MINUTES OF THE REGULAR MEETING
OF THE
FINANCE/INSURANCE COMMITTEE MEETING

November 25, 2019

Vice President Monin called the Finance Committee meeting to order at 7:30 o'clock a.m. on November 25, 2019.

Present at today's meeting were Committee Members JOSE F. VERGARA, MARK MONIN, KATHRYN FRESHLEY, MIKE GASKINS, and KAY HAVENS.

Also present were DENNIS P. CAFFERTY, General Manager, JUDY CIMORELL, Human Resources Manager, NEELY SHAHBAKHTI, Finance Manager/Controller, BOBBY YOUNG, Principal Engineer, GILBERT J. GRANITO, General Counsel, KEN PUN, The PUN Group, ED MEANS, Means Consulting, Keith Stribling, HighMark Representative, POLLY WELSCH, Recording Secretary, and CAROL MOORE, Laguna Woods Council member.

Pledge of Allegiance

Director Havens led in the Pledge of Allegiance.

Oral Communications/Public Comments

There were no comments.

Items Received Too Late to be Agendized

President Vergara asked if there were any items received too late to be agendized. Mr. Cafferty replied no.

Finance/Insurance Committee Meeting

At approximately 7:39 o'clock a.m. Vice President Monin called the Finance/Insurance Committee Meeting to order.

Consent Calendar

a. Consider approving the October 22, 2019 Finance Committee meeting minutes

b. Consider renewing the District's membership in CASA in the amount of $13,370

c. Consider renewing the District's membership in AWWA in the amount of $2,223

d. Consider renewing the District's membership in WateReuse in the amount of $1,070

e. Consider renewing the District's membership in CSDA in the amount of $7,615

f. Consider approving the 2018/19 fiscal year reconciliation of the District's restricted Capital Facility Fee Reserve

Director Gaskins asked if we are getting value out of being a member of CASA. Mr. Cafferty replied yes some of our Directors attend their conferences.

Director Gaskins suggested that there is value in purchasing the CSDA 2020 Required State & Federal Labor Law Poster, and the CSDA Administrative Salary and Benefits Survey.

Vice President Monin asked for a Motion.

Motion: Director Havens made a Motion, seconded by Director Freshley and unanimously carried across the Board to approve the Consent calendar, and purchase the CSDA 2020 Required State & Federal Labor Law Poster, and the CSDA Administrative Salary and Benefits Survey.

Roll Call Vote:

Director Gaskins	aye
President Vergara	aye
Vice President Monin	aye
Director Freshley	aye
Director Havens	aye

Approval of Items Removed from Today's FIC Consent Calendar

There were no items removed.

Finance Action Items

ETWD Comprehensive Annual Financial Report/Audit – Fiscal Year Ended June 30, 2019

Ms. Shahbakhti introduced Mr. Ken Pun of The PUN Group auditors.

Mr. Pun stated that he will be presenting to the Board a report on:

- Scope of Work
- Audit Responsibilities
- Approach to the Audit for ETWD
- Overview of Financial Statements
- Key Pension and OPEB Information
- Audit Results

Mr. Pun stated that he will discuss audit responsibilities for management and the auditors. He further stated that they accept accounting principles using GASB obligations.

Mr. Pun stated that Revenues, Expenses, and Changes in Net Position have increased from the previous year with the exception of Non-operating Expenses and Income Loss before Capital Contributions. Mr. Pun stated that the District has to record the OPEB Liability at a 3.87% discount rate.

Mr. Pun stated that the auditors have no disagreements with Management, no material weaknesses or significant deficiencies in internal controls, no accounting issues, and no irregularities were noted.

Director Havens suggested that we discuss the OPEB results and Audit results in our newsletter, and a CAG meeting.

Vice President Monin asked for a Motion.

Motion: Director Gaskins made a Motion, seconded by Director Freshley and unanimously carried across the Board to Receive and File the District's Comprehensive Annual Financial Report (CAFR) Audit for fiscal year ended June 30, 2019.

Roll Call Vote:

Director Gaskins	aye
President Vergara	aye
Vice President Monin	aye
Director Freshley	aye
Director Havens	aye

At approximately 8:04 o'clock a.m. Mr. Pun left the meeting.

Quarterly Review of the District's 401(k) Retirement Savings Plan

Mr. Stribling stated that the Fed has been lowering the Fed Funds rate, which is probably done for this year. He further stated that there are still negative rates in Europe and Japan on their 10-year debt which creates demand for US Treasury debt.

Mr. Stribling stated that lower rates support housing which has stabilized since last year. He further stated that wage growth continues to be a big trend.

Mr. Stribling stated that China and the US are still in a trade dispute, but there has been some progress made.

Mr. Stribling stated that all returns are doing well. He further stated that the last 4 months of last year were not good, so hopefully the long term return numbers will help absorb this.

Mr. Stribling stated that the 4th quarter had positive returns. He further stated that active management underperformed in October.

Mr. Stribling stated that the Large Cap Value Funds under performed, along with the Large Cap Growth Funds. He further stated that these funds fluctuate up and down.

Mr. Stribling stated that Small Cap Funds were also down slightly and gets returns in chunks. He further stated that International Funds were positive overall and Alternative Strategies were also up.

Mr. Stribling stated that they are discussing Liquid Alternatives at his firm and reevaluating values. He further stated that last year he lowered Alternatives by 100-200 basis points and put the money in Equities and Reits even though they underperformed.

Vice President Monin stated that on the Equity Funds, International has been underperforming. He further stated that the Alternatives are underperforming.

Mr. Stribling stated that the Market Neutral Strategy is not working well and is on the Watch List.

At approximately 8:27 o'clock a.m. Mr. Stribling left the meeting.

Vice President Monin asked for a Motion.

Motion: Director Gaskins made a Motion, seconded by Director Havens, and unanimously carried across the Board to Receive and File the Quarterly Review of the Districts 401(k) Retirement Savings Plan.

Roll Call Vote:

Director Gaskins	aye
President Vergara	aye
Vice President Monin	aye
Director Freshley	aye
Director Havens	aye

2019 Strategic Plan Update

Mr. Means reviewed the Board's input from the Strategic Planning workshop, and the Board provided additional revisions to the draft Vision, Mission, Goals, and Values of the District's Strategic Plan.

Mr. Means stated that he will be conducting interviews with the staff on December 18th.

The Board members and Mr. Means discussed different language terms used in the draft Vision, Mission, Goals, and Values of the District's Strategic Plan.

Vice President Monin asked for a Motion.

Motion: President Vergara made a Motion, seconded by Director Havens, and unanimously carried across the Board to approve the recommended language to the draft Vision, Mission, Goals, and Values of the District's Strategic Plan.

Roll Call Vote:

Director Gaskins	aye
President Vergara	aye
Vice President Monin	aye
Director Freshley	aye
Director Havens	aye

At approximately 9:08 o'clock a.m. Mr. Means left the meeting.

Dam Failure Liability Insurance

Mr. Cafferty stated that the District has maintained $20 Million in Dam Failure Liability Insurance at the previous direction of the Board. He further stated that the premium cost had previously been $20,000 annually, but due to current conditions the rates are now approximately $60,000.

Mr. Cafferty stated that staff prepared several different alternatives which cover two separate dams; the R-6 Dam (275 million gallons of water), and the Effluent Holding Pond (12 million gallons of water). He further stated that what we are insuring against is the potential for a failure.

Mr. Cafferty stated that the R-6 Reservoir, including the floating cover, polypropylene liner is not prone to the typical piping and overtopping failure mechanisms that might endanger other dams.

After discussion, the Board members agreed to Alternative 3, which provides $5 million insurance for the Holding Pond, and $10 million for the R-6, which will cost the District $23,949.

Ms. Moore asked if the other participants in R-6 pay any costs. Mr. Cafferty replied that SMWD pays ½ of the operating costs, and MNWD pays 5%.

Vice President Monin asked for a Motion.

Motion: Director Gaskins made a Motion, seconded by Director Freshley and unanimously carried across the Board to go with Alternative 3 which provides $5 million insurance for the Holding Pond, and $10 million for the R-6, which will cost the District $23,949 annually.

Roll Call Vote:

Director Freshley	aye
Director Havens	aye
President Vergara	aye
Director Gaskins	aye
Vice President Monin	aye

Finance Report

Ms. Shahbakhti stated that included in the package is the financial information for the month of October.

Vice President Monin asked for a Motion.

Motion: Director Freshley made a Motion, seconded by Director Havens, and unanimously carried across the Board to 1) approve, ratify, and confirm payment of those bills as set forth in the schedule of bills for consideration dated November 25, 2019, and 2) receive and file the Financial Statements for the period ending October 31, 2019.

Roll Call Vote:

President Vergara	aye
Vice President Monin	aye
Director Freshley	aye
Director Gaskins	aye
Director Havens	aye

Finance Information Items

Tiered Water Usage and Revenue Tracking

There were no comments.

Comments Regarding Non-Agenda FIC Items

Director Gaskins stated that he suggested placing a dash cam on the waste hauler truck to assist in our defense in the event of an accident.

Close Finance and Insurance Committee Meeting

At approximately 9:43 o'clock a.m. the FIC meeting was closed.

Respectfully submitted,

POLLY WELSCH
Recording Secretary

APPROVED:

JOSE F. VERGARA, President
of the El Toro Water District and the
Board of Directors thereof

DENNIS P. CAFFERTY, Secretary
of the El Toro Water District and the
Board of Directors thereof