

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

**November 2, 2023**

A regular meeting of the Finance Committee of Olivenhain Municipal Water District was held on Thursday, November 2nd, 2023, at the District office, 1966 Olivenhain Road, Encinitas, California via teleconference and in person.

Director Meyers called the meeting to order at 1:01pm. 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; and Georgeanna Clark, Financial Analyst I. Also in attendance were Kenneth Pun and Coley Delaney from The Pun Group, LLP 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 AUGUST 8, 2023 REGULAR FINANCE COMMITTEE MEETING

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

6. REVIEW AND DISCUSS FISCAL YEAR 2022-23 AUDITED FINANCIAL STATEMENTS AND SINGLE AUDIT

Finance Manager Selamat introduced Kenneth Pun and Coley Delaney from The Pun Group (the District's audit firm). Mr. Pun provided an overview of the audit process and discussed the District's audited financial statements with the committee. Mr. Pun stated that there were no material findings during the audit and his team did not encounter

any difficulties in performing their audit. He also stated that the District received a clean audit and no material weaknesses or significant deficiencies in internal controls were noted.

Mr. Pun reported that Governmental Accounting Standards Board (GASB) No. 96 – Subscription-Based Information Technology Arrangements went into effect during the fiscal year under audit and had a minor effect on the District’s financials as of June 30, 2023, and that the prior year financials were restated to include GASB 96 adjustments for comparative purposes. Mr. Pun stated GASB 96 was created to increase the usefulness of governments’ financial statements by requiring recognition of certain Subscription-Based Information Technology Arrangements liabilities that previously were not recognized.

Mr. Delaney then presented an overview of the District’s audited financial statements and other pertinent information, such as key financial indicators and pension information. Key financial indicators that were presented included a comparison with the average of ten local districts, and Mr. Delaney added that the District performs better than its peers across the presented financial indicators. Mr. Delaney noted the most significant variances from the prior year financials were due to an increase in the pension-related deferred outflows and net pension liability, and a decrease in pension-related deferred inflows which fluctuate from year-to-year based on California Public Employees Retirement System (CalPERS) actuarial assumptions. Mr. Delaney also noted a significant decrease in water sales and purchased water costs compared to the prior year due to lower-than-average water demand caused by wet weather conditions during the year.

Director Meyers inquired about the operating loss shown in both fiscal year 2023 and 2022. Finance Manager Selamat explained that the operating losses were mainly caused by the depreciation expenses, which is a non-cash item. General Manager Thorner added that the District has not operated at a true loss since fiscal year 2006. Director Watt asked what the District did in 2006 to cover the operating loss. General Manager Thorner responded that funds from operating reserves were used to cover the deficit.

Director Meyers asked why the District had a larger change in net position in fiscal year 2023 compared to 2022. Finance Manager Selamat explained that it was mainly due to contributed assets from grant revenue. Accounting Supervisor Mendez provided more information on the different grant revenues the District recognized in fiscal year 2023, and added that the significant increase in interest income on the District’s investments in 2023 compared to 2022 also contributed to the positive change in net position.

Director Watt thanked and congratulated staff for consistent clean audits each year. Director Meyers agreed and moved to approve the presented financial statements and annual comprehensive financial report. Director Watt seconded the approval.

7. REVIEW STAFF'S REPORT ON DISTRICT PENSION PLANS FUNDING STATUS WITH CALPERS AND DISCUSS STAFF'S RECOMMENDED PENSION FUNDING PLANS FOR 2023

Finance Manager Selamat presented the District's pension funding status to the committee based on the most recent actuarial report available from CalPERS. Finance Manager Selamat reported the District's pension funding status as of June 30, 2022 (the most current available) was lower compared to fiscal year 2021 due to CalPERS' negative investment returns. Finance Manager Selamat then reported that for fiscal year 2023, CalPERS earned positive returns on its investment (5.8%) due to changes in market conditions, which will likely result in an increase to the District's pension funding status as of June 30, 2023.

Finance Manager Selamat also presented staff's recommended pension funding plan for 2023 which include: (1) making a \$311,000 Additional Discretionary Payment (ADP) before December 31, 2023, and (2) transferring \$500,000 to the Water Pension Stabilization Fund and \$50,000 to the Wastewater Pension Stabilization Fund from the Water and Wastewater Operating Funds, respectively. Director Meyers inquired on how annual transfer to Pension Stabilization Fund was determined. Finance Manager Selamat explained that the \$500,000 annual transfer was included in the District's Long Range Financial Plan and is budgeted based on the 13-year Fresh Start program included in the pension funding policy approved by the Board in December 2022 to reduce the District's Unfunded Accrued Liability (UAL) and interest savings. Finance Manager Selamat added that the annual discretionary payments will be paid from the Pension Stabilization Fund and that the payments require Board approval and will bring the District closer to its minimum target funded ration of 85% as outlined in the District's pension funding policy.

The committee thanked staff for the presentation and recommended bringing this item before the full Board for consideration.

8. QUARTERLY REVIEW OF INVESTMENTS AND CASH REPORT (3rd QTR 2023)

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

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.

Director Meyers asked how our fund balances compare to other districts. General

Manager Thorner explained that adequacy of each district's fund balances will vary depending on each district's financial condition. One of the key financial ratios presented earlier in the meeting, current assets compared to current liabilities, is a good indicator for determining how easily a district can meet its current debt obligations utilizing current assets on hand. Director Meyers requested staff provide more information on other districts' fund balance policies for comparison. Staff agreed to look further into his request and provide more information at the next meeting. Director Watt added that JPIA provided input on the District's reserves policy in the past which we was used to increase the reserve requirements.

9. ANNUAL REVIEW OF INVESTMENT AND BOARD DESIGNATED FUND BALANCES (RESERVES) POLICIES AND PROPOSED CHANGES TO THE POLICY FOR 2024

Finance Manager Selamat reported that Richard Babbe, Senior Managing Consultant at PFM Asset Management (PFM), reviewed the District's annual investment policy and recommended certain updates which include: deleting the net asset value requirement in the policy to provide more flexibility for other types of investments, such as CAMP Term; deleting duplicative language throughout the policy; and updating the rating requirements throughout the policy to reference Nationally Recognized Statistical Rating Organization (NRSRO) rather than specific agencies (Moody's, S&P, or Fitch) which is more in line with the California Government Code. Finance Manager Selamat also reported that the District's investment policy was reviewed by California Municipal Treasurer's Association (CMTA) as part of their investment policy review program, and the recommended updates from CMTA were included as proposed changes for the committee's consideration.

Director Meyers inquired if there would be any financial impact from the proposed changes to the investment policy. General Manager Thorner replied that there would not be any financial impact. Finance Manager Selamat added that there would be no changes to the District's Board Designated Fund Balance (Reserves) policy.

The proposed changes to the Investment policy were approved by the committee to be presented to the full board.

10. FUTURE AGENDA ITEMS/INFORMATION

There were no future agenda items requested.

11. ADJOURNMENT

The meeting was adjourned at 2:20pm.