and showed the drought responses of other regional water agencies. During the workshop, the Board emphasized the importance of public engagement and outreach as drought rate options are considered. A separate series of four public meetings was conducted throughout the service area during October and November 2014.
- Workshop #4 (September 23, 2014): This workshop provided two presentations. The first discussed capital investment and financing and the second discussed drought financial management and drought rates.
  - a. *Capital Investment/Financing*—Staff provided information for Board consideration and discussion on key capital financing policies—Capital Improvement Program (CIP) funding (cash vs. debt) and debt service coverage ratios. Staff also discussed the District's Seismic Improvement Program (SIP) and the status of the SIP surcharge. The sunset of the fixed SIP charge reduces the level of fixed water revenues from 26% to 20%. Reducing the level of fixed revenues contributes to revenue instability which is magnified during periods of drought.
  - b. *Drought Financial Management/Drought Rates*—Staff provided additional information for discussion of a staged system of drought rates to recover the costs of supplemental supplies and the revenue lost due to customers' reduction in water use during drought and reviewed a plan for public engagement and outreach related to drought response and drought rates.
- Workshop #5 (November 25): *Water and Wastewater Cost of Service (COS) Study*. Raftelis Financial Consultants (RFC) was engaged to perform cost of service (COS) studies for the water and wastewater systems in conformance with state law and District policy. The COS study allocates operating and capital costs to customer classes based on both customer class usage characteristics and facility design and operations. This nexus between usage and cost forms the financial and legal basis for setting utility rates and charges. The study indicated that the District's current rates are generally in line with COS and indicated some recommended adjustments including a decrease in the water private fire charge and adjustment in some wastewater treatment assumptions to reflect current customer strength and flows. COS was also established for the District's recycled water service and for the District's tiers. Lastly alternatives to address the sunset of the District's SIP charge were reviewed as was a new methodology for collection of Wet Weather charges.

Mr. Sandler reported that this past year the Board has made significant progress in addressing key elements of long-term financial stability. All other things being equal, more stringent financial policies have an impact on rates and charges. Given the significant challenges posed by current conditions, staff recommends maintaining existing financial policies while developing financial plans and rates to achieve stronger financial metrics over time. Next, he highlighted policy considerations and key drivers for the upcoming budget. These included drought impacts (reduced consumption and supplemental supplies), infrastructure replacement, staffing, sunset of the SIP surcharge, cost of service study findings, wastewater program requirements, and deferred IT investments.

Board members expressed appreciation for staff's effort in addressing these long-term financial issues. The Board urged staff to educate customer on the challenges facing the District and to provide transparency on decisions that will impact rates.


**ADJOURNMENT**

President Katz adjourned the Special Meeting at 10:42 a.m.

SUBMITTED BY:

  
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Lynelle M. Lewis, Secretary of the District

APPROVED: January 27, 2015

  
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Frank Mellon, President of the Board

