

AGENDA
REGULAR MEETING
BOARD OF DIRECTORS

EAST BAY REGIONAL PARK DISTRICT

Tuesday, August 9, 2011

C. BUSINESS BEFORE THE BOARD

6. BOARD COMMITTEE REPORTS

- e. Finance Committee Minutes and Recommended Actions from
the June 28, 2011 Meeting (Sutter)

Attendees

Board Committee: John Sutter (Chair) Ayn Wieskamp
Whitney Dotson (absent)

Staff: Dave Collins, Cinde Rubaloff, Pam Burnor, Deborah Spaulding,
David Sumner, Meadow D'Arcy, Bill Louie, Megan Jones, Mike
Anderson

Summer Interns Spencer Sheaff, Finance Dept.
Miles Thomas, HR Dept.

PFM

Asset Management Carlos M. Oblites, Senior Managing Consultant

Public: None

Chairperson John Sutter began the meeting at 12:50PM with the introduction of committee members and individuals attending the meeting.

Agenda Item No. 1
Investment Portfolio Performance Update

CFO Cinde Rubaloff introduced Carlos Oblites with PFM Asset Management. This firm is one of the District's investment advisors. PFM Management also manages half of the District's treasury investments and all bond proceeds. PFM has been the District's investment advisor since July 2009.

Mr. Oblites presented graphics and narrative highlights of the District's investment performance, which are influenced by the District's investment strategies, national

economic status and policy such as the Fed rate and high unemployment, and current global events, such as occurrences in Japan and the Middle East.

Mr. Oblites reported that the U.S. Treasury yield curve remains steep, and investments with short and mid-term durations have very low yields, while longer term investments yield higher returns. Initially, the District's portfolio duration target was 1 to 3 year, but that has been slow to implement due to the yield curve and the potential for missed opportunities as interest rates rise. The current duration is 17% 1-6 months, 5% 6-12 months, 22% 1-2 years and 6% 2-3 years. Extending portfolio duration in the current interest rate environment, however, carries great risk, so the process has been carried out incrementally. PFM will continue to lengthen duration as market opportunities allow.

Mr. Oblites stated that:

- The operating funds portfolio is in compliance with the California Government Code and the District's Investment Policy.
- The portfolio is well diversified and has excellent credit quality.
- The Portfolio is diversified by maturity.

Mr. Oblites continued that the 12-month portfolio return was substantially higher than pooled investments such as LAIF, and was also higher than the portfolio's interim performance-measuring benchmark.

Although, on a total return basis, the portfolio returned slightly less than the benchmark in the quarter, the portfolio continues to accrue earnings at a rate of 0.73% (yield to maturity as of March 31, 2011).

Director John Sutter questioned why the Merrill Lynch 1-3 Year Treasury Index was chosen for a bench mark. CFO Rubaloff responded that Merrill Lynch is a very standard bench mark for governmental agencies. CFO Rubaloff also informed the Committee that prior to using PFM the District had no bench mark comparisons.

Bond Proceeds Investment Considerations:

Overall Objectives:

- Optimize investment earnings consistent with arbitrage rebate regulations.

Arbitrage Rebate Considerations:

- Available investment yields are currently below the Bonds' arbitrage yields.
- Based on current conditions, the District should maximize retainable earnings.
- In a negative arbitrage environment, spending exceptions will not affect retainable earnings.

Investment Recommendations:

- Maintain funds not needed for the next 12 months in CAMP Pool.
- An updated draw schedule for project funds will help to identify funds that can be invested longer for higher earnings opportunities (District staff has provided draws and we have made investments for project funds).
- PFM will continue to monitor markets for opportunities to lock in higher yields through individual securities for funds that can be invested beyond 12 months given the steepness of the yield curve.

The Committee members thanked Carlos Oblites for his presentation and insight on future investment strategies.

Recommendation: None. This is an informational item only.

Agenda Item No. 2

March 31, 2011 Investment Report

CFO Cinde Rubaloff presented the 1st Quarter, 2011 Investment Report and informed the committee that it is in accordance with State law and the District's Investment Policy.

The grand total of the District's cash and investments as of March 31, 2011 was \$235,161,873.

Pooled cash managed by the CFO/Controller:

- Decreased approximately \$9.4 million from the December 31,200 balances.
- Examination of cash flow indicates that there was an \$11.6 million decrease in cash due to change in asset and liability during the first quarter, \$12.3 million decrease in cash due to expenditures in excess of revenue during the first quarter, and increase in cash due to \$14.5 million reimbursements received from bond trustees.

Funds managed by trustees decreased approximately \$17.7 million:

- \$3 million as a result of March 1, 2011 debt service payments.
- \$13.7 million for Measure WW project and local grant program reimbursement.
- \$800,000 in Measure AA reimbursement.

CFO Rubaloff reported that the 2011 investment earnings budget is \$2.7 million and 25% is \$675,000. As reported, first quarter earnings are \$604,553, so are 10% short of target.

CFO Rubaloff informed the committee that beginning in 2011 the Sharpe Ratio information for Cutwater and PFM portfolios, as well as the Merrill Lynch 1-3 year benchmark will be presented with the quarterly investment information.

The Sharpe Ratio is a measure of the excess return (over the “risk free” return) per unit of risk. It demonstrates return in relationship to the risk assumed in achieving that return. Inherently, the higher the potential return, the higher the associated risk. The higher the Sharpe Ratio, the more return was achieved for the level of risk assumed.

- As of March 31, 2011 Cutwater calculated the Sharpe Ration (beginning with returns from the 3rd quarter of 2009) on our investment portfolio managed by them to be 4.392.
- As of March 31, 2011 PFM calculated the Sharpe Ration (beginning with returns from the 3rd quarter of 2009) based upon our investment portfolio managed by them to be 3.617.
- As of March 31, 2011 the Merrill Lynch 1-3 year benchmark (beginning with returns from the 3rd quarter of 2009) was calculated to be 3.012.

CFO Rubaloff reported that both of the District’s investment portfolios have outperformed the benchmark when measuring return against risk.

CFO Rubaloff shared that Staff continues to monitor, evaluate and actively manage the District’s funds to maximize returns in this dismal investment environment.

CFO Rubaloff then stated that investment fees for the first quarter are substantially lower than previously as a result of the closure of the remaining Bank of America accounts.

- Banking fees are expected to decline between \$3,000 and \$5,000/month now that the complete switch to Wells Fargo has been accomplished.
- This translates into a savings in total banking/investment fees of more than 12% per year.

Moved by Director Ayn Wieskamp and seconded by Director John Sutter to recommend to the full Board of Directors acceptance of the March 31, 2011 Investment Report. Motion Approved.

Agenda Item No. 3
March 31, 2011 Unaudited Financial Statements

Assistant Finance Officer Deborah Spaulding presented the First Quarter 2011 Unaudited Financial Statements

General Fund Revenues:

- As of March 31, 2011, the District received approximately \$8.9 million in General Fund revenue (excluding transfers in), a decrease of \$343,000 or a negative -3.7% from the same time period in 2010. The majority of the decline (\$300,000) is attributable to reduced property tax revenue, which was expected.

General Fund Expenditures:

- Total expenditures as of March 31, 2011 were \$21.8 million, which is approximately \$638,000 higher than in 2010 or a 3.0% increase.
- Expenditure increases occurred in the areas of personnel costs, operating supplies and professional services. Personnel costs increased by \$413,000, or 3.3% from the prior year. The 2011 increase is due in part to the one percent COLA in April of 2010 as well as increased benefit costs. Supplies and services increased a net of \$416,000. Operating supply expenditures increased across the board, primarily in fuel, small tools, and repairs & maintenance supplies (this was due to February P-Card purchases being posted in March and in 2010 they were posted in April). Professional services increased in the area of legal services related to updating the Transamerica Plan, as well as other miscellaneous payments.

Revenues and Expenditures for other Governmental Funds (Special Revenue Funds, Project Funds, Debt Service Funds):

- Special revenue funds revenue and expenditures increased during the first quarter of 2011 compared to first quarter of 2010 – the major source of the increase was the new communication tower revenue from Vasco Corridor. The increase in expenditures is driven by Measure WW grant reimbursements.
- First quarter 2011 project funds have increased from first quarter of 2010, in both revenue and expenditures. Expenditure increases are project costs, which fluctuate depending on timing of construction and land activity. A major expenditure in the first quarter of 2011 was the purchase of land at Pleasanton Ridge.

Moved by Director AynWieskamp and Seconded by Director John Sutter that staff submit the First Quarter 2011 Unaudited Financial Statements to the Board of Directors for favorable consideration. Motion Approved.

Agenda Item No. 4
March 31, 2011 Budget to Actual

Budget Manager Pam Burnor presented the 1st Quarter 2011 Budget to Actual and reported the results as of March 31, 2011 for the General Fund revenues and expenditures.

General Fund Revenues:

The General Fund revenue (excluding transfers in) received through March 21, 2011 was almost \$9 million, roughly 9% of the annual budget, compared to \$9.2 million collected through March 31, 2010 which represented 9% of the 2010 revenue budget for the General Fund.

Although the percent of 2011 budgeted General Fund revenue collected compared to 2010 budget is almost identical, the 2010 General Fund revenue budget was about \$3 million less than in 2011.

General Fund Expenditures:

Budget Manager Burnor reported that the General Fund actual expenditures (excluding encumbrances and transfers out) recorded through March 31, 2011 are \$17.2 million, representing 17% of the 2011 appropriations.

Coincidentally, budget to actual data for 2010 also showed 17% of total appropriations spent at the same time last year.

The total General Fund appropriations for 2011 are about \$1.3 million greater than the General Fund appropriations in 2010.

General Fund Revenue:

- 2011 Property Tax revenue is budgeted at \$87.7 million and close to 8% was collected as of March 31, 2011 compared to 8% collected in the first quarter of 2010.
- First quarter charges for services revenue showed 21% of the \$8 million dollar budget collected compared to 2010 first quarter when 15% of the \$9.2 million budget had been collected.
- Nine percent of the \$1.5 million investment revenue was recorded by March 31, 2011 compared to ten percent of \$2.75 million for the same category as of March 31, 2010.

Budget Manager Burnor reported on the General Fund Expenditures:

- As of March 31, 2011, 83% of the General Fund 2011 appropriations remain unspent and unencumbered, (78% when encumbrances are included). First quarter 2010 had a very similar result. The percent of appropriations remaining (unspent and unencumbered) for all divisions at the end of the first quarter is 83%.

Budget Manager Burnor also reported on the Special Revenue Funds:

- At the end of the first quarter 2011, special revenue funds' total revenue was \$750K, or about 9% of the budgeted revenue. In the first quarter of 2011, about 22% of special revenue funds' appropriations were expended (excluding encumbrances) compared to the same period last year when only 5% had been used. This difference is largely due to Measure WW local grant reimbursements. Less than 1% of those appropriations had been spent as of March 31st 2010 while nearly 24% have been spent by the end of the first quarter, 2011.

Budget Manager Burnor concluded her presentation informing the committee that the District 2011 General Fund percent of revenue budget collected and percent of expenditures used is very similar to 2010 budget percent usage. The same is true for the special revenue funds comparison of 2011 to 2010 budget to actual.

Recommendation: None. This is an informational item only.

Agenda Item No. 5

2011 Mid-Year Budget Adjustments Special Revenue Funds: Two County LLD, ECCC LLD, Zones of Benefit, and Measure CC

CFO Cinde Rubaloff informed the committee of the need to review and approve the 2011 budget adjustment requests related to special revenue funds. Some requests are the result of the District's new assessment engineer's work. One request is a correction in the original 2011 budget and one request for an adjustment to the special assessment district budget.

CFO Rubaloff informed the committee that the District hired new assessment engineers, NBS, in the beginning of 2011. As part of the assumption of the engineer services for the District, NBS conducted an "audit" of the landscape and lighting districts and the Zones of Benefit. Findings include:

- As a result of their review, 2011 revenues and appropriation should be updated. Some funds' revenues need to be adjusted and engineer fees need to be reallocated.
- NBS requested that staff formulate a list of projects which will expend excess fund balance in each LLD or Zone of Benefit.
- As by law excess funds can only total 50% of annual revenue.

Operations staff formulated a list of long-term projects which will spend down excess funds in ECCC LLD, Five Canyons, Dublin Hills, Walpert Ridge, Stone Valley and Gateway/Sibley Zones of Benefits between 2011 and 2014.

- Items slated for expenditure in 2011 are currently budgeted in General Fund.
- The General Fund will experience a decrease in 2011 appropriations of \$51,250 as appropriate costs are shifted to special revenue funds.

The following schedule displays the detailed changes for each fund:

Fund		Original Budget	Amended Budget	Subtotal	Total Impact increase/(decrease) in fund balance
220	Engineer fees	\$16,000	\$28,250		(\$22,250)
221	Engineer fees	16,000	5,850		10,150
222	Engineer fees	0	450		(450)
223	Revenue	14,500	9,400	(5,000)	
	Equipment*	0	16,725	(16,725)	
	Trail construction**	0	13,275	(13,275)	
223 Total					(35,000)
224	Revenue	60,000	38,000	(22,000)	
	Engineer fees	0	450	(450)	
	Equipment^	77,280	98,530	(21,250)	
	Salary/benefits^^	1,330	34,830	(33,500)	
224 Total					(\$77,200)

*75% replacement of 4 wheel-drive pickup # 2830 used at Dublin Hills/Pleasanton Ridge (currently budgeted in General Fund)

**Martin Canyon Trail (currently budgeted in General Fund)

^25% replacement of dump truck # 2737 Garin plus 25% purchase of tractor for Garin.Walpert/Meincke/Stonebrae (currently budgeted in General Fund)

^^.25 FTE Ranger II

CFO Rubaloff also remarked that a transfer out of the Two County LLD Fund and into the Other than Asset Fund in the amount of \$600,000 is being requested, and a corresponding increase in 2011 project budget 505400. This funding was requested by Diane Althoff, Chief of Design and Construction, and Anne Scheer, Chief of Maintenance and Skilled Trades and will be used to supplement the current Lafayette/Moraga Trail rehabilitation budget, allowing expansion of the project from 2.2 miles of pavement rehabilitation to a total of 4.8 miles.

Director Ayn Wieskamp questioned the importance of the additional funding for the Lafayette/Moraga Trail. AGM Mike Anderson responded that the District has money

coming in from the Federal Government to help the project and it is good leverage and will improve a trail that is in very poor shape.

The supplemental funds from the Two County LLD will fund all “add alternates”, plus permit fees, testing, inspection, contract administration and design support.

CFO Rubaloff informed the committee of an error in the county collection fees in Fund 226, Measure CC contained in the original budget that needs to be corrected.

- Collections fees are approximately \$85,000/year, based upon revenue collected, but were erroneously budgeted at \$2,000 in the 2011 budget.

Moved by Director AynWieskamp and Seconded by Director John Sutter that the Finance Committee Recommend to the Full Board of Directors Approval of the 2011 Mid-Year Budget Adjustments to Special Revenue Funds: Two County LLD, ECCC LLD, Zones of Benefit and Measure CC. Motion Approved.

Agenda Item No. 6
2012 Budget Calendar

Budget Manager Pam Burnor reviewed with the Committee the District’s 2012 budget process. The budget process is a vital tool for establishing public policy, maintaining control over the management of resources, and implementing fiscal plans.

Board Workshops:

- The 2012 planning began early this year, with the first of the Board Workshops in February and the last one in June to address capital, land acquisition and trail projects.
- The workshops facilitate a discussion between the Board and staff on the priorities and strategies for these projects for the upcoming budget, including the Capital Improvement Plan.

Following is the Budget Preparation Activities, by Month:

July	Position Budgeting
July	Budget Objectives
August	Preliminary budget Preparation
September	Budget Prioritization
October – December	Board and Public Review
February 2012	Budget Books Distributed

Budget Manager Burnor then appraised the ongoing budget monitoring:

- Each quarter, Finance provides the Board Finance Committee with quarterly financial reports.
- The reports provide budget versus actual comparisons for the current year and comparisons of like quarters from the prior year.
- An analysis of significant variances is included for each major revenue and expenditure sections of the reports.

Pam Burnor went over the process for budget amendments:

- The budget can be amended during the year as approved by the Board of Directors.
- This occurs either on a case-by-case basis or during the “mid-year review” process.
- The mid-year review provides a snap shot of the District’s financial position and takes a hard look at the revenue and expenditure assumptions used in the budget as compared to actual results for the first six months of operation.
- The mid-year process typically begins in June following completion of the prior year’s CAFR and concludes in August or September based on timing of the State Budget approval, information on tax receipts and analysis of expenditure trends.

Recommendation: None. This is an informational item only.

Agenda Item No. 7
2012 Measure CC Expenditure Plan

AGM Dave Collins reviewed with the committee the provisions of the Measure CC Expenditure Plan:

- The Measure requires an annual expenditure plan to be adopted by the Board of Directors.
- The District engages the services of a consulting firm to assist in developing the required documentation for both Measure CC and the District’s Landscape and Lighting Districts.
- Staff institutes an RFP process every several years to seek a qualified firm for this work, and the 2011 process resulted in the selection of NBS.

- For this first transition year NBS performed an audit of existing parcel data and historical levy amounts for the Measure CC Zone I special tax area, and prepared a tax report specifying the basis and amount to be levied for the 2011/12 tax year.
- The tax report is based on proposed Measure CC expenditures for 2012 as reviewed by the Board at their April 20, 2011 workshop.
- The revenues and expenditures proposed in the Tax Report are consistent with Measure CC as it was approved by voters.
- The purpose of this Finance Committee item is to review the proposed expenditure plan and recommend it be adopted as the basis of the 2011/12 Tax Report and 2012 Budget.

AGM Collins reported that through the audit process, several inconsistent variations in the types of parcels included or excluded from the tax were identified and brought into conformance with the governing documentation:

- These variations have arisen over time as a result of differing policy language interpretations by staff or consultants, changes in county records, simple errors or omissions, or a misapplication of the methodology.
- This initial audit, performed as a result of changing service providers, is an important practice that ensures a complete review and cleanup of the program by “fresh eyes” every several years.
- It also provides an opportunity to clearly document the applied methodology for future application.

AGM Collins stated that approval of the CC Expenditure Plan will establish the plan for the seventh full year of the Measure CC program:

- The first appropriations from this program were authorized in late 2005.
- Including 2006 through 2011, a total of \$12,518,024 has been appropriated to capital projects and \$5,680,702 budgeted for operating expenditures.
- It should be noted that any unspent operating funds are rolled back to the measure’s fund balance and re-credited to the originating project’s unexpended fund balance for future appropriation by the Board to appropriate projects.

AGM Collins noted that the combined total of operating funds reverted back to projects in 2006 through 2010 was \$919,605. Along with \$11,921 in unspent

encumbrances, a total of \$931,526 has been returned to the fund balance for expenditure in future years.

AGM Collins explained that the Measure CC tax report is prepared, and tax revenues are collected, on a fiscal year basis. However, the District operates on a calendar-year budget; therefore the Measure CC budget has been adjusted to a calendar-year expenditure plan to match our standard practice for budgeting and in our Comprehensive Annual Financial Report.

Revenue provided from this 2011/12 Tax Report will be used to fund the 2012 projects:

- Measure CC revenues for the 12-month period of July 1, 2011 to June 30, 2012 are estimated to be \$3,227,150.
- County collection fees and consulting fees are estimated to be \$83,345 and \$15,000, respectively.
- This will yield net revenue to the District estimated at \$3,128,805.
- This revenue will be appropriated as part of the 2012 annual District Budget.

Expenditures:

- Appropriations for expenditures of the Measure CC funds are proposed to be consistent with the schedules previously reviewed by the Board of Directors.
- The total appropriation for 2012 Measure CC projects is \$3,943,813; \$2,949,029 for capital/one-time uses and \$994,784 in operating budgets.

AGM Dave Collins continued that Measure CC language includes commitments that, over the life of the program disbursements will include:

- 33% of the funds to be used for resource-related projects.
- 57% for public safety/infrastructure/program and improvement projects.
- 10% reserve held for future opportunities as identified by the Board of Directors.

From 2005 through the proposed budget for 2012, 32% of the funds appropriated are for resource-related projects.

AGM Collins reported on the Reserve, Fund Balance and Equitable Distribution of Funds Policy:

- The 10% Reserve for Unknown Events and Opportunities is accruing in the Measure CC Fund Balance and will total \$2,005,456 by year-end 2011.
- The excess of revenues collected over appropriations for expenditures is also accruing in the Measure CC Fund Balance.
- This fund balance is being intentionally accrued to fund major capital projects in future years, including a project at the Richmond Shoreline, which will entail the removal of industrial debris, cleanup and enhancement of shoreline habitat north of Miller-Knox Regional Shoreline to Point San Pablo, anticipated to begin in 2014.
- To fund both the ongoing expenses and several major projects in the next few years, it will be necessary at times to temporarily utilize a portion the fund balance that is being reserved as the 10% contingency.
- This appropriation of funds will be for cash flow needs only, will not constitute an increase in the CC allocation to any project, and will be re-built in the reserve over the subsequent several years.
- Absent any use of funds authorized by future Board action, the fund balance accumulated by 2020 is anticipated to be approximately \$4.7 million.

AGM Collins informed the committee that the Board also requested that staff provide information annually to show that the Measure CC revenues are being used to augment, not supplant, the District's appropriation of other funds to parks and facilities in the Measure CC area.

- Staff presented to the Board at the April 20, 2011 Workshop a summary listing, by Metro Area and Park, of the operating budget appropriations for 2006 through 2011 from General and Special Revenue Funds as listed in the District's adopted annual budget.
- The metro-area appropriation of all operating funds, not including Measure CC, grew on average at similar rates since 2005 as follows:

Diablo Metro Area grew by	5.6%
South Metro Area grew by	2.5%
West Metro Area grew by	2.4%

Moved by Director AynWieskamp and Seconded by Director John Sutter to direct staff to submit the Measure CC 2012 budget to the Board of Directors for consideration during the 2012 Budget Process and adopted as the basis for the 2011/12 Measure CC Tax Report. Motion Approved.

Agenda Item No. 8
Cancel July Finance Committee Meeting

CFO Cinde Rubaloff reported that because of a lack of agenda items the July meeting should be cancelled.

There was consensus that the July meeting should be cancelled.

Agenda Item No. 9
Public Comment

CFO Cinde Rubaloff reported on behalf of Risk Manager, Larry Moss. At last month's Finance Committee meeting Larry Moss gave his annual reporting of District insurance coverage's that included earthquake coverage and that he needed time to complete an earthquake model review:

- The model review has been completed and indicates that the District is covered for a value of \$10 million and five buildings. Any (total or separate) damage to the five buildings above the \$10 million is an exposure to the General Fund, in addition to an estimated maximum deductible of \$558,000 (per an earthquake modeling study).
- The cost to fully insure the entire value of \$17 million is \$56,829 more than the estimated \$130,266 in premium for 2011-12.
- The modeling does not predict total devastation of the buildings.
- Each of the buildings has been earthquake retrofitted.
- The worst case scenario under the modeling is \$3 million in cost to the insurers (plus the estimated \$558,000 deductible payable by the District), substantially below the \$10 million in coverage.
- The District is well positioned to handle the damage to the buildings, but keeping in mind that each disaster has its own set of unique losses, the "risk" remains.

It appears that the present coverage is reasonable and that the additional expense (especially at this fiscal period) may not be warranted.

The Committee members were thankful for the information and no action was required.

Director John Sutter commented that with interest rates at all-time lows is this a good time to reduce outstanding debt. CFO Cinde Rubaloff responded that the District did

refund past debt at the new lower interest rate and at current rates there is no advantage to re-financing current debt.

There was no action required.

There were no other public comments.

Director John Sutter adjourned the meeting at 2:25P.M. The next meeting of the Board Finance Committee is scheduled for **12:45P.M. on Tuesday, August 23, 2011**, in the Board Room, Peralta Oaks.

Respectively Submitted

Robert W. Stagnaro
Confidential Secretary
Finance Department