

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

November 8, 2021

A regular meeting of the Finance Committee of Olivenhain Municipal Water District was held on Monday, November 8, 2021, at the District office, 1966 Olivenhain Road, Encinitas, California via a hybrid schedule of in person and teleconference.

President Watt called the meeting to order at 11:00 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 II. Also in attendance via teleconference was Kenneth Pun from The Pun Group, LLP.

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 SEPTEMBER 22, 2021 SPECIAL FINANCE COMMITTEE MEETING

Director Watt moved to approve the September 22, 2021 meeting minutes, seconded by Finance Manager Selamat and carried unanimously. Director Guerin was absent at the September 22nd meeting so Finance Manager was acting treasurer.

6. RECEIVE FISCAL YEAR 2020-21 AUDITED FINANCIAL STATEMENTS INCLUDED IN THE ANNUAL COMPREHENSIVE FINANCIAL REPORT AND DISCUSS AUDIT RESULTS

Finance Manager Selamat introduced Kenneth Pun from The Pun Group (the District's audit firm). Mr. Pun reviewed 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. 84 - Fiduciary Activities, GASB No. 90 - Majority Equity Interests (an Amendment of GASB Statements No. 14 and No. 61), and GASB No. 98 - The Annual Comprehensive Financial Report went into effect during the fiscal year under audit but did not have a material effect on the District's financials.

Mr. Pun presented an overview of the District's audited financial statements and other pertinent information, such as key financial indicators and pension information, in his presentation and discussion with the committee.

Director Watt raised a question on the reduction in liabilities payable from restricted assets compared to the prior year during the presentation. Accounting Supervisor Mendez responded that the change from prior year's number is due to a fluctuation in the District's retention payables when a significant Capital Improvement Project is completed and placed in service, i.e. the New and Remodeled Operations and Administrative Facilities project that was completed in fiscal year 2021.

Director Guerin inquired if the District has a pension liability policy aimed at 75% coverage. General Manager Thorner responded the District currently does not have a pension funding policy but the Board has directed Staff to make additional discretionary payments annually not to exceed 40% of the District's minimum Unfunded Accrued Liability amount required by CalPERS.

Director Watt commented the Annual Comprehensive Financial Report was well written and addressed several questions he had while reviewing the financial statements. Director Watt asked Mr. Pun if there is anything the board should be concerned about with regards to the recent audit. Mr. Pun responded that no issues were found while conducting the audit and the District's strong leadership team and internal controls help mitigate the risk of material misstatements in the financials.

Finance Manager Selamat reported that the District did better in fiscal year 2021 compared to fiscal year 2020. Unrestricted Cash in fiscal year 2021 increased compared to fiscal year 2020 primarily due to the increase in water sales, proceeds from selling of the District's parcels at Gaty, and the first water rebate payment received from the San Diego County Water Authority in April 2020. Finance Manager Selamat also reported that there was a slight reduction in the District's water operating and maintenance from the prior fiscal year. A reduction in the operating expenses coupled with an increase in water sales resulted in a higher net operating income in fiscal year 2021 compared to fiscal year 2020.

Director Guerin was pleased that COVID-19 has not significantly impacted the District's finances based on the staff and auditors' report.

General Manager Thorner reported the Annual Comprehensive Financial Report will be presented to the full board for approval at the December meeting.

7. REVIEW AND DISCUSS QUARTERLY INVESTMENTS AND CASH REPORTS (3RD QTR 2021)

Finance Manager Selamat reviewed the investment report as of September 30, 2021 with the committee. Cash and investments were discussed. Finance Manager Selamat reported that short-term interest rates for securities with maturity between 2 and 5 years have significantly increased since the last meeting. Yields on 10 Year US Treasury also have increased since the District locked rates on the 2021 bond issuances. Finance Manager Selamat reported the current yield on a two-year treasury investment is about 0.5% where they were at about 0.2% three months ago. Finance Manager Selamat recommended the District continue to maximize its investments in money market pools such as LAIF and CAMP to meet the District's current liquidity needs and to invest in short-term US securities such as treasuries and agencies when the District has more cash available for investment.

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 inquired if the District will still be in compliance with the investment policy if implementing the proposed changes outlined in agenda item 8. General Manager Thorner responded the District will still be in compliance if the proposed changes to the investment policy are accepted by the committee.

8. REVIEW AND DISCUSS PROPOSED CHANGES TO THE DISTRICT'S INVESTMENT POLICY FOR 2022 AND REVIEW OF WATER AND WASTEWATER RESERVES (VERBAL REPORT)

Finance Manager Selamat reported Richard Babbe with PFM Asset Management (PFM) completed the annual review of the District's investment policy and confirmed it is in compliance with California Government Code sections that govern the investment of public funds. Finance Manager Selamat then reviewed and discussed staff-proposed changes to the District's investment policy which included updating the effective date of the policy, and increasing the LAIF investment limit to 50% of the portfolio and/or \$40 million (whichever is lesser) to take advantage of higher yields and provide more flexibility.

Director Watt inquired about 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. Mr. Babbe has provided valuable feedback and investment advice to the District over the last 25 years.

Finance Manager Selamat discussed the reserve balances for the Water and Wastewater funds with the committee and reported that Water reserves are within the minimum and maximum limits established in the Board's reserve policy. The District's reserves policy requires Staff to review Water and Wastewater reserves annually. Finance Manager Selamat reported the Wastewater - Operating fund is currently slightly below the minimum requirement due to the timing of cash receipts and expenditures. Finance Manager Selamat anticipated Wastewater reserves will be within the appropriate limits by the end of fiscal year 2021. Based on Staff's review of the District's Water and Wastewater reserves, Staff is not proposing changes to the reserves balance minimum and maximum.

The proposed changes to the investment policy were approved by the committee to be presented to the full board at its December 2021 meeting.

9. DISCUSS AND RECOMMEND TREATMENT OF THE SECOND REBATE PAYMENT FROM THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA (MWD) LITIGATION TO SAN DIEGO COUNTY WATER AUTHORITY (SDCWA) MEMBER AGENCIES IN THE AMOUNT OF \$1,622,584

Finance Manager Selamat presented to the committee different options on treatment of the SDCWA rebate checks received by the District for direction from the committee.

Staff's proposed options were discussed. General Manager Thorner and Finance Manager Selamat responded to inquiries from the committee. Following the discussion, the committee approved an option for recommendation and consideration by the board at the November meeting.

10. CONSIDER FUTURE AGENDA ITEMS

There were no future agenda items requested.

11. ADJOURNMENT

The meeting was adjourned at 12:18 p.m.