

MINUTES OF BOARD OF DIRECTORS MEETING
ADMINISTRATION AND FINANCE ISSUES COMMITTEE
ORANGE COUNTY WATER DISTRICT
October 9, 2014 @ 8 a.m.

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

Committee Members

Kathryn Barr, Chair
Roger Yoh (not present)
Steve Sheldon (arrived 8:04 a.m.)
Harry Sidhu (arrived 8:08 a.m.)
Jan Flory

Alternates

Vincent Sarmiento
Philip Anthony
Denis Bilodeau (arrived 8:20 a.m.)
Cathy Green
Shawn Dewane (not present)

OCWD staff

Mike Markus, General Manager
Randy Fick, CFO/Treasurer
Joel Kuperberg, General Counsel
Judy-Rae Karlsen, Assistant District Secretary
Bruce Dosier, Stephanie Dosier, Bill Dunivin,
Kevin Greene, John Kennedy, Vickie Nguyen,
Vishav Sharma

Others:

Bryan Gruber – Lance, Soll and Lunghard, LLP
Peer Swan – Irvine Ranch Water District

CONSENT CALENDAR

The Consent Calendar items were approved upon motion by Director Green, seconded by Director Anthony and carried [5-0] as follows.

[Yes- Barr, Flory, Sarmiento, Anthony, Green/No-0]

1. Minutes of Previous Meeting

The Minutes of the Administration/Finance Issues Committee meeting held September 11, 2014 are approved as presented.

2. Monthly Cash Control Report

Recommended for approval at October 15 Board meeting: Receive and file Summary Cash and Cash Equivalents Control Report dated September 30, 2014.

3. Oracle Database Software Update License and Support Agreement Renewal

Recommended for approval at October 15 Board meeting: Approve and authorize execution of Oracle Database Enterprise Edition Software Update and License Support Agreement renewal in the amount of \$56,688 for system updates commencing November 24, 2014 through November 23, 2015.

4. Chemical Contracts for Water Treatment Facilities

Recommended for approval at October 15 Board meeting: 1) U. S. Peroxide, LLC for supply and delivery of hydrogen peroxide at \$545.90/ton with a 3% 10 net 30 terms discount, to commence on November 1, 2014, for a period of one year with the option to renew for an additional year; 2) Brenntag Pacific, Inc. for supply and delivery of citric acid, at \$924/ton with a 3% 10 net 30 terms discount to commence on November 1, 2014, for a period of one year, with the option to renew for one year; 3) Olin Corporation dba Olin Chlor Alkali Products, for supply and delivery of sodium hypochlorite, at \$0.526/gal, to commence on

November 1, 2014, for a period of one year, with the option to renew for one year; 4) Univar USA, Inc. for supply and delivery of sulfuric acid, at \$154/ton, with a 2% 10 net 30 terms discount, to commence on November 1, 2014, for a period of one year, with the option to renew for one year; and 5) JCI Jones chemicals, Inc. for supply and delivery of caustic soda, at \$246/ton, to commence on November 1, 2014, for a period of one year, with the option to renew for one year.

MATTERS FOR CONSIDERATION

5. Investment Portfolio Holdings Report

District Treasurer/Chief Financial Officer Randy Fick reviewed the District's Portfolio Holdings Report dated September 30, 2014. He presented an overview of current market trends and reviewed the fixed income investments within the District's portfolio. Mr. Fick reported the one-year Treasury note as of September 30, 2014 is 0.13%; the two-year yield is 0.58%, the five-year yield is 1.78%; and the total rate of return on investments is 0.932%. The Committee then took the following action.

Upon motion by Director Green, seconded by Director Anthony and carried [5-0], the Committee recommended that the Board at its October 15 Board meeting: Receive and file Investment Portfolio Holdings Report dated September 30, 2014.

[Yes- Barr, Flory, Sarmiento, Anthony, Green/No-0]

Director Sheldon arrived at 8:04 a.m. and Director Sidhu arrived at 8:08 a.m. during discussion of the following item.

6. Independent Auditors Report for the Fiscal Year Ended June 30, 2014

Mr. Fick introduced Bryan Gruber of Lance, Soll and Lunghard. Mr. Gruber presented the Independent Auditors Report for the fiscal year ending June 30, 2014 and he advised the annual audit provides a detailed analysis of the District's financial management performance, the adequacy of corporate policies, procedures, internal controls and financial reporting systems. Mr. Gruber responded to Committee questions about the audit process and then he reported the Independent Auditors report finds the financial statements present a fair representation of the results of operations for the year. General Manager Mike Markus noted the organizational chart was revised and he distributed a copy for the Committee to review. Mr. Gruber reported it was a clean audit and there were no management comments. The Committee then took the following action.

Upon motion by Director Sarmiento, seconded by Director Sidhu and carried [5-0], the Committee recommended that the Board at its October 15 Board meeting: Receive and file Audit Reports prepared by Lance, Soll and Lunghard, LLP for the period ended June 30, 2014.

[Yes- Barr, Sheldon, Sidhu, Flory, Sarmiento /No-0]

7. Budget to Actual Report for Fiscal Year 2013-14

Accounting Manager Kevin Greene presented the Fiscal Year 2013-2014 Budget to Actuals report. He noted the General Fund costs were \$1,742,000 under budget, the Refurbishment and Replacement expenses were \$13 million less than anticipated, and the Debt Service and General Fund operations were also less than expected. Mr. Green reported revenues are greater than originally anticipated across all categories. He briefly reviewed significant department variances and then the Committee took the following action.

Upon motion by Director Sarmiento, seconded by Director Sidhu and carried [5-0], the Committee recommended that the Board at its October 15 Board meeting: Receive and file the Budget to Actual Report for Fiscal Year 2013-14 ending June 30, 2014.

[Yes- Barr, Sheldon, Sidhu, Flory, Sarmiento /No-0]

8. Ratio Analysis for FY 2013-2014 - Fourth Quarter

Mr. Fick presented the Ratio Analysis Report for the fourth quarter of fiscal year 2013-14. He reported the six performance metrics present a snapshot of the District's financial health and its ability to operate and pay annual debt service payments. Mr. Fick stated the metrics for the fourth quarter are positive and he advised the Committee that a six month review would be more valuable than a quarterly report because the additional data provides more significant findings. It was a consensus of the Committee that staff prepare this report on a semi-annual basis for receiving and filing. The Committee then took the following action.

Upon motion by Director Flory, seconded by Director Sarmiento and carried [5-0], the Committee recommended that the Board at its October 15 Board meeting: Receive and file the Ratio Analysis Report for FY2013-14 Fourth Quarter ending June 30, 2014.

[Yes- Barr, Sheldon, Sidhu, Flory, Sarmiento /No-0]

9. State Board of Equalization Sales and Use Tax Audit

Mr. Fick reported the State Board of Equalization conducted an audit of District invoices for a three year period and determined the District must pay approximately \$972 in use tax. He reported that 4 invoices were found for vendors that charged sales tax but did not pay the State. Mr. Fick advised the District will pay the sales and use taxes to the State Board of Equalization and then follow up with vendors to collect their funds. The Committee took the following action.

Upon motion by Director Flory, seconded by Director Sidhu and carried [5-0], the Committee recommended that the Board at its October 15 Board meeting: 1) Receive and file the Audit Report dated October 1, 2014; and 2) Authorize payment to the State Board of Equalization of \$972 for use taxes; and collect funds from vendors that failed to pay use tax to the State of California.

[Yes- Barr, Sheldon, Sidhu, Flory, Sarmiento /No-0]

10. Revised Meeting Agendas

The Committee briefly discussed Committee/Board meeting agendas and offered suggestions on language and formatting changes that would encourage public comments and increased participation at Board and Committee meetings. The Committee discussed options for modifying the agenda and then requested that General Counsel Joel Kuperberg rework the format of Committee/Board meeting agendas and present a revised agenda for consideration at the November 13 Administration and Finance Issues Committee meeting. The Committee took the following action.

Upon motion by Director Flory, seconded by Director Sarmiento and carried [5-0], the Committee recommended that General Counsel Joel Kuperberg prepare a revised Board/Committee meeting agenda for consideration at the November 13 Administration and Finance Issues Committee meeting.

[Yes - Barr, Sheldon, Sidhu, Flory, Sarmiento/No-0]

11. Orange County Water District Rules of Order

The Committee briefly discussed the proposed "OCWD Rules of Order" for Board/Committee meetings. Director Green stated she would like to discuss adding a *Motion to Reconsider* to the manual. Due to time constraints, the Committee recommended the matter be deferred to the November 12 Administration and Finance Issues Committee meeting. The Committee then took the following action.

Upon motion by Director Sidhu, seconded by Director Sheldon and carried [5-0], the Committee recommended the discussion on the "OCWD Rules of Order" be deferred to the November 13 Administration and Finance Issues Committee.

[Yes - Barr, Sheldon, Sidhu, Flory, Sarmiento/No-0]

12. Groundwater Clean-Up Projects NCP Approach Letter

General Manager Mike Markus reported the Communications and Legislative Liaison Committee requested that staff email the draft *News Releases* and the draft letter to Directors for further discussion at this Committee. He advised the *News Release* focus on the District's clean up approach to groundwater basin contamination. Mr. Markus noted the release of the final draft is time sensitive and the full Board will vote on the release of information at the October 15 Board meeting. Director Sidhu stated the original press releases were drafted by the ad hoc Groundwater Basin Contamination Committee to announce that the District would follow the stringent National Contingency Plan for groundwater contamination remediation. The Committee discussed the messaging and format for the announcement and then deferred the matter to the ad hoc Groundwater Basin Contamination Committee for final revisions prior to approval by the Board. The Committee then took the following action.

Upon motion by Director Sidhu, seconded by Director Barr and carried [5-0], the Committee recommended the messaging and the format for the draft press release on groundwater basin contamination issues be deferred to the ad hoc Groundwater Basin Contamination Committee for final revisions.

[Yes - Barr, Sheldon, Sidhu, Flory, Sarmiento/No-0]

INFORMATIONAL ITEMS

13. Request for Subordination of State Loans

Mr. Fick reported that staff submitted a request to the State Water Resources Control Board to subordinate the District's three new state loans (senior liens) after the Certificates of Participation including Swaps, Refunding Revenue Bonds and Commercial Paper and Swap agreements and one State loan. He advised the change in subordination would increase the projected senior lien annual debt service coverage, but would keep the projected all-in annual debt service coverage the same. Mr. Fick reported the advantage for subordinating senior liens is the District would be have increased flexibility for future debt issuances, possibly reduce future borrowing costs, and assist with maintaining the District's current credit ratings.

14. Fiscal Year 2013-14 Changes in Accounting

Mr. Fick reported that staff made the following changes in accounting: the PayGo revenues for the past three years will be reclassified as unrestricted reserves from restricted, and \$11,225,101 for water purchases will be expensed in Fiscal Year 2013-2014.

15. Monthly Cash Disbursements Detail Report

Mr. Fick advised the Monthly Cash Disbursement Detail Report was included in the packet and all payments for the previous month are available for Committee review.

16. Employment Status Report

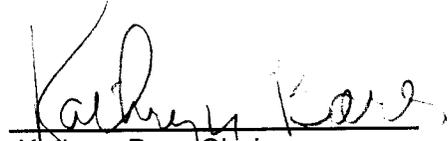
Mr. Markus reported the Employment Status Report for the period ending September 30, 2014 was included in the packet for Committee review.

CHAIR DIRECTION AS TO WHICH ITEMS IF ANY TO BE AGENDIZED AS A MATTER FOR CONSIDERATION AT THE OCTOBER 15 BOARD MEETING

The Committee recommended Items No. 2-9 be placed on the Consent Calendar at the October 15 Board meeting.

ADJOURNMENT

There being no further business, the meeting was adjourned at 8:40 a.m.


Kathryn Barr, Chair