

MINUTES OF BOARD OF DIRECTORS MEETING
ADMINISTRATION AND FINANCE ISSUES COMMITTEE
ORANGE COUNTY WATER DISTRICT
February 9, 2017 @ 8:00 a.m.

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

Committee Members

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

OCWD staff

Mike Markus – General Manager
Joel Kuperberg - General Counsel
Randy Fick - CFO/Treasurer
Judy-Rae Karlsen - Assistant District Secretary

Alternates

Steve Sheldon (not present)
Philip Anthony
Vincent Sarmiento
James Vanderbilt (not present)
Cathy Green

CONSENT CALENDAR

The Consent Calendar was approved upon motion by Director Green, seconded by Director Anthony and carried [4-0].

[Yes- Dewane, Flory, Anthony, Green /No – 0]

1. Minutes of Previous Meeting

The Minutes of the Administration/Finance Issues Committee meeting held January 12, 2017 were approved as presented.

2. Monthly Cash Control Report

Recommended by Committee for approval at February 15 Board meeting: Receive and file Summary Cash and Cash Equivalents Control Reports dated January 31, 2017.

3. Investment Portfolio Holdings Reports

Recommended by Committee for approval at February 15 Board meeting: Receive and file the Investment Portfolio Holdings Reports dated January 31, 2017.

4. Purchase Order to Norse Networks, Inc. for Cybersecurity Support Services

Recommended by Committee for approval at February 15 Board meeting: Authorize issuance of Purchase Order to Norse Networks, Inc. in an amount not to exceed \$61,000 for Norse Networks, NIS Support Services for a one-year period.

5. Agreement to Securitas for Protective Guard Services

Recommended by Committee for approval at February 15 Board meeting: 1) Authorize execution of Agreement to Securitas for an estimated annual cost of \$79,595 to provide protective guard services at the Fountain Valley location's guard shack; and 2) Authorize an annual cost sharing Agreement with OCSD for \$96,360 to utilize their roving guard services for non-work hour plant security.

6. Amendment to Agreement to American Water Chemicals, Inc., for the Purchase of Reverse Osmosis (RO) Antiscalants in the GWRS Reverse Osmosis (RO) Treatment Facility

Recommended by Committee for approval at February 15 Board meeting: Authorize execution by the General Manager of the Amendment No. 2 to Agreement No. 1015 with American Water Chemicals at \$1.50 per pound for GWRS antiscalant evaluation (Product A-110) through December 30, 2017.

7. Agreement to Nira Yamachika for Technical Consulting Services

Recommended by Committee for approval at February 15 Board meeting: 1) Authorize issuance of Agreement to Nira Yamachika for an amount not to exceed \$7,000 for technical consulting services for FY 2017; and 2) Increase 2016-17 Water Quality Department General Fund budget by \$7,000 to cover this Agreement.

8. Agreement to John Vandenberg for Technical Consulting Services

Recommended by Committee for approval at February 15 Board meeting: Authorize issuance of Agreement to John Vandenberg for an amount not to exceed \$25,000 for technical consulting services.

9. Fiscal Year 2016-17 Legal Expenses – Rutan & Tucker

Recommended by Committee for approval at February 15 Board meeting: Authorize an increase of the Rutan & Tucker legal counsel budget by \$250,000 to \$650,000.

MATTERS FOR CONSIDERATION

Director Sarmiento arrived at 8:10 a.m. during the following discussion.

10. Replenishment Assessment (RA) and Additional Replenishment Assessment (ARA)

General Counsel Joel Kuperberg reported that in 1961, the District Act was amended to authorize the Board to impose the Additional Replenishment Assessment (ARA). He advised that all groundwater production must pay this additional pumping fee except for irrigation/agricultural users, who were excluded. Mr. Kuperberg mentioned the following elements of the District assessments:

- RA and ARA have to be set annually in April per District Act
- Since 1986 RA and ARA have been set at the same amount
- RA and ARA could be set at different amounts

Mr. Kuperberg stated the District has taken a position that it is not subject to Proposition 218, however, successive court rulings over the years regarding other California groundwater basins and their rate structures have led the District's General Counsel to revisit the issue and determine that the District may be vulnerable to Proposition 218 issues. Mr. Kuperberg reported he discussed the matter with the legal team at the Santa Clara Valley Water District, members

of the agricultural industry, and representatives from the California Farm Bureau Federation. He summarized those discussions and advised there may be alternative rate structures for the District to consider. The Committee discussed agricultural activity and the ways that groundwater is provided to the agriculture community from Producers/retailers. Irvine Ranch Water District (IRWD) General Manager Paul Cook advised they sell the water to the agriculture community and then he stated that he did not agree with the interpretation of the District Act. General Manager Mike Markus reminded the Committee that the Board must set the Replenishment Assessment (RA) and the ARA in April and staff is seeking direction if alternatives are to be considered for this year. Mr. Cook requested the District schedule another meeting to discuss alternatives in greater detail. The Committee agreed to continue the matter and schedule a working group for staff, general counsel and representatives of IRWD and any of the members of the agricultural community to meet and confer. Representatives of the Orange County Farm Bureau and agricultural community stated they would also like to attend. Mr. Markus stated that he would invite any of the Producers that may be impacted to participate in the working group meeting. The Committee then took the following action.

Upon motion by Director Anthony, seconded by Director Dewane and carried [5-0], the Committee continued the discussion of the Replenishment Assessment and the Additional Replenishment Assessment to the March Administration and Finance Issues Committee meeting.

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

11. OCWD Rules of Order

Director Dewane reported Director Green's request that the Committee consider revising the "motion to reconsider" in the OCWD rules of order. Mr. Markus briefly reviewed the District's Rules of Order and advised that a "motion to reconsider" can be made at a meeting when a Board action is taken. Director Green stated the Board should be able to make a "motion to reconsider" at a subsequent meeting and she provided examples of when a motion to reconsider would be used in special circumstances. The Committee discussed the process and General Counsel Joel Kuperberg advised that if the Committee were supportive of a revision, then it would be important to clarify, "The motion to reconsider must be made at the meeting where the item was first voted upon or at the next regular Board meeting." Mr. Kuperberg advised that this revision is at the Board's discretion. The Committee discussed the voting process, the issue of finality of Board decisions and it was noted that the current Rules of Order provide a mechanism the Board can use to suspend the rules of order. Directors Anthony and Dewane expressed their concerns and objections regarding revising the adopted Rules of Order. The Committee then took the following action.

Upon motion by Director Flory, seconded by Director Green and carried [3-2], with Directors Dewane and Anthony voting "No", the Committee recommended that the Board at its February 15 meeting: Approve the following change to the Rules of Order: The motion to reconsider must be made at the meeting where the item was first voted upon or at the next regular Board meeting.

[Yes- Flory, Sarmiento, Green /No – Dewane, Anthony]

12. Budget to Actual Report for Second Quarter Fy 2016–17

Accounting Manager Melissa Ochoa presented the Operations Budget to Actual report for the second quarter of FY 2016-17. She reported that operating expenses were under budget by approximately \$5.9 million, and the operating budget consists of the General Fund that is approximately \$3.7 million under budget, Debt Service is approximately \$1 million lower than budgeted; the Refurbishment and Replacement Fund is approximately \$5.4 million under budget;

the Water Purchases is \$4.4 million over budget. She reviewed the budget variances for the following departments; Public Affairs, Prado, Hydrogeology and Natural Resources. Ms. Ochoa presented Revenue Sources and advised that revenues were \$ 7.6 million over budget and mentioned the majority of this variance is due to the Replenishment Assessment revenue being more than budgeted by \$6.4 million for the fiscal year to date quarter ending December 31, 2016.

Director Dewane requested that staff include the number of employees that are in each Cost Center (department). The Committee then took the following action.

Upon motion by Director Dewane, seconded by Director Green and carried [5-0], the Committee recommended that the Board at its February 15 Board meeting: Receive and file the Budget to Actual Report for Second Quarter of Fiscal Year 2016-17 ending December 31, 2016.

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

13. Ratio Analysis - Second Quarter FY 2016-2017

District Treasurer/CFO Randy Fick reported the District's AAA ratings were reaffirmed by Fitch and S&P in December. He then reviewed the Ratio Analysis for the second quarter of fiscal year 2016-17 and presented the following information:

- The current ratio for the 2nd Quarter ended December 31, 2016, is 4.1
- The quick ratio for the 2nd Quarter ended December 31, 2016, is 3.9
- The debt to equity ratio for the 2nd Quarter ended December 31, 2016, is 3.1
- The operating margin for the 2nd Quarter ended December 31, 2016, is 59%
- The days cash on hand for the 2nd Quarter ended December 31, 2016, is 499
- The debt service coverage ratio for the 2nd Quarter ended December 31, 2016, is 3.1

Director Dewane requested that staff consider acceleration of the GWRS Final Expansion project since it is expected that there will be higher interest rates, and he requested the matter of purchasing additional water be agendized for a full Board discussion. General Manager Mike Markus advised that staff is meeting with MWDOC and MWD to discuss the availability of excess discounted water that may be available to refill the groundwater basin. Staff was directed to update the Board on this meeting. The Committee discussed the budgeted purchase of water, the Conditional Use Program (CUP) and the potential of in lieu programs.

Upon motion by Director Flory, seconded by Director Anthony and carried [5-0], the Committee recommended that the Board at its February 15 Board meeting: Receive and file the Ratio Analysis Report for FY 2016-17 Second Quarter ending December 31, 2016.

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

INFORMATIONAL ITEMS

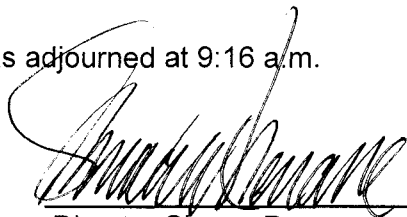
There was no discussion of the Informational Items on today's Agenda.

ITEMS TO BE AGENDIZED AS A MATTER FOR CONSIDERATION AT THE FEBRUARY 15 BOARD MEETING

It was agreed that Item No. 11, *OCWD Rules of Order*, be agendized as a Matter for Consideration at the February 15 Board meeting.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:16 a.m.



Director Shawn Dewane