

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

November 9, 2022

A regular meeting of the Finance Committee of Olivenhain Municipal Water District was held on Wednesday, November 9th, 2022, at the District office, 1966 Olivenhain Road, Encinitas, California via teleconference and in person.

President Watt called the meeting to order at 10:30 a.m. In attendance were Lawrence A. Watt, Board President; Kimberly Thorner, General Manager; Rainy Selamat, Finance Manager; Leo Mendez, Accounting Supervisor; Jared Graffam, Financial Analyst II; and Georgeanna Clarke, Financial Analyst I. Also in attendance via teleconference were Kenneth Pun and Coley Delaney from The Pun Group, LLP, the District's auditors. It was noted that Director Guerin, Board Treasurer, was unable to attend the meeting. Per the District's Administrative and Ethics Code, Finance Manager Selamat acted as Deputy Treasurer for the meeting.

1. CALL TO ORDER

2. ROLL CALL (BOARD MEMBERS)

3. ADOPTION OF THE AGENDA

Director Watt moved to adopt the agenda, seconded by Finance Manager Selamat and carried unanimously.

4. PUBLIC COMMENTS

There were no public comments.

5. CONSIDER APPROVAL OF THE MINUTES OF THE OCTOBER 4, 2022, SPECIAL FINANCE COMMITTEE MEETING

Director Watt moved to approve the October 4, 2022, meeting minutes, seconded by Finance Manager Selamat and carried unanimously.

6. REVIEW AND DISCUSS FISCAL YEAR 2021-22 AUDITED FINANCIAL STATEMENTS

Finance Manager Selamat introduced Kenneth Pun and Coley Delaney from The Pun Group (the District's audit firm). Mr. Pun reviewed 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. 87 – Leases went into effect during the fiscal year under audit and had a significant effect on the District's financials as of June 30, 2022, and that the prior year financials were restated to include GASB 87 adjustments for comparative purposes. Mr. Pun stated GASB 87 was created to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The resulting effect on the District's financials was the addition of a significant asset to recognize a receivable for future year lease payments per the contracts in place, offset by a deferred inflow for the lease payments. Finance Manager Selamat commented that the District has several multi-year cell tower leases with different carriers which is an additional revenue stream for the District, and the reason for the GASB 87 adjustments.

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. Mr. Delaney noted the most significant variances from the prior year financials were the decrease in pension liability, increase in restricted cash from the issuance of the 2021A Bonds, and a negative fair market value adjustment on the District's investments due to changes in market conditions. Director Watt inquired as to the cause for the significant reduction in the net pension liability. Mr. Delaney responded that it has to do with the high return that CalPERS earned on its investments in fiscal year 2021 which reduced the pension liability for fiscal year 2022.

Director Watt asked what the key takeaways are from this year's financial audit. Mr. Pun responded that it starts with the tone at the top. The District has a supportive Board and a strong management team that focuses on sound financial reporting and effective internal controls. Mr. Pun further stated the District is financially strong and maintains its records for audit trails. Mr. Delaney added that the implementation of GASB 87 utilizing the District's internal resources is also noteworthy. Other audit clients would have already outsourced the task to consulting firms.

7. REVIEW AND DISCUSS QUARTERLY INVESTMENTS AND CASH REPORTS (3RD QUARTER 2022)

Finance Manager Selamat reviewed the investment report as of September 30, 2022, with the committee. Cash and investments were discussed. Finance Manager Selamat reported that staff has been transferring a portion of the District's investments in Local

Agency Investment Fund (LAIF) to California Asset Management Program (CAMP) for higher yields. Finance Manager Selamat stated that CAMP is more susceptible to change in market condition than LAIF since CAMP's portfolio is mostly short-term securities such as commercial papers and short-term corporate notes and bonds. Finance Manager Selamat also reported that the District had a significant fair market value adjustment which resulted in an unrealized loss on investments as of June 30, 2022. Finance Manager Selamat further explained that an unrealized loss from mark to market adjustments is not affecting the District's cash and has no impact on the District's cash flow because these securities will be held until maturity.

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 120 days.

8. ANNUAL REVIEW OF INVESTMENT POLICY FOR 2023 AND DISCUSS PROPOSED CHANGES TO THE DISTRICT'S BOARD DESIGNATED FUND BALANCES (RESERVES) POLICY FOR 2023

Finance Manager Selamat reported that Richard Babbe with PFM Asset Management (PFM) reviewed the District's annual investment policy and concluded that the current policy is in compliance with California Government Code sections that govern the investment of public funds. Finance Manager Selamat stated the only proposed changes to the current policy is to extend the term of the policy until December 2023.

Director Watt inquired about Richard Babbe with PFM. Finance Manager Selamat responded that PFM is the investment agency overseeing the CAMP investment pool, and Mr. Babbe, PFM Senior Managing Consultant, is well respected and has been with the firm for over 25 years and has provided valuable feedback and investment advice to the District over the last 25 years.

Finance Manager Selamat then presented proposed changes to the District's Board Designated Fund Balance (Reserves) policy to add a Pension Stabilization fund within both the Water and Wastewater funds, and to be consistent with the Pension Stabilization policy adopted by the Board in June 2022. General Manager Thorner reiterated to the committee that the Board already approved the Pension policy in June, so staff is now revising the District's Board Designated Fund Balances (aka Reserves) policy to align with the District's Pension policy.

The proposed changes to both the Investment and Reserve policies were approved by the committee to be presented to the full board at its December 2022 meeting.

9. REVIEW STAFF'S REPORT ON THE DISTRICT'S PENSION PLANS FUNDING STATUS WITH CALPERS AND DISCUSS STAFF'S RECOMMENDED PENSION FUNDING PLANS FOR 2022

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, 2021 (the most current available) was higher compared to fiscal year 2020 due to CalPERS' investment returns. Finance Manager Selamat then reported that for fiscal year 2022, CalPERS earned negative returns on its investment (-6.1%) due to changes in market conditions, which will result in a decrease to the District's pension funding status as of June 30, 2022.

Finance Manager Selamat also presented staff's recommended pension funding plans for 2022 which include: (1) making a \$311,000 Additional Discretionary Payment (ADP) before December 31, 2022 and (2) modifying the amortization schedule of the District's Unfunded Accrued Liability (UAL) over a period of 13 years or a 13-year "Fresh Start". Finance Manager Selamat mentioned that staff's recommended plans are consistent with the Pension Funding Policy and would result in an interest saving of approximately \$146,976 for the District. Staff also recommended that the committee consider a \$715,000 transfer from Water Operating Fund to Water Pension Stabilization Fund and a \$71,000 transfer from Wastewater Operating Fund to Wastewater Pension Stabilization Fund to pay for the \$311,000 ADP before December 31, 2022 and to provide funds for future ADPs so that the District will be able to achieve its pension funding target stated in the Policy.

Director Watt inquired as to what happens if the plan becomes super-funded (more than 100% funded) and if that has ever happened at the District. Finance Manager Selamat stated if that were to happen staff would bring it before the Board to determine how to best handle the excess funds. General Manager Thorner added that the District did reach super-funded status back in the early 2000's, along with many other districts and agencies throughout the state at that time, but has been below 100% since then.

The committee thanked staff for the presentation and recommended bringing before the full board for consideration at the December 2022 meeting.

10. CONSIDER FUTURE AGENDA ITEMS

There were no future agenda items requested.

11. ADJOURNMENT

The meeting was adjourned at 12:08 p.m.