

MINUTES OF BOARD OF DIRECTORS MEETING
ADMINISTRATION AND FINANCE ISSUES COMMITTEE
ORANGE COUNTY WATER DISTRICT
February 13, 2014 @ 8:00 a.m.

The Administration and Finance Issues Committee meeting was called to order by Director Kathryn Barr in the Conference Room C2 in Fountain Valley, CA. The Assistant District Secretary reported quorum of the Committee.

Committee Members

Kathryn Barr, Chair
Roger Yoh (arrived 8:10 a.m.)
Steve Sheldon
Harry Sidhu (arrived 8:20 a.m.)
Jan Flory

OCWD Staff

Mike Markus, General Manager
Joel Kuperberg, General Counsel
Judy-Rae Karlsen, Assistant District Secretary
Dan Cohen, Bruce Dosier, Randy Fick,
Kevin Greene, Bonnie Howard,
John Kennedy, Vishav Sharma

Alternates

Vincent Sarmiento
Philip Anthony
Denis Bilodeau (arrived 8:30 a.m.)
Cathy Green
Shawn Dewane

Others

Paul Schoenberger– Mesa Water District

CONSENT CALENDAR

The Consent Calendar was approved upon motion by Director Anthony, seconded by Director Sarmiento and carried [5-0] as follows, with Director Flory abstaining on Item No. 1. [Yes-Barr, Sheldon, Flory, Sarmiento, Anthony/ No- 0]

1. Minutes of Previous Meeting

The Minutes of the Administration and Finance Issues Committee meeting held January 16, 2014 were approved as presented.

2. Monthly Cash Control Report

Recommended for approval at February 19 Board meeting: Receive and file Summary Cash and Cash Equivalents Control Report dated January 31, 2014.

3. Monthly Cash Disbursements Detail Report

Recommended for approval at February 19 Board meeting: Receive and file the Cash Disbursements Detail Report for the period of December 26, 2013 through January 29, 2014.

4. Agreement with Corporate Spending Innovations for Single-Use Accounts Program to Pay District Vendors

Recommended for approval at February 19 Board meeting: Authorize issuance of Agreement to Corporate Spending Innovations to provide the Single-Use Accounts automated account payment solution for a one year period, commencing April 1, 2014, with an option to renew for an additional year under the same terms and conditions.

5. Amendment to Agreement with Lance, Soll & Lunghard, LLP for Financial Auditing Services

Recommended for approval at February 19 Board meeting: Authorize issuance of Amendment No. 1 to Agreement No. 0746 to Lance, Soll & Lunghard, LLP for an extension of the current annual financial audit engagement for an additional two years, at a rate of \$55,293 per year for fiscal years 2013-14 and 2014-15.

MATTERS FOR CONSIDERATION

Director Yoh arrived at 8:10 a.m. during the discussion on the following matter.

6. Investment Portfolio Holdings Report

District Treasurer/Chief Financial Officer Randy Fick reviewed the Investment Portfolio Holdings Report dated January 31, 2014 and reported the District's total rate of return on investments is .806%. He discussed the SWAP, current investments and market trends. The Committee then took the following action.

Upon motion by Director Flory, seconded by Director Anthony and carried [5-0], the Committee recommended that the Board at its February 19 Board meeting: Receive and file Investment Portfolio Holdings Report dated January 31, 2014.

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

Director Sidhu arrived at 8:20 a.m. during the discussion on the following matter.

7. Ratio Analysis Report for FY 2013-2014 Second Quarter

Mr. Fick presented the Ratio Analysis report for the second quarter of the 2013-2014 fiscal year. He advised the District was in good financial health and he reviewed the current quick ratio, debt to equity ratio, operating margins, days cash on hand and the debt service coverage ratio. The Committee then took the following action.

Upon motion by Director Yoh, seconded by Director Sarmiento and carried [5-0], the Committee recommended that the Board at its February 19 Board meeting: Receive and file the Ratio Analysis Report for FY2013-14 Second Quarter ending December 31, 2013.

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

Director Bilodeau arrived at 8:30 a.m. during the discussion on the following matter

8. Budget to Actual Report for FY 2013-2014 – Second Quarter

Accounting Manager Kevin Greene reviewed the Budget to Actuals report for the second quarter of the 2013-2014 fiscal year. He reported the General Fund is under budget due to anticipated low seasonal costs at Forebay Operations and in the Public Affairs department. Mr. Greene responded to Director questions regarding department variances, and the Committee took the following action.

Upon motion by Director Barr, seconded by Director Flory and carried [5-0], the Committee recommended that the Board at its February 19 Board meeting: Receive and file the Budget to Actual Report for FY 2013-14 Second Quarter ending December 31, 2013.

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

9. Basin Production Percentage and Replenishment Assessment Estimates for Fiscal Year 2014-2015

Executive Director John Kennedy presented the following factors involved in setting the Basin Production Percentage (BPP) and the Replenishment Assessment (RA): water supplies, recharge rates, basin overdraft conditions, total water demand and the ability to purchase Metropolitan Water District (MWD) imported water. He stated the current basin overdraft is approximately 290,000 acre-feet (af) and may increase by 65,000 af should drought conditions persist.

The Committee requested that staff consider the use of another phrase for “basin overdraft” that presents a more positive message to the public. Director Yoh requested the new terminology be developed and brought back to the Committee for discussion prior to being used in a message to the public.

Mr. Kennedy reported that staff has discussed the proposed BPP and RA with Groundwater Producers and the potential use of the District’s commercial paper program to purchase water. He reviewed various options for the Committee to consider and recommended setting the BPP at 72% and increasing the RA to \$294/af with the purchase of 25,000/af of MWD water using the District’s commercial paper program.

Mr. Kennedy then discussed options for setting the Replenishment Assessment and the Proposition 218 rate notice which could assist with replenishing water reserve funds in the future. The Committee held a lengthy discussion on the benefits of raising the RA an additional \$20/af to generate funds for purchasing water when it is available. The Committee recommended that staff prepare and transmit the Proposition 218 Notice that reports a maximum RA increase of \$314/af (\$294/af + \$20/af) with the understanding that the RA increase will generate an additional \$6.4 million to replenish the water reserve fund. The Committee directed staff to research the impact of increased rates on consumer monthly water bills and develop a policy for future board consideration regarding the annual funding of the water reserve fund. The Committee then took the following actions.

Upon motion by Director Yoh, seconded by Director Flory and carried [5-0], the Committee recommended that the Board at its February 19 Board meeting:

- 1) Direct staff to prepare and submit a draft FY 2014-15 budget to the Board that:**
 - **Increases the BPP from 70% to 72%;**
 - **Provides for an RA increase from \$276/af to \$294/af;**
 - **Plans to use the Commercial Paper program in FY14-15 to purchase additional 25,000 af of MWD water at a cost of ~\$15 million; and**
 - **Provides options to increase the RA an additional amount to generate funds to replenish the water reserve fund**
- 2) Direct staff to:**
 - **Prepare and transmit the “Prop 218” rate notice with a maximum RA increase of \$314/af (\$294/af + \$20/af) which would generate an additional \$6.4 million to replenish the water reserve fund;**
 - **Provide estimated consumer monthly water bill impacts for the options that increase the RA to replenish the water reserve fund;**
 - **Develop a policy for future board consideration regarding potential annual funding for the water reserve fund along with minimum and maximum balances; and**
 - **Develop more consumer friendly basin accumulated overdraft terminology to assist in communications with the general public regarding the condition.**

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

INFORMATIONAL ITEM10. Replenishment Assessment and Additional Replenishment Assessment

Mr. Kennedy reviewed the history of setting the Replenishment Assessment (RA) and Additional Replenishment Assessment (ARA) and advised that since 1986 the District has set the RA and ARA at the same rate, but there is no requirement to do that. General Counsel Joel Kuperberg reported that in order to fully comply with Proposition 218, that was passed in 1996, and subsequent court rulings, he recommended that the District no longer use the ARA as a revenue source and commencing in FY 2014-2015, the District would set the RA at an amount sufficient to fund District expenses that were formerly funded by both the RA and the ARA. He noted that for the majority of producers representing 98+% of groundwater production within the District, this change will have a minor financial impact. Mr. Kuperberg recommended the Committee consider making the change to become fully compliant with Proposition 218 and decrease exposure to future litigation. The Committee requested that staff develop a RA structure to eliminate the ARA for future compliance with Proposition 218 terms and conditions. The Committee took the following action.

Upon motion by Director Barr, seconded by Director Yoh and carried [5-0], the Committee directed staff to set the Replenishment Assessment in FY2014-15 at a rate to recover all District expenses formerly funded by both the Replenishment Assessment and the Additional Replenishment Assessment.

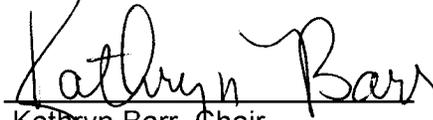
[Yes-Barr, Yoh, Sheldon, Sidhu, Flory/ No- 0]

**DETERMINATION OF ADDITIONAL ITEMS TO BE PLACED ON CONSENT CALENDAR FOR
FEBRUARY 19 BOARD MEETING**

The Committee recommended that Items No. 2-10 be placed on the Consent Calendar for the February 19 Board meeting.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:40 a.m.


Kathryn Barr, Chair