

MINUTES OF BOARD OF DIRECTORS MEETING
ADMINISTRATION AND FINANCE ISSUES COMMITTEE
ORANGE COUNTY WATER DISTRICT
April 9, 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
Roman Reyna (arrived 8:16 a.m.)
Harry Sidhu
Cathy Green

OCWD staff

Mike Markus, General Manager
Randy Fick, CFO/Treasurer
Joel Kuperberg, General Counsel
Judy-Rae Karlsen, Assistant District Secretary
Bill Dunivin, Randy Fick, Kevin Greene,
Bonnie Howard, Bill Hunt, John Kennedy,
Chris Olsen, Vishav Sharma, Mike Wehner

Others

Nick Dibs – OC Science and Engineering Fair
Paul Shoenberger – Mesa Water District

CONSENT CALENDAR

The Consent Calendar items were approved upon motion by Director Flory, seconded by Director Nguyen and carried [5-0].

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

1. Minutes of Previous Meeting

The Minutes of the Administration and Finance Issues Committee meeting held March 12, 2015 were approved as presented.

2. Monthly Cash Control Report

Recommended by Committee for approval at April 15 Board meeting: Receive and file Summary Cash and Cash Equivalents Control Report dated March 31, 2015.

3. Purchase Order to Quinn Company for Replacement Engines on the Caterpillar Scraper RT-16

Recommended by Committee for approval at April 15 Board meeting: Authorize issuance of Purchase Order to Quinn Company in the amount not to exceed \$239,000 for the replacement of RT-16's Tier-0 auger scraper engines with Tier-3 replacements for compliance with State regulations.

4. Purchase Order to Sparling Instruments LLC for the Replacement of a 42" Electronic Flowmeter

Recommended by Committee for approval at April 15 Board meeting: Authorize issuance of Purchase Order to Sparling Instruments, LLC for an amount not to exceed \$9,360 for a 42" electronic propeller flow meter.

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

Recommended by Committee for approval at April 15 Board meeting: Approve and authorize execution of Compensation Agreement with the City of Garden Grove as required by the California Department of Finance to allow the City to retain a property to market for sale.

MATTERS FOR CONSIDERATION

6. Investment Portfolio Holdings Report

District Treasurer/Chief Financial Officer Randy Fick reviewed the District's Portfolio Holdings Report dated March 31, 2015. He advised the one-year Treasury note as of March 31, 2015 is 0.26%; the two-year yield is 0.56%, the five-year yield is 1.37%; and the District's total rate of return on investments was 0.764%. Mr. Fick reported the SWAP increased slightly to \$21.7 million in favor of Citibank, and the weighted average maturity is currently at 1.8 years. Following a brief discussion, the Committee took the following action.

There was a consensus of the Committee members present to recommend the Board at its April 15 Board meeting: Receive and file the Investment Portfolio Holdings Report dated March 31, 2015.

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

Director Reyna arrived at 8:16 a.m. during the following discussion.

7. Proposed FY 2015-16 General Fund Budget

Mr. Fick presented a comprehensive report on the proposed Fiscal Year 2015-16 General Fund Budget and reported the budget is \$60.3 million and funds the operation of 21 cost centers. He advised it was an increase of \$5.5 million over last year's General Fund budget and the number of employees will increase from 217.5 to 218.5. Mr. Fick advised the General Fund budget includes District operations, seawater barriers, Prado operations, GWRS and all Districtwide support operations. He reviewed the GWRS operating budget and noted that staff anticipates a significant increase in water production utilities (electricity) due to the GWRS water production expansion and stated the GWRS plant is expected to increase production from 80,000 acre-feet of water to 103,000 acre-feet of water. The Committee reviewed and discussed the 21 cost centers and Director Anthony requested that staff provide a separate line item for the National Contingency Plan. Director Sidhu asked if the Groundwater Producers were aware of the proposed budget. General Manager Mike Markus reported that staff met with Groundwater Producers to address their concerns about the proposed purchase of water, the Basin Pumping Percentage (BPP) and the Replenishment Assessment (RA).

Chairman of the Groundwater Producers, Paul Schoenberger noted Producers expressed concerns about the anticipated \$50 RA increase and the Governor's recent drought measures. He noted the groundwater basin is an important resource and the Producers support maximum replenishment to increase basin levels and they proposed a variety of options to staff that included utilizing reserves to reduce the RA, and relaxing District policies on maintaining District ratings. Mr. Schoenberger reported Producers were agreeable to the reduction in water purchases and a reduction of the proposed RA. He discussed the District's conservative approach in setting the BPP and advised that Producers are aware that a possible change in the BPP mid-year may be necessary if basin conditions change.

Director Dewane requested an update on the Agreement with Municipal Water District of Orange County (MWDOC) that guarantees the District will purchase water. Mr. Markus noted that during an Metropolitan Water District (MWD) allocation year the contract with MWDOC is nonbinding.

Mr. Markus advised that the District's proposed water purchase will be 55,000 acre feet of water. He reported on a recent meeting with MWD to discuss budgeted water purchases and the impacts that will result from present and future MWD allocations. He advised that Producers were also interested in the District's water purchase assumptions for future years. The Committee discussed various scenarios setting the BPP and the RA and its impact on the groundwater basin overdraft levels. Mr. Fick advised that the recommendations proposed at the Producers meeting will be reflected in the General Budget presented at the April 15 Board meeting. The Committee then took the following action.

There was a consensus of the Committee members present to recommend the Board at its April 15 Board meeting: Schedule consideration to adopt the FY 2015-16 Budget on April 15, 2015.

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

8. Cash Defeasance of 2005B Certificates of Participation

Mr. Fick reported on the benefits generated by defeasing the 2005B Certificates of Participation (COPs) that carry a 5.00% interest rate with \$26.8 million outstanding. He reported that staff consulted with the District's bond counsel Doug Brown with Stradling, Yocca, Carlson & Rauth, regarding the options to consider when prepaying the 2005B COPs and the potential impact on District financials. Mr. Fick advised that by completing a cash defeasance by June 30, 2015, the District would accomplish the following: 1) A cash defeasance will have fewer fees than refunding and refinancing the debt; 2) It will favorably impact the Senior Lien Debt Service coverage ratio which is a key metric for rating agencies; 3) The cash defeasance will reduce annual Senior Debt Service by an average of \$3.4 million between FY 2015-16 and FY 2024-25; 4) It will reduce the FY 2015-16 Replenishment Assessment (RA) by \$10 per acre-foot for the next ten years; and 5) The cash defeasance will negatively reduce the Days Cash on Hand metric which is another key ratio used by rating agencies to rate water & sewer entities. He advised the cash defeasance strategy requires an escrow account and staff is recommending funding the escrow account with \$10 million from the Paygo Capital Project Fund, \$7.241 million from the Refurbishment & Replacement (R&R) Reserve, and \$10 million from the Operating Fund. Mr. Fick responded to Committee questions and then recommended adoption of a resolution authorizing the execution and funding of an escrow agreement for Series 2005B COPs; and authorizing payments to Stradling, Yocca, Carlson, & Rauth and to Fieldman Rolapp & Associates for bond counsel and financial advisory services. The Committee then took the following action.

Upon motion by Director Dewane, seconded by Director Flory and carried [5-0], the Committee recommended that the Board at its April 15 Board meeting: 1) Adopt resolution of the Orange County Water District authorizing the execution of an escrow agreement (Series 2005B) and approving certain acts in connection therewith and certain other matters; 2) Authorize the deposit \$27,240,218 of unrestricted reserves (\$10 million from Paygo Capital fund, \$7.241 million from Refurbishment & Replacement fund, and \$10 million from Operating fund) into an escrow account; and 3) Authorize payments in the amount of \$20,000 to Stradling, Yocca, Carlson, & Rauth and payment of \$23,000 for bond counsel and financial advisory services.

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

INFORMATIONAL ITEMS

9. United Water Conservation District and Santa Clara Valley Water District Rate Lawsuits

General Counsel Joel Kuperberg presented a briefing on two conflicting California Appellate court rulings that dealt with groundwater charges that are similar to the District's Replenishment Assessment and the Additional Replenishment Assessment. Mr. Kuperberg reviewed Proposition 218, the District Act, and the District's methodology for assessing property related fees. Mr. Markus advised that staff will continue to meet with members of the District's agricultural community to discuss these issues. This matter was informational and the Committee took no action at this time.

10. Employment Status Report

Mr. Markus reported the Employment Status Report dated March 31, 2015 is in today's packet.

11. Certificate of Achievement for Excellence in Financial Reporting

Director Dewane congratulated the Finance and Accounting staff for their outstanding achievement in financial reporting.

12. Monthly Cash Disbursements Detail Report

Director Dewane stated the Monthly Cash Disbursement Detail Reports for the period of February 26 through March 25, 2015 are in today's packet.

DIRECTOR COMMENTS

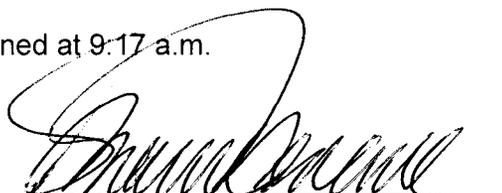
Director Anthony introduced Mr. Nick Dibs who requested the District consider sponsoring 2 science awards for students interested in water. Mr. Dibs stated that in the past, MWDOC has given achievement awards to one junior high school student and one senior high school student at the Orange County Science and Engineering Fair. He reported that MWDOC is no longer interested in funding those awards and he asked if the District would consider sponsoring the 2 awards at the annual Orange County Science and Engineering Fair scheduled for April 22, 2015. The Committee recommended that Mr. Dibs prepare a formal request and give it to staff so that it can be considered at the April 15 Board meeting.

ITEMS TO BE AGENDIZED ON THE CONSENT CALENDAR AT THE APRIL 15 BOARD MEETING

The Committee recommended Items No. 2-6, 8 be placed on the Consent Calendar at the April 15 Board meeting. Item No. 7, Proposed FY 2015-16 General Fund Budget will be agendized as a Matter for Consideration.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:17 a.m.



Director Shawn Dewane, Chair