

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

May 25, 2021

A regular meeting of the Finance Committee of Olivenhain Municipal Water District was held on Tuesday, May 25, 2021, at the District office, 1966 Olivenhain Road, Encinitas, California via video conference.

President Watt called the meeting to order at 10:01 a.m. In attendance were Lawrence A. Watt, Board President; Christy Guerin, Board Treasurer; Kimberly Thorner, General Manager; Rainy Selamat, Finance Manager; Leo Mendez, Accounting Supervisor; and Jared Graffam, Financial Analyst. Director Watt announced that Director Bruce-Lane was also in attendance via teleconference to audit the Finance Committee Meeting, but will not participate per the Brown Act.

1. CALL TO ORDER

2. ROLL CALL (BOARD MEMBERS)

3. ADOPTION OF THE AGENDA

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

4. PUBLIC COMMENTS

There were no public comments.

5. CONSIDER APPROVAL OF THE MINUTES OF THE MARCH 23, 2021 SPECIAL FINANCE COMMITTEE MEETING

Director Guerin moved to approve the March 23, 2021 meeting minutes, seconded by Director Watt and carried unanimously.

6. CONSIDER QUARTERLY INVESTMENTS AND CASH REPORTS (1st QTR 2021)

Finance Manager Selamat reviewed the investment report as of April 30, 2021 with the committee. Cash and investments were discussed. Finance Manager Selamat reported that the District's investments are in compliance with the investment policy and that the District has sufficient funds to meet its financial obligations for the next 120 days.

Director Watt commented that he looks for compliance with the board's investment policy and asked staff if there are any concerns with regards to District investments. Finance Manager Selamat responded there were no concerns and the District's return on investments are in line with other local agencies. General Manager Thorner added that a key component of the District's investment policy is protection of principal rather than chasing yields.

7. REVIEW AND DISCUSS CONTRACT EXTENSION BETWEEN OMWD AND THE PUN GROUP, LLP FOR PROFESSIONAL AUDITING SERVICES FOR TWO YEARS ENDING JUNE 30, 2022 AND JUNE 30, 2023

Finance Manager Selamat presented a proposed contract extension with The Pun Group, LLP for an additional two years of audit services covering fiscal years ending 2022 and 2023. The current agreement is set to expire following the District's fiscal year 2021 financial statement audit. Finance Manager Selamat reported that the total cost for both fiscal years included in the contract extension would be \$52,000, which represents a \$500 increase per fiscal year over the current contract amount. General Manager Thorner added that staff's proposal for a two-year extension of existing professional services is in compliance with the District's Administrative and Ethic's code. Accounting Supervisor Mendez also added that District staff has been pleased with The Pun Group's performance over the past two audits, particularly in light of the pandemic. The Pun Group's use of a secure portal for sharing audit documents was instrumental in completing the audits timely, and allowed for remote access and correspondence throughout the pandemic. Additionally, The Pun Group utilizes artificial intelligence to test financial data which is an added benefit for the District and its rate payers.

Both Director Watt and Direct Guerin commented the \$500 increase in cost per year seemed reasonable based on the services provided and the increase in the consumer price index since the original agreement was signed. Director Watt added that he remembered being impressed with The Pun Group's presentation during the initial auditor selection process. Both Director Watt and Director Guerin agreed to bring the proposal before the full board at the July 14, 2021 board meeting for consideration and approval.

8. CONSIDER AND APPROVE PROPOSED MID-TERM ADJUSTMENTS (FISCAL YEAR 2021/22) TO THE GENERAL MANAGER'S RECOMMENDED BIENNIAL OPERATING AND CAPITAL BUDGET AND UPDATE ON THE DISTRICT'S FIRST TWO-YEAR BUDGET PROCESS

Finance Manager Selamat began with an overview of the biennial budget process and provided an update on the projected actuals for fiscal year 2021. Finance Manager Selamat reported actual water sales are anticipated to be approximately 9.5% above the budgeted amount by year-end. Consequently, the cost of purchased water is estimated to be approximately 9.8% above budgeted as a result of increased water sales. Director

Watt asked what lead to increased sales and if the COVID-19 pandemic had an impact. Finance Manager Selamat responded that the increased water sales is primarily a result of dry weather conditions throughout the winter months. Additionally, the stay-at-home order from the pandemic lead to increased water consumption from residential customers, which was partially offset by a reduction in water consumption from Commercial customers. Director Guerin inquired if any adjustments have been made to projected sales for the next fiscal year. Finance Manager Selamat responded that staff have increased projected sales for the next fiscal year based actual consumption from April 2020 through March 2021.

Finance Manager Selamat commented that actual non-operating revenues are higher than budget because of the one-time rebate payment received from the San Diego County Water Authority in the amount of \$2.03 million, and \$2 million more than budgeted received in capacity revenue collected from developers.

Finance Manager Selamat then presented the staff-proposed adjustments to the fiscal year 2022 operating budget with revised key assumptions based on current information. Finance Manager Selamat explained the mid-term budget process which resulted in an adjustment to reduce the forecasted budget by approximately \$600 thousand. Director Watt asked if the revised budget is subject to change later. General Manager Thorner commented that the revised budget is based on a reduction in the District's controllable expenditures. Uncontrollable expenditures, such as increases in power, materials, and chemical costs over staff's estimates in the revised budget will increase the revised budget.

Finance Manager Selamat provided a summary of the capital budget adjustments proposed by staff which included a \$9 thousand increase in equipment purchases and a \$476 thousand decrease in District CIP for the biennial budget period due to the timing of projects. Financial Analyst Graffam provided a more detailed overview of on-going District projects, timing of planned capital spending, and anticipated grant funding to help offset capital project costs to the District. Finance Manager Selamat commented that the Neighborhood 1 Pump Station and Headworks replacement projects were pushed out to fiscal year 2022 due to funding issues. The District needs to issue \$5 million in sewer bonds to pay for construction.

Director Watt and Director Guerin agreed to bring the proposed budget adjustments to the full board for consideration and approval at the June 16, 2021 board meeting.

9. CONSIDER FUTURE AGENDA ITEMS

There were no future agenda items requested. However, General Manager Thorner announced to the committee that the District just received confirmation from the Fitch rating agency that the District will maintain its AAA bond rating. The AAA rating is the highest possible rating and reflects the financial strength of the District and low leverage ratio.

10. ADJOURNMENT

The meeting was adjourned at 11:11 a.m.