

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

August 8, 2023

A regular meeting of the Finance Committee of Olivenhain Municipal Water District was held on Tuesday, August 8th, 2023, at the District office, 1966 Olivenhain Road, Encinitas, California.

Director Meyers called the meeting to order at 2:31pm. 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; and Georgeanna Clark, Financial Analyst I. Also in attendance were Kenneth Pun and Coley Delaney from The Pun Group, LLP, and Shannon Ayala from Davis Farr, LLP, for their respective interview portions regarding agenda item 8.

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 MAY 8, 2023 REGULAR FINANCE COMMITTEE MEETING

Director Meyers moved to approve the May 8, 2023, meeting minutes, seconded by Director Watt and carried unanimously.

6. QUARTERLY REVIEW OF INVESTMENTS REPORT AND CASH REPORT (2nd QTR 2023)

Finance Manager Selamat reviewed the investment report as of June 30, 2023, with the committee. Cash and investments were discussed. Finance Manager Selamat reported that the current yield on the District's investment portfolio has increased since the last quarterly update due to replacing matured securities with higher yields.

Finance Manger Selamat discussed the new California Bank and Trust Money Market account that the District opened in July 2023 to take advantage of current Money Market yields. The account will earn an interest rate of 4.56% on its current \$4 million balance and is in compliance with the District's investment policy.

Director Meyers inquired if staff could provide a report showing the different fund and reserve balances for the last 5 years for comparative purposes. Finance Manager Selamat responded that staff has the data and will compile it into a graphical chart for presentation at the next committee meeting.

Finance Manager Selamat reported that the District's 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 60 days.

7. CONSIDER AND DISCUSS OPTIONS FOR 2024 WATER RATES AND CHARGES

Finance Manager Selamat presented an overview of the 2024 purchased water wholesale cost increases from San Diego County Water Authority (SDCWA), increases in recycled water costs from the District's recycled water suppliers, and the inflationary pass-through based on the prior year's consumer price index increase for San Diego (SDCPI). Finance Manager Selamat explained that these are pass-through increases included in the Rate Ordinance and adopted by the Board to pay for increased costs of providing water services to OMWD customers.

Included in Finance Manager Selamat's presentation was a graph from SDCWA showing the estimated impact of their 2024 rate increases on the 24 member agencies. Director Watt asked why some agencies show a decrease in purchased water fixed costs while the majority show an increase. General Manager Thorner explained that the allocation of fixed costs to each member agency varies by agency based on rolling averages of historical water purchases. Those agencies that showed a decrease in SDCWA's fixed costs most likely have alternative local water supplies which make them less reliant on SDCWA to meet their demands, especially during wet weather conditions, such as Sweetwater Authority.

Finance Manager Selamat then presented three rate options for passing through the increased cost of purchased water and inflation adjustments based on SDCPI. Option 1 would increase the commodity and system access charge (SAC) not to exceed 9% per the District's Prop 218 notice, Option 2 would pass through the maximum SAC allowed per the District's Prop 218 notice, and Option 3 would increase rates by SDCPI only. Finance Manager Selamat noted that all three options would not fully pass through the combined purchased water wholesale cost increases and inflation increases which exceeds the District's Proposition 218 Notice limit of 9%. Hence, the District will need to use funds available from its reserves to cover the shortfall.

Director Meyers raised concerns about utilizing District's reserves, including the MWD refund of approximately \$500,000, to cover the shortfall in revenue and inquired if cutting costs is an option. Director Watt expressed concern with deviating from District past practices in adjusting its water rates and charges. Finance Manager Selamat and General Manager Thorner addressed the committee's concerns by explaining additional cost cutting measures which lead to a deeper budget cut, will potentially impact the level of services provided by the District to its customers. General Manager Thorner also added that there is currently no plan to use rate stabilization reserve funds, and that the MET litigation refunds of \$500,000 were placed in the District's Operating Reserves to offset unexpected cost increases.

Director Meyers and Director Watt agreed to bring all three options before the full Board for further discussion and consideration at the September 2023 board meeting.

8. CONDUCT INTERVIEW OF AUDITING FIRMS AND SELECT A NEW AUDIT FIRM FOR THE DISTRICT

Finance Manager Selamat informed the committee that staff sent out requests for proposal to six audit firms and received two proposals back. One proposal was from the District's current audit firm, The Pun Group, LLP, and the second was from Davis Farr, LLP. Finance Manager Selamat noted that both firms are present and ready to be interviewed when called upon. Director Watt asked if we heard back from the other four firms. Finance Manager Selamat replied that only two of the other firms replied stating they did not have enough resources to take on new engagements.

The committee received presentations and conducted interviews with each firm separately. Questions were asked by the committee related to auditor independence, Governmental Accounting Standards Board (GASB) compliance and implementation, experience in conducting single audits, use of technology, and the ability to provide key financial ratios with a comparison to other Districts.

The committee discussed the candidate CPA firms and recommended The Pun Group continue as the District's audit firm, with a rotation of the audit staff and partner overseeing the audit, for consideration and approval by the Board at the September 2023 meeting.

9. FUTURE AGENDA ITEMS/INFORMATION

There were no future agenda items requested.

10. ADJOURNMENT

The meeting was adjourned at 4:08pm.