

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

September 22, 2021

A special meeting of the Finance Committee of Olivenhain Municipal Water District was held on Wednesday, September 22, 2021, at the District office, 1966 Olivenhain Road, Encinitas, California via teleconference.

President Watt called the meeting to order at 2:00 p.m. In attendance via teleconference were Lawrence A. Watt, Board President; Kimberly Thorner, General Manager; Rainy Selamat, Finance Manager; Leo Mendez, Accounting Supervisor; Jared Graffam, Financial Analyst II; Lora Carpenter from Fieldman, Rolapp & Associates, Inc; Lawrence Chan with Stradling Law; Robert Porr from Fieldman, Rolapp & Associates, Inc.; and Mike Cavanaugh with Hilltop Securities. 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 AUGUST 3, 2021 REGULAR FINANCE COMMITTEE MEETING

Director Watt moved to approve the August 3, 2021 meeting minutes, seconded by Finance Manager Selamat and carried unanimously.

6. REVIEW AND APPROVE BID RESULTS FOR THE PROPOSED PRIVATE PLACEMENT FINANCING PLAN FOR NEW WASTEWATER CAPITAL IMPROVEMENT PROJECTS (2021A) AND REFUNDING OF 2018 SEWER REVENUE BONDS (2021B) AND AUTHORIZE THE GENERAL MANAGER TO ACCEPT BIDS ON BEHALF OF THE DISTRICT

Finance Manager Selamat opened the discussion with an overview of the District's proposal for debt issuance, noting the 2021A sewer bond of \$5 million is to help finance critical capital projects for the sewer system at the 4S Wastewater Treatment Plant, and the 2021B sewer bond of approximately \$4 million is to refinance the existing 2018A sewer bond. Finance Manager Selamat commented that refinancing the 2018A sewer bond with current rates will result in net present value savings of approximately \$243 thousand for the District.

Finance Manager Selamat reported that a total of eighteen requests for proposals were issued of which nine bids were received from different banks. Finance Manager Selamat commented that the purpose of this agenda item is to review and discuss bid results and for the Finance Committee (Committee) to authorize the General Manager to accept and award the recommended and lowest bids so that the quoted borrowing rates included in the proposal will be locked through the anticipated closing date on October 27, 2021, and to direct the District's Financing Team (Team) to proceed with the issuance of 2021A and 2021B sewer bonds as discussed.

Lora Carpenter from Fieldman, Rolapp & Associates, Inc., the District's Municipal Advisor, provided an overview of the bid results to the Committee noting Sterling National Bank (Sterling) provided the best option for both the 2021A and 2021B sewer bonds and is the lowest bidder. Ms. Carpenter commented that California Bank & Trust, the second lowest bidder, had a slightly lower interest rate on the 2021A sewer bonds, but would only provide a fixed rate for the first fifteen years; the remaining five years of the life of the 2021A bonds would be a variable rate. Ms. Carpenter further commented that Sterling provided a fixed rate for the full twenty years for the 2021A bond. Additionally, by utilizing one bank instead of two for the 2021A and 2021B sewer bonds the District will save approximately \$12 thousand in fees. Ms. Carpenter recommended the District pursue the Sterling bids for the 2021A and 2021B bonds for more savings to the District and a fixed debt service payment over the life of the 2021A sewer bonds (twenty years).

Director Watt commented he was happy to see the level of competition among the different banks with their proposals. Director Watt expressed a concern from reviewing the bids summary noting Sterling does not require the District to provide annual reporting. Ms. Carpenter responded that it is not a cause for concern as not all banks require annual reporting for loans. Ms. Carpenter further commented that it is typically a requirement for the District to provide reporting to the bank, and the fact the District undergoes a financial statement audit annually, there is no additional risk to the District.

Director Watt also commented that he is not familiar with Sterling and asked for more background on the bank. Mike Cavanaugh with Hilltop Securities, the District's bond placement agency for 2021A and 2021B sewer bonds, responded that Sterling is a bank based in New York. Mr. Cavanaugh also reported that he has closed several deals with

Sterling recently for his city and municipal clients. Mr. Cavanaugh also added that he is confident in all nine bids received by the District since these bids came from reputable financial institutions. Therefore, it is unlikely for any of these banks to back out or not to meet the agreement.

General Manager Thorner inquired if there is any concern about the current financial news coming out of China and the potential impact on the United States' (U.S.) financial sector. Ms. Carpenter responded that her company has reviewed the statements released by the Federal Reserve and does not believe there is a parallel to the U.S. corporate sector.

Director Watt made a motion to approve the General Manager accepting the Sterling bids on behalf of the District, seconded by Finance Manager Selamat. Finance Manager Selamat informed the Committee that Staff will bring this item forward for approval by the Board at the October 13th meeting.

7. REVIEW AND DISCUSS PASS-THROUGH INCREASES AND ADJUSTMENTS TO OMWD WATER RATES AND CHARGES FOR 2022

Finance Manager Selamat presented Staff-proposed 2022 rate increases for potable and recycled water services, and OMWD fire meter charges totaling a 4.27% revenue increase. Finance Manager Selamat noted the 4.27% revenue adjustment is below the original 5% increase planned for 2022 as part of the District's 2019 Cost of Service study.

Finance Manager Selamat reported the 4.27% revenue increase is primarily to pass-through purchased water wholesale cost increases from San Diego County Water Authority (SDCWA) effective January 1, 2022, and a 1.7% inflationary pass-through based on the over-the-year SDCPI-U increase. Finance Manager Selamat further reported that SDCWA's Board of Directors adopted a 3.3% increase to the County's "All-In" untreated cost per acre foot for calendar year 2022. However, since the actual impact of SDCWA water rate increases varies by each member based on historical purchases, this translates into a 7.3% per acre foot increase to the District's untreated supply rate from SDCWA, a 15.3% increase to the District's transportation rate, and a 2.9% increase in fixed charges from SDCWA effective January 1, 2022.

Finance Manager Selamat stated the District was able to minimize rate increases in 2022 due to conservative financial planning, delaying non-critical water infrastructure projects to future years to reduce near-term capital expenses, and by pursuing funding opportunities from state and federal programs for reimbursement of COVID-19 supply costs. Finance Manager Selamat also noted the proposed rates include a 6.9 cent credit per a unit of water purchased to refund customers the \$2.039 million rebate payment received from SDCWA ("SDCWA Litigation Credit"). The SDCWA Litigation Credit will show as a credit on customer bills and will be spread over a four-year period, or until the \$2.039 million rebate is fully exhausted. Finance Manager Selamat stated the rebate

will help the District maintain its future revenue adjustments from water rates and charges through 2025 at or below the planned rate adjustment of 5%.

Director Watt had questions on delayed projects and recycled water wholesale costs which were addressed by staff during the meeting. Director Watt stated he agrees with Staff's recommendation to spread the rebate credit to customers as previously discussed with the Board, which is over a four-year period starting in 2022 until the \$2.039 million SDCWA rebate payment in the District's Water Rate Stabilization Fund is exhausted, in order to help smooth out future rates adjustments.

Director Watt moved to approve bringing the 2022 water pass-through increases and the SDCWA Litigation Credit forward as presented to the full board for consideration, seconded by Finance Manager Selamat. Finance Manager Selamat stated the 2022 water rates and charges and the SDCWA Litigation Credit, if approved by the Board at the February 2022 meeting, will show up on customer's water bill effective March with water consumption beginning on March 1, 2022.

8. CONSIDER FUTURE AGENDA ITEMS

There were no future agenda items requested.

9. ADJOURNMENT

The meeting was adjourned at 2:55 p.m.