

**MINUTES OF A REGULAR MEETING  
OF THE FINANCE COMMITTEE  
OF OLIVENHAIN MUNICIPAL WATER DISTRICT**

**February 7, 2024**

A regular meeting of the Finance Committee of Olivenhain Municipal Water District was held on Wednesday, February 7th, 2024, at the District office, 1966 Olivenhain Road, Encinitas, California via teleconference and in person.

Director Meyers called the meeting to order at 2:01pm. In attendance were Neal Meyers, Board Treasurer; Lawrence A. Watt, Board Secretary; Kimberly Thorner, General Manager; Rainy Selamat, Finance Manager; Leo Mendez, Accounting Supervisor; Jared Graffam, Financial Analyst II; Georgeanna Clark, Financial Analyst I; and Lindsey Stephenson, Engineering Manager. Also in attendance were Sudhir Pardiwala and John Wright from Raftelis regarding agenda item 6.

1. CALL TO ORDER

2. ROLL CALL (BOARD MEMBERS)

3. ADOPTION OF THE AGENDA

Director Watt moved to adopt the agenda, seconded by Director Meyers, and carried unanimously.

4. PUBLIC COMMENTS

There were no public comments.

5. CONSIDER APPROVAL OF THE MINUTES OF THE NOVEMBER 2, 2023 REGULAR FINANCE COMMITTEE MEETING

Director Watt moved to approve the November 2nd, 2023 meeting minutes, seconded by Director Meyers and carried unanimously.

6. REVIEW OF 2024 WASTEWATER RATE STUDY WITH RAFTELIS FINANCIAL CONSULTANTS

Finance Manager Selamat briefed the committee on the agenda item and introduced Mr. Sudhir Pardiwala from Raftelis. Mr. Pardiwala presented the results of the 2024 Wastewater Rate Study (Study) to the committee noting the goal of the Study is to ensure the District sets wastewater rates at a level that allows the District to recover its projected operating and capital costs over the next five years. Mr. Pardiwala then

presented a graph to the committee illustrating that the District's previous wastewater rate increases, determined in the 2020 Cost of Service Study, were not enough to keep up with the increases in CPI and capital costs. Director Meyers asked if CPI is included in the proposed rate increases. General Manager Thorner responded that the Study includes certain assumptions for future CPI increases which are factored into the proposed rate adjustments.

Engineering Manager Stephenson presented a summary of the major capital projects scheduled for the next five years which are included in the Study, the importance of certain projects that cannot be delayed, as well as the projects that were able to be moved to later years in order to help smooth out capital expenditures. Director Meyers asked why projects that are six to ten years out are also included in the five-year cost of service study. Mr. Pardiwala explained that it is to help ensure the District remains in a strong financial position beyond the five-year rate study period and to avoid rate spikes in future years.

Mr. Pardiwala recommended that the District implement a 5.5% rate increase each year for the next five years and issue \$6.5 million in debt in fiscal year 2026. Mr. Pardiwala explained that he and his team considered several factors, including the District's operating and capital expenses and financial policies when calculating the net revenue requirement for the next five years. Director Meyers why Raftelis is recommending rate a debt issuance in addition to issuing debt. Mr. Pardiwala explained that without the debt issuance the rate increases would have to be higher, at about 7-8%, in order to cover the net revenue requirement. Mr. Pardiwala added that by issuing debt, the District is able to spread out the necessary rate adjustments over a longer period while keeping the year-to-year increase at a lower level. Director Meyers asked what the debt would be used for. General Manger Thorner added that the debt would be used to cover expenses for upcoming capital projects included in the Study. Finance Manager Selamat added that the funds will be used up within five years to avoid arbitrage, but that it would be ideal to use the funds within three years, as the rate study forecasts. Director Watt noted that the total proposed increases across the five years is 27% in total, and asked what the increase was over the prior five years. General Manager Thorner explained that the annual increases in the prior 5 years were 2-3% per year. She added that during the COVID -19 pandemic, the Board chose not to raise rates for one year, due to the pandemic's financial strain to customers. Director Meyers asked how much of the 5.5% increase is driven by increases in operating costs and how much is driven by capital projects. Mr. Pardiwala presented a slide illustrating the total expenses for each fiscal year in the Study by type (operating, capital, debt service), and how much of the total expenses each year would be covered by rates vs reserves.

Mr. John Wright with Raftelis presented the process involved in conducting a cost-of-service analysis. Mr. Wright stated the same methodology was used with the 2024 study as was used in the previous 2020 Cost-of-Service Study, which follows the industry standard. Mr. Wright then presented the proposed rates for each customer class over

the next five years and the financial impact on a typical customer's bill. Mr. Wright also presented a bill comparison survey comparing the District's current and proposed rates to the rates at other local agencies. Director Meyers inquired about why the District's rates are higher than several other local districts. General Manager Thorner explained that it is due to several factors including service area topography, since our system requires pumping in certain areas adding to the overall cost, and economies of scale resulting from the District's wastewater treatment plant being smaller compared to other local districts.

Director Meyers and Director Watt agreed to bring the proposed rate increases before the full Board of Directors for discussion at the next meeting.

7. REVIEW OF DISTRICT INVESTMENTS AND CASH REPORT FOR FOURTH QUARTER 2023

Finance Manager Selamat reviewed the investment report as of December 31, 2023, with the committee. Cash and investments were discussed. Finance Manager Selamat reported that the current yield on District investment portfolio has increased slightly compared to the last quarter due to replacing matured securities with higher yields based on the market. Finance Manager Selamat noted that as securities mature the District is replacing them with shorter maturities to take advantage of the current market conditions.

Finance Manager Selamat reported that District investments are in compliance with the District's Investment policy and that the District has sufficient funds to meet its financial obligations for the next 6 months.

Finance Manager Selamat next presented the summary of fund balances over the previous 5 years which was requested by the committee at the August 8<sup>th</sup>, 2023, meeting. Director Meyers noted that the Water Operating Fund is nearing the maximum balance limit and asked what the policy is when a fund exceeds its maximum balance. Finance Manager Selamat explained that each year, after the audit has been completed, the Fiscal Year end balances are reviewed. If a fund balance exceeds the maximum balance set by the policy, it is brought to the Board with staff recommendations on whether the money should be transferred to a different fund or remain in its current fund.

7a. UPDATE LIST OF OMWD APPROVED INVESTMENT BROKERS

Finance Manager Selamat explained that one of the District's current approved brokers, Mutual Securities, can no longer provide brokerage services for the District so staff is recommending the District add Multi-Bank Securities, Inc. to the list of approved brokers. This would allow the District to have three approved brokers to choose from, to get competitive quotes. Director Meyers asked why staff recommends having three

approved brokers. General Manager Thorner responded the Board has preferred to have at least three brokers in the past so the District is less dependent on any one broker.

Director Meyers and Director Watt voted to bring the motion before the full Board of Directors at the next meeting.

8. RECEIVE REPORT ON SURVEY OF RESERVE POLICIES (INFORMATIONAL ITEM)

Finance Manager Selamat introduced the item to the Committee, a survey of reserve policies of other water districts. Director Meyers asked where staff believes our policy stands versus the policies of other districts shown. Finance Manager Selamat responded that the District's current policy is a good fit for the District's needs, and that a Fund Balance Reserve Policy is not a "one size fits all" when compared to different districts. Finance Manager Selamat added that when comparing fund balance policies to other agencies, certain factors should be considered, including debt, operating structure is, and the balance of fixed versus variable costs regarding other agencies' revenue and expenses. Director Meyers stated that he wanted to make sure our policy was not causing us to raise rates more than necessary. Finance Manager Selamat responded that maximum balances in the policy are set at a reasonable level compared to other districts and that the policy is not having a negative effect on rates. Director Watt asked if our fund balance reserve policy has ever been checked for reasonableness. General Manager Thorner responded that the District has previously worked with a consultant to review the reasonableness of the District's Reserve Policy and that the consultant had recommended the District increase its minimum reserve balance for one of the funds.

9. FUTURE AGENDA ITEMS/INFORMATION

There were no future agenda items requested.

10. ADJOURNMENT

The meeting was adjourned at 3:26pm.