



**BOARD OF DIRECTORS  
EAST BAY MUNICIPAL UTILITY DISTRICT**

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375 - 11th Street, Oakland, CA 94607

Office of the Secretary: (510) 287-0440

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**Notice of Time Change**

**FINANCE/ADMINISTRATION  
COMMITTEE MEETING**

**8:45 a.m.  
Tuesday, November 22, 2016**

Notice is hereby given that the Finance/Administration Committee Meeting of the Board of Directors has been rescheduled from 10:00 a.m. to 8:45 a.m. The meeting will be held in the Training Resource Center of the Administration Building, 375 - 11th Street, Oakland, California.

Dated: November 17, 2016

  
Lynelle M. Lewis  
Secretary of the District





**BOARD OF DIRECTORS  
EAST BAY MUNICIPAL UTILITY DISTRICT**

375 – 11<sup>th</sup> Street, Oakland, CA 94607

Office of the Secretary: (510) 287-0440

**AGENDA  
Finance/Administration Committee  
Tuesday, November 22, 2016  
8:45 a.m.  
Training Resource Center**

**(Committee Members: Directors Coleman {Chair}, Katz and Patterson)**

**ROLL CALL:**

**PUBLIC COMMENT:** The Board of Directors is limited by State law to providing a brief response, asking questions for clarification, or referring a matter to staff when responding to items that are not listed on the agenda.

**DETERMINATION AND DISCUSSION:**

1. Statewide Community Infrastructure Program Follow-up (Skoda)
2. Information Regarding Financial Services Organizations (Skoda)
3. Fully Maintained and Operated Maintenance and Construction Services Staffing (Chan)

**ADJOURNMENT:**

**Disability Notice**

*If you require a disability-related modification or accommodation to participate in an EBMUD public meeting please call the Office of the Secretary (510) 287-0404. We will make reasonable arrangements to ensure accessibility. Some special equipment arrangements may require 48 hours advance notice.*

**Document Availability**

*Materials related to an item on this Agenda that have been submitted to the EBMUD Board of Directors within 72 hours prior to this meeting are available for public inspection in EBMUD's Office of the Secretary at 375 11th Street, Oakland, California, during normal business hours, and can be viewed on our website at [www.ebmud.com](http://www.ebmud.com).*



## EAST BAY MUNICIPAL UTILITY DISTRICT

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DATE: November 17, 2016

MEMO TO: Board of Directors

THROUGH: Alexander R. Coate, General Manager *ARC*

FROM: Sophia D. Skoda, Director of Finance *SDS*

SUBJECT: Statewide Community Infrastructure Program Follow-up

As requested at the September 27<sup>th</sup> Finance/Administration Committee meeting, staff will provide additional information on the Statewide Community Infrastructure Program (SCIP). The SCIP allows developers to finance system capacity charges with tax-exempt bonds, which involve the District in the financing structure. The bonds are repaid from annual assessments on the ultimate property owners.

The District is in the process of working with a developer in Hercules and SCIP representatives to facilitate financing of the District's system capacity charge fees. In the past 10 years, the District has been asked to participate in only one other SCIP financing project.

Based on changes in the municipal bond market, staff has had extensive discussions with District bond and tax counsels regarding SCIP financing. It is clear the District must follow strict requirements to ensure SCIP financing does not affect District debt service coverage, financing flexibility, and tax compliance.

In light of the challenges posed by continued participation and limited demand to date, staff will discuss the pros and cons of continued District SCIP participation, and the experience with the current Hercules project. Staff will provide a presentation on this topic at the November 22, 2016 Finance/Administration Committee meeting.

ARC:SDS:DB



## EAST BAY MUNICIPAL UTILITY DISTRICT

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DATE: November 17, 2016

MEMO TO: Board of Directors

THROUGH: Alexander R. Coate, General Manager *ARC*

FROM: Sophia D. Skoda, Director of Finance *SDS*

SUBJECT: Information Regarding Financial Services Organizations

### SUMMARY

During the October 25<sup>th</sup> Board meeting, a member of the public suggested that the District consider forming a Financial Services Organization (FSO) with other Bay Area local governments to limit dependence on large national banks. The Board requested information on FSOs and their creation by public agencies. Staff will present information on what an FSO is, as well as the types of financial services interactions in which the District regularly engages at the November 22, 2016 Finance/Administration Committee meeting.

### DISCUSSION

An FSO is any organization that provides financial services. This includes commercial banks, investment banks, investment managers, insurance providers, and much more. EBMUD, in its regular course of business, currently works co-operatively through various means to both support smaller public service agencies and to take advantage of the larger entities that have favorable financial options for the District, keeping ratepayer interests in mind. The District works with state entities like the Local Agency Investment Fund (LAIF) on investments as well as with large commercial and investment banks that provide bond underwriting, liquidity facilities, remarketing, and other financial services. These public-public and public-private interactions between public agencies and private sector banks are common across municipal financial markets. In the case of the public-private interactions, for the District to cease this interaction for future financing requirements, it would need an adequate replacement for the services provided.

As the October 25<sup>th</sup> public speaker suggested, one possible replacement could be a new public FSO, formed through a Joint Powers Authority (JPA) between the District and other regional local governments. This hypothetical FSO could act as the District's and the other JPA members' investment bank, underwriting bond issuances and providing liquidity facilities and other required services. Likewise, the JPA could act as the District's and the other JPA members' commercial bank. While this type of an organization would serve to loosen the District's ties to Wall Street, the formation of such a JPA carries with it major obstacles. As such, based on staff research, this is not something that has ever been accomplished. Below are the largest challenges to such an endeavor:

**Staff expertise** – To accomplish the abovementioned goals and provide the financial services required by the District, the hypothetical JPA would need a sizeable staff of financial industry veterans. This staffing requirement would be similar to that of a private sector bank. The District, and likely other Bay Area local governments, does not currently have the capacity to provide this staff.

**Regulation** – FSOs are subject to an extraordinary amount of regulation related to the activities they can engage in, their reserve requirements, conflicts of interest, and other elements of financial industry business. The formation of a JPA intended to involve itself in the financial industry would also be subject to complex regulations. Additionally, such a structure could be challenged legally, and would add to the District's risk profile.

**Funding** – Underwriting bond issuances requires taking on a massive financial obligation. Underwriters agree to purchase any bonds that are not sold in the market. With more than a billion dollars in bonds issued each year by Bay Area local governments, for example, the JPA would need substantial initial funding by its members to accommodate all members' bond issuances. Transferring sufficient funds to the JPA would currently place an undue burden on the District's liquidity position. Additional funding would need to be supplied were the JPA to offer liquidity facilities to its members.

**Maximization of interest earnings** – The District's fiduciary responsibility includes the requirement that it maximize the interest earnings of its cash assets for the benefit of ratepayers. This requirement would be undermined if the District provided funding to an underwriting FSO JPA, as the assets of the JPA would be invested in the tax-exempt municipal bonds issued by its members. Tax-exempt bonds do not earn as much interest as the taxable bonds and other investments that the District typically invests in. Accordingly, earnings on assets transferred to the JPA would underperform by comparison with those retained at the District.

Despite the challenges related to forming an FSO JPA, staff continually seeks to identify ways for the District to safely diversify its financial investments with the taxpayer and ratepayer best interests in mind. The District currently invests a significant amount of its cash in the California Asset Management Program (CAMP), a JPA formed in 1989 that provides public agencies with investment services. CAMP offers a range of services to assist participants with their investment and arbitrage compliance needs. The District also invests the maximum amount permitted in the Local Agency Investment Fund (LAIF), which is a state-run investment pool. This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the participants. In turn, the District helps the JPA's in which it is involved with investing their cash, allowing them to lower their costs and improve earnings. For example, the District is helping Bay Area Clean Water Agencies (BACWA) to tailor its investment portfolio to best meet cash flow needs.



## **NEXT STEPS**

Based on discussions with various local agencies, there are no FSO efforts underway for the District to join which are intended to replace bond underwriters and liquidity providers. The District will continue to partner with other agencies to mutually improve financial transactions. In addition to CAMP, LAIF and the many existing JPAs, the District and other water agencies participating in the Bay Area Regional Reliability effort may consider the potential for funding future beneficial projects together via a JPA.

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## EAST BAY MUNICIPAL UTILITY DISTRICT

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DATE: November 17, 2016

MEMO TO: Board of Directors

THROUGH: Alexander R. Coate, General Manager *ARC*

FROM: Clifford C. Chan, Manager of Maintenance and Construction *CCC*

SUBJECT: Fully Maintained and Operated Maintenance and Construction Services Staffing

### INTRODUCTION

Fully maintained and operated (FM&O) services are used to support District maintenance and construction work. Contract FM&O services are essential as they include both necessary equipment and operators. Increased construction and maintenance activities have resulted in greater utilization of FM&O services. In May 2016, the Board authorized five FM&O service contracts, one for five years and four for one year, to provide for review of additional staffing as a complement or alternative to FM&O contracts. Based on review of FM&O services, the District has developed a plan to reduce FM&O costs by hiring additional staff and purchasing the associated equipment. This item will be discussed at the November 22, 2016 Finance/Administration Committee meeting.

### SUMMARY

The use of FM&O services has increased in order to support Pipeline Rebuild, other infrastructure renewal work, the expansion of pavement grinding for street restoration, and maintenance work. To reduce the amount spent on FM&O services for concrete, trucking, and excavation services, the District will fill two positions in FY17, and evaluate adding up to 14 positions in the FY18/FY19 budget.

### DISCUSSION

On May 24, 2016, the Board approved FM&O service contracts for sweeping, hydro-excavation, backhoe, paving/stripping/concrete repair, and dump truck rental services. The approved authorizations for these contracts totaled \$4.11 million. All the FM&O contracts were for one year except sweeping services, which was a five-year contract. FM&O services are used to supplement District staff during peak workloads, during planned and unplanned absences, to catch up on backlog work, support joint paving projects with cities, and when specialized

equipment is needed. For comparison, the District has budgeted \$81 million for installation and repair of pipelines, valves, and other appurtenances by District forces in FY17.

District forces provide the majority of these services, which are typically performed by Heavy Transport Operators, Heavy Equipment Operators, Truck Drivers, Concrete Finishers, and Paving Rakers. Between FY12 and FY16, staffing in these classifications grew by 49 positions, and during the same period, over 337 staff were hired to fill the new positions created by retirements and promotions in the Operations and Maintenance Department. Factors that make recruitments challenging include competition with other agencies and companies for hires, and resignations due to better job prospects or difficult commutes.

During the May 24, 2016 Board meeting, staff presented a plan to prioritize recruitments, fill all vacant funded positions, and purchase the equipment necessary to support the positions. In addition, staff has completed a review of FM&O services and will hire one Concrete Finisher I and one Concrete Finisher II in FY17 to address an increase in the base workload for concrete work. As part of the FY18/FY19 budget, the District will consider adding 9 to 14 Heavy Transport Operators, Heavy Equipment Operators, and Truck Driver IIs and the associated equipment. The staffing additions being considered include 9 Heavy Transport Operators to support the base workload of the Pipeline crews and 5 additional Heavy Transport Operators, Heavy Equipment Operators, and Truck Drivers to support peak workloads.

## **UNION DISCUSSION**

After the May 24, 2016 Board Meeting, the District met with and agreed to provide AFSCME Local 444 with updates on FM&O usage, and review staffing levels during the FY18/FY19 budget process. The District met with Local 444 on November 9, 2016 to share these plans.

## **FISCAL IMPACT**

Filling these positions will reduce FM&O spending between \$1.7 million and \$2.7 million. The entire reduction in contract spending will not be fully realized until FY20 due to the time required to order and receive equipment, and hire staff. This proposal requires a one-time capital investment of \$3.5 million for the equipment, which will take time to order and place into service. The reduction in FM&O spending will depend on the timing of recruitment efforts and equipment acquisition.

In the interim, during the recruitment and equipment purchasing process, the District will need to continue to utilize FM&O services. In May 2016, the Board approved one-year extensions for four FM&O contracts: hydro-excavation, backhoe, paving/stripping/concrete repair, and dump truck rental. Based on the expected time to authorize and fill the proposed positions and purchase needed equipment, the District will need to extend these FM&O contracts for an additional two years.

The District's proposed staffing plan has a total annual labor and equipment cost of approximately \$2.8 million. This expense in FY18/FY19 will be largely offset by reducing the annual FM&O contract expense. When fully staffed and equipped, the impact to the operating budget will be approximately \$0.6 million, with the balance being funded by capital projects. The one-time \$3.5 million investment for equipment will be included in the FY18/FY19 capital budget.

#### **NEXT STEPS**

The District will initiate recruitment for two Concrete Finishers and evaluate adding 14 additional staff in the FY18/FY19 budget.

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