

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

July 11, 2019

A special meeting of the Finance Committee of Olivenhain Municipal Water District was held on Thursday, July 11, 2019, at the District office, 1966 Olivenhain Road, Encinitas, California.

The meeting was called to order at 11:05 a.m. In attendance were Edmund K. Sprague, Board President and Division 5 Director; Lawrence A. Watt, Treasurer and Division 2 Director; Kimberly Thorner, General Manager; Joseph Randall, Assistant General Manager; Rainy Selamat, Finance Manager; John Carnegie, Customer Services Manager; Leo Mendez, Accounting Supervisor; and Jared Graffam, Financial Analyst.

Also in attendance were Sudhir Pardiwala, Executive Vice President at Raftelis Financial Consultants; Hannah Phan, Project Manager at Raftelis Financial Consultants; Jordan Keny-Guyer, Associate at Stifel, Nicolaus & Company, and Steve Linke, OMWD customer. Via teleconference: Robert Porr, Senior Vice President at Fieldman, Rolapp & Associates, Inc.; Lawrence Chan, Associate with Stradling Attorneys at Law; and Sara Mares, NBS.

1. CALL TO ORDER
2. ROLL CALL (BOARD MEMBERS)
3. ADOPTION OF THE AGENDA

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

4. PERSONAL APPEARANCES AND PUBLIC COMMENTS

Steve Linke requested to speak on Agenda Item 7 with regards to the Cost of Service Study and future rate adjustments. His comments are described below in item 7.

5. CONSIDER APPROVAL OF THE MINUTES OF THE JUNE 5, 2019 SPECIAL FINANCE COMMITTEE MEETING

Director Sprague moved to approve the June 5, 2019 meeting minutes, seconded by Director Watt and carried unanimously.

6. REVIEW AND DISCUSS THE ISSUANCE OF OLIVENHAIN MUNICIPAL WATER DISTRICT REASSESSMENT DISTRICT NO. 96-1 LIMITED OBLIGATION REFUNDING BONDS, SERIES 2019

Robert Porr from Fieldman, Rolapp & Associates, Inc. provided a summary of the District's Reassessment District No. 96-1 refinance opportunity. Mr. Porr noted that private placement of the offering over public will attract more favorable rates and allow for quicker turnaround. Mr. Porr also noted that Stifel, Nicolaus & Company were engaged and obtained seven bids from seven financial institutions, with JP Morgan as the lowest bidder.

Mr. Porr stated the refinance will save ratepayers within the Reassessment District 96-1 approximately \$15 a parcel annually, or a total annual debt service savings of approximately \$350,000 over the remaining eight years of the bond. Mr. Porr recommended the Finance Committee move forward with the transaction due to the significant savings.

Finance Manager Selamat explained to the Committee the Refunding Bonds need to be done before the County's deadline to submit reassessments on August 10, 2019 and the bond call date on September 2. If the refinancing approved by the Board, the deal is planned to be closed on July 20, 2019. General Manager Thorner requested approval from Director Sprague and Director Watt to include a resolution for the refinance of the bonds at the July Board meeting. Director Sprague and Director Watt agreed to bring the resolution before the full Board.

7. REVIEW AND DISCUSS 2019 WATER COST OF SERVICE STUDY- WATER RATE OPTIONS PRESENTED BY RAFTELIS

Hannah Phan from Raftelis presented the Water Rates Workshop. Included in Raftelis' presentation was an overview of the revised financial plan, based on input received at the June 5 Financial Plan Workshop with the Committee, cost of service allocation methodology, and water pricing alternatives.

Ms. Phan mentioned that the revised financial plan includes a reduction of the FY 2020 rate increase from 4.8% to 3.7%. Rate increases for FY 2021 through FY 2024 are still contemplated at 5% per year for purposes of the study. Ms. Phan added that the increases will allow the District to meet its debt coverage and reserve balance requirements over the next five years.

Ms. Phan explained that the cost of service allocation methodology for the proposed plan is consistent with the 2014 rate study and that peaking costs have been allocated across all tiers.

Ms. Phan presented three rate-structure designs which included low, medium, and high fixed-cost alternatives. The three rate-structure designs recover the revenue requirement from fixed charges at 20%, 25%, and 30%, respectively. Ms. Phan demonstrated the effect of each scenario to users in different tiers and classes. Ms. Phan also presented an additional three water pricing alternatives in which property tax revenue was used to reduce Tier 1 rates for domestic customers only. Pros and cons related to the alternatives were discussed during the meeting.

Customer Steve Linke presented his concerns over the cost allocation method remaining the same as in 2014. Mr. Linke stated he has presented to the Board and wrote letters to the Board urging the Board to shift some of the fixed charges within the allocation model to variable charges. Mr. Linke added that the San Diego County Water Authority (SDCWA) fixed costs that are passed through to its member agencies are multi-year rolling average charges based on each agency's volume of water purchases over multiple years, and therefore should be considered variable costs. Mr. Linke emphasized that per the proposed plan; low users have the biggest increases compared to high users and asked the District to re-evaluate the rate structure.

Director Sprague thanked Mr. Linke for presenting his concerns to the Committee. Director Sprague discussed the challenges involved in creating a rate structure that affects users of all types. Director Sprague expressed concern over revising the rate structure while being able to meet the districts required debt coverage, reserve balances, and maintain its AAA bonds rating which saves the district money.

Director Watt stated that having 52% of the District's cost drivers under the control of SDCWA makes it difficult to reduce fixed costs. Director Watt stated he is in favor of rate models that have annual incremental adjustments that allow the District to meet its needs while preventing large rate increases for rate payers.

Mr. Linke thanked Director Sprague and Director Watt for their time.

The Committee agreed to eliminate water pricing alternatives that would apply property tax revenue to only Tier 1 domestic users instead of all customer classes from consideration.

Director Sprague and Director Watt requested that the low, mid, and high fixed-fee plan designs with property tax used to offset all customer classes be brought to the July 24th Board meeting for a vote.

8. CONSIDER FUTURE AGENDA ITEMS

No future agenda items were considered.

9. ADJOURNMENT

The meeting was adjourned at 12:30 pm.