

MINUTES OF BOARD OF DIRECTORS MEETING  
ADMINISTRATION AND FINANCE ISSUES COMMITTEE  
ORANGE COUNTY WATER DISTRICT  
January 15, 2015 @ 8:00 a.m.

The Administration and Finance Issues Committee meeting was called to order by Director Dewane in Conference Room C-2 in Fountain Valley, CA. The Assistant District Secretary reported quorum of the Committee.

Committee Members

Shawn Dewane  
Jan Flory  
Roger Yoh (not present)  
Dina Nguyen  
Denis Bilodeau

Alternates

Steve Sheldon (not present)  
Philip Anthony  
Vince Sarmiento (arrived 8:11 a.m.)  
Harry Sidhu (arrived 8:06 a.m.)  
Cathy Green

OCWD staff

John Kennedy – Executive Director of Engineering,  
Local Resources  
Randy Fick, CFO/Treasurer  
Joel Kuperberg, General Counsel  
Judy-Rae Karlsen, Assistant District Secretary  
Dan Cohen, Bruce Dosier, Kevin Greene,  
Bonnie Howard, Bill Hunt, Vishav Sharma

Others

Andrew Hamilton - Mesa Water District  
Robert Porr – Fieldman Rolapp and Associates  
Peer Swan – Irvine Ranch Water District  
Chris Darie – City of Huntington Beach

**CONSENT CALENDAR**

The Consent Calendar items were approved upon motion by Director Flory, seconded by Director Bilodeau and carried [5-0] with Director Nguyen abstaining on Item No. 1, *Minutes of Previous Meeting*.

*[Yes- Dewane, Flory, Nguyen, Bilodeau, Anthony/No - 0/Abstain – Nguyen (Item No.1)]*

1. Minutes of Previous Meeting

**The Minutes of the Administration and Finance Issues Committee meeting held December 11, 2014 are approved as presented.**

2. Monthly Cash Control Report

**Recommended by Committee for approval at January 21 Board meeting: Receive and file Summary Cash and Cash Equivalents Control Report dated December 31, 2014.**

3. Wells Fargo Bank Authorized Signers Resolution

**Recommended by Committee for approval at January 21 Board meeting: Ratify resolution authorizing execution of Wells Fargo Bank form: *Use of Facsimile and /or Logo Signatures in Relation to Deposit Accounts*.**

4. Purchase Order to Tiger Corporation for a John Deere 6140 Tractor with Flail

**Recommended by Committee for approval at January 21 Board meeting: 1) Authorize issuance of Purchase Order to Tiger Corporation in the amount of \$152,265 for the replacement of RT-32 tractor/mower with a John Deere 6140 tractor with a 50” flail; and 2) Find the equipment is no longer necessary for use at the District, and authorize the surplus and/or sale of the RT-32 tractor/mower.**

5. Compensation Agreement with the City of Garden Grove for Long Range Property Management Plan

**Recommended by Committee for approval at January 21 Board meeting: Approve and authorize execution of the Compensation Agreement with the City of Garden Grove as required by the California Department of Finance to allow the City to retain two properties: one for future redevelopment and one to market for sale.**

6. License and Support Agreement to Oracle JD Edwards for System Updates

**Recommended by Committee for approval at January 21 Board meeting: Approve and authorize execution of Oracle JD Edwards Software Update License and Support Agreement in the amount of \$351,115 for system updates commencing March 1, 2015 through February 28, 2020.**

**MATTERS FOR CONSIDERATION**

Director Sidhu arrived at 8:06 a.m. during the following discussion.

7. Investment Portfolio Holdings Report

District Treasurer/Chief Financial Officer Randy Fick reviewed the District's Portfolio Holdings Report dated December 31, 2014. He explained the District's SWAP program and how the SWAP value may hedge risk and change with interest rates. Mr. Fick reviewed the market value of the District's portfolio and reported the one-year Treasury note as of December 31, 2014 is 0.25%; the two-year yield is 0.67%, the five-year yield is 1.65%; and the total rate of return on investments increased to 0.934%. Following a brief discussion, the Committee took the following action.

**Upon motion by Director Flory, seconded by Director Bilodeau and carried [5-0], the Committee recommended that the Board at its January 21 Board meeting: Receive and file Investment Portfolio Holdings Report dated December 31, 2014.**

*[Yes- Dewane, Flory, Nguyen, Bilodeau, Anthony/No – 0]*

Director Sarmiento arrived at 8:11 a.m. during the following discussion.

8. Annual Debt Service (ADS) Coverage Policy

Mr. Fick reported that the Annual Debt Service (ADS) coverage is a key metric used by rating agencies and is calculated by taking annual net reserves divided by annual debt service. He stated that staff is working with the District's financial advisor Fieldman Rolapp and Associates to preserve the District's strong credit rating. Mr. Fick recommended the District memorialize the proposed ADS coverage policy within the District Reserves Policy as follows:

*District Reserve Policy*

*A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. The District will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. To preserve its strong credit ratings of AAA/AAA/Aa1, in every fiscal year the District will strive to maintain unrestricted cash and investment balances totaling a minimum of 625 days of budgeted operating expenses comprised of annual budgeted General Fund appropriations and annual budgeted Debt Service **and strive to maintain a 3.50x – 4.00x senior lien annual debt service coverage and a 2.75x-***

**3.25x all-in annual debt service coverage in every fiscal year as defined by the District's bond indenture.**

Operating Reserve Fund - established by the District Act and allocated from the general fund to be used to meet the cash flow needs of the District before the proceeds of taxes or replenishment assessment collections are available to meet emergency expenditures for operations, maintenance and the debt service payments of the District. The level of this general operating reserve as established in the District Act shall not exceed 15% of the total current annual general and water reserve fund operating budget.

Toxic Cleanup Reserve Fund - established for toxic spill emergencies and cleanup. The current target level is \$ 4 million and is to be replenished annually after the adoption of the annual OCWD budget.

Contingency Reserve Fund - established by the District Act to provide for expenditures that have not been anticipated or provided for in the District's annual budget. The money for this fund is to be allocated from the Operating Fund and the Water Reserve Fund at the beginning of each fiscal year. The level of this fund as established by the District Act is not to exceed \$ 3 million.

Water Replenishment Fund (to be known as the "Operating Fund") - established for funds collected and received from the levy of the District's replenishment assessment. These monies shall be sufficient to enable the District to carry on any of the projects or purposes of the District as deemed by the Board of Directors. It can also include the expenditures necessary for the maintenance, operation and repairs of works and projects of the district as authorized by the board of directors. The funds can also be used for the purchase of supplemental water, and the replenishment of ground water supplies within the District. The District shall maintain a minimum balance equal to fifty percent of the sum of the (i) current annual budgeted General Fund appropriations, plus (ii) current annual budgeted debt service appropriations.

Basin Equity Assessment Fund - established for funds received from the levy of the District's Basin Equity Assessment. These funds are to be used only for the purchase of water for the purpose of groundwater replenishment and/or to reimburse producers assigned pumping limitations per the District Act.

Water Reserve Fund - established by the District Act to accumulate any excess general assessment, or unexpended funds, other than funds allocated to the operating reserve or operating contingencies by the Board of Directors. These funds can be used for the purchase of supplemental water for groundwater replenishment, acquiring, constructing or developing any groundwater intrusion prevention projects, pipelines, wells or other works necessary for the purposes of the district. Going forward, under the new Reserve Policy, this fund shall be designated only for purchases of supplemental water in order to have funds set aside and available. This will provide accountability and transparency to the Board and Groundwater Producers on funds collected and spent on water purchases. The maximum upper limit is set at enough funds to purchase 50% of water needed to have an accumulated basin overdraft of 125,000 acre-feet.

Repair and Replacement Fund - established for replacement or refurbishment of District facilities, to be equal to thirty years of projected Replacement and Refurbishment (R&R)

costs as defined in the District's R&R model.

Capital Fund – established for proceeds from bond issuances or any other debt financing, and are used for the District's capital projects and capital improvements. These funds are restricted to specific capital projects which are authorized and approved by the Board of Directors.

Debt Reserve Fund - established for various bond issues. These funds are not available for the general needs of the District and must be maintained at specific levels, and are restricted by certain bond covenants.

Debt Service Fund ("Bond Fund" per District Act) - established to meet the annual debt payments of principal and interest for the Certificates of Participation (COPs). These funds are allocated from property tax revenues and the fiscal replenishment assessment collections. In 1992 and 1993 the Board dedicated the District's ad valorem taxes to the payment of the bond debt. The District funds the annual debt payments from the property taxes received (first priority) and then from replenishment assessments (second priority). Under this policy, this fund shall cease to exist and funds included in this fund shall be incorporated into the Operating Fund.

Section 2: The fund balances as of February 28, 2011 are adopted, as are the following funding target levels:

<u>Account</u>	<u>Policy Funding Target</u>
<i>Restricted Funds &amp; Reserves</i>	
Capital Project Funds	No target
Debt Reserve Funds	Bond Covenants
BEA Funds	No Target
<i>Designated Reserves &amp; Funds</i>	
Toxic Cleanup	\$4 million
Contingency	\$3 million
Water Reserve Funds	Maximum of enough funds to purchase 50% of water needed to have an accumulated overdraft of 125,000 acre-feet
Operating Reserves	15% Operating & Water Budget
Repair & Reserves	Detailed R&R Model
<i>Operating Funds (Water Replenishment Fund)</i>	
Operating Cash	50% of current annual budgeted
RA & Annual Debt Payments	General Fund appropriations and 50% of annual budgeted debt service

Mr. Fick reported the ADS coverage policy indicates the financial margin to meet total ADS with current revenues available for debt service. The Committee discussed the rating agency parameters, resets, cost for debt, water purchases, and how future bond issuances may impact the District's credit rating. Mr. Fick presented various financial strategies for improving the District's ADS coverage. Irvine Ranch Water District representative Peer Swan commented on the proposed range changes and rating agency concerns. The Committee then took the following action.

**Upon motion by Director Anthony, seconded by Director Flory and carried [5-0], the Committee recommended that the Board at its January 21 Board meeting: Adopt the revised District Reserve Policy.**

*[Yes - Dewane, Flory, Nguyen, Bilodeau, Anthony/No – 0]*

9. Basin Production Percentage and Replenishment Assessment Estimates for Fiscal Year 2015-16

Mr. Fick advised that staff is currently preparing the District's annual budget and reviewing the groundwater basin overdraft, operational concerns and financial reports in order to present a preliminary estimate of the Fiscal Year 2015-16 Basin Production Percentage (BPP) and Replenishment Assessment (RA) to Producers. He advised that staff provides these preliminary estimates to assist Producers with the preparation of their annual budgets. Mr. Fick reported the estimated RA is \$330-\$350 per acre/foot of water and the BPP is conservatively estimated in the range of 65% - 70%. He advised that staff is finalizing the report on the estimated groundwater basin overdraft for June 2015 and he reminded the Committee that District policy requires lowering the BPP and purchasing additional supplies when the groundwater basin overdraft is greater than 350,000 acre feet. The Committee discussed budget concerns related to the groundwater basin overdraft, water purchases, projected revenues, and the estimated RA and BPP ranges. Mr. Swan commented on the proposed ranges and the District's budgeting process. There was a consensus of the Committee members present to receive and file the information and agendize the staff recommendation on the Consent Calendar at the January 21 Board meeting.

**It was the consensus of the Committee to recommend the Board take the following action at the January 21 Board meeting: Provide the Fiscal Year 2015-16 Replenishment Assessment and Basin Production Percentage estimates to the Groundwater Producers along with any additional Board comments.**

#### INFORMATIONAL ITEMS

10. Employment Status Report

Mr. Kennedy stated the Employment Status Report for the period ending December 2014 is in the packet.

11. Monthly Cash Disbursements Detail Report

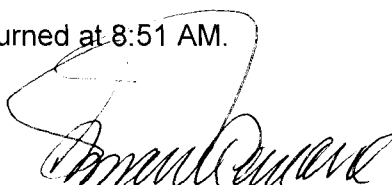
Mr. Fick stated the Monthly Cash Disbursements Detail Report for the period November 27 through December 31, 2014 is in the packet.

#### ITEMS AGENDIZED ON THE CONSENT CALENDAR AT THE JANUARY 21 BOARD MEETING

The Committee recommended Items No. 2-9 be placed on the Consent Calendar at the January 21 Board meeting.

#### ADJOURNMENT

There being no further business, the meeting was adjourned at 8:51 AM.



Director Shawn Dewane, Chair