MINUTES OF THE REGULAR MEETING
OF THE
FINANCE & INSURANCE COMMITTEE

July 25, 2022

At approximately 7:30 a.m. President Freshley called the regular meeting to order.

Director Monin led in the Pledge of Allegiance to the flag.

Committee Members KATHRYN FRESHLEY, KAY HAVENS, MIKE GASKINS, JOSE VERGARA, and MARK MONIN participated.

Also participating were DENNIS P. CAFFERTY, General Manager, JASON HAYDEN, CFO, JUDY CIMORELL, Human Resources Manager, GILBERT J. GRANITO, General Counsel, HANNAH FORD, Engineering Manager, SHERRI SEITZ, Public Relations/Emergency Preparedness Administrator, RICHARD BABBE, CAMP Representative, and POLLY WELSCH, Recording Secretary.

SCOTT HOPKINS, Operations Superintendent, was absent.

Oral Communications/Public Comments

There were no comments.

Items Received Too Late to be Agendized

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

Finance & Insurance Committee Meeting

At approximately 7:32 a.m. Director Monin called the Finance meeting to order.

Consent Calendar

Director Monin asked for a Motion.

Motion: President Freshley made a motion, seconded by Vice President Havens and unanimously carried across the Board to approve the Consent Calendar.

Roll Call Vote:

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

CAMP

Mr. Babbe gave a presentation on the status of the District's investment holdings and philosophy based on the economic outlook.

Mr. Babbe stated that the Federal Reserve is tightening monetary policy with more aggressive rate hikes to battle persistent inflation, with the short-term fed funds rate projected to reach 3.25% - 3.75% by year-end, and the start of balance sheet reduction pace to double beginning in September. He further stated that asset prices have fallen as a result of higher interest rates and this has negatively impacted bond prices and equity valuations and caused wider credit spreads. The higher interest rates have become necessary due to high commodity prices, rising labor costs, and the conflict in Ukraine all causing inflation to spike and leading to high levels of volatility and uncertainty in various markets.

Mr. Babbe stated that Treasury Yields have moved higher across the curve and future expectations have changed over the quarter, and while short-term rates have increased, they are expected to further increase and reach 3.5% by the end of the year. He further stated that sector yield spreads widened in the second quarter and rising rates and wider spreads hurt fixed-income returns in the quarter and could affect how long a recession lasts.

Director Monin asked if CAMP representatives look at credit default swaps as an indicator for a potential credit event. Mr. Babbe replied that their representatives do monitor credit default swaps.

Director Monin asked what type of rate is CAMP able to achieve with commercial paper investments. Mr. Babbe replied that they are seeing rates over 3%.

Mr. Hayden stated that staff recommends that the Board consider moving to a cash flow approach to the investment portfolio from this point forward, and as funds become available from distributions or maturing investments, PFM would identify investments that would provide the best return over time based on current market conditions. He further stated that this could include securities with maturities of up to five years, and PFM would ensure at least 50% of the portfolio remaining invested in securities with a duration under three years to provide ongoing flexibility if the liquidity needs change. Mr. Cafferty stated that he and Mr. Hayden met with Mr. Babbe to discuss the investment portfolio. Mr. Cafferty further stated that the recommendation to pursue the cash flow approach outlined by Mr. Hayden represents the consensus opinion of staff and Mr. Babbe.

Mr. Babbe stated that future sales of securities prior to maturity in pursuit of attractive investment opportunities would be made in consultation with Mr. Hayden.

Mr. Cafferty stated that staff, based on the consensus of the discussion, will proceed with investments on a cash flow basis, reinvesting funds at longer durations as securities mature or selling existing securities when investment opportunities warrant while ensuring to manage and maintain liquidity as necessary.

Vice President Havens complimented Mr. Babbe on the new structure of the CAMP report as it is much easier to understand.

At approximately 8:10 a.m. Mr. Babbe left the meeting.

Financial Information Items

Tiered Water Usage and Revenue Tracking

There were no comments.

Update on the Implementation of the Springbrook Software System

Mr. Hayden stated that staff is using Springbrook to account for activities in the 2022/23 fiscal year with the Budget entered into Springbrook and Payroll and Accounts Payable occurring in the software. He further stated that staff worked extensively with the Springbrook consultant to complete the Payroll process and were able to transmit electronic files to the bank and retirement accounts.

Mr. Hayden stated that the setup and implementation for the Utility Billing module will begin the first week in August.

2022/23 Fiscal Year Budget Preparation and Tentative Schedule Status Report

There were no comments.

Financial Action Items

Quarterly Insurance Report

Ms. Cimorell stated that the report in the package is the final report for the fiscal year. She further stated that due to staff shortage, she estimated the Workers Compensation section of the report.

President Freshley asked if a generator was taken as indicated. Mr. Cafferty replied generator cables were stolen, not the generator itself.

Director Monin asked for a Motion.

Motion: Vice President Havens made a motion, seconded by President Freshley and unanimously carried across the Board to Receive and File the Quarterly Insurance

Report for the period of April 1, 2022 through June 30, 2022.

Roll Call Vote:

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

Financial Package – Authorization to Approve Bills for Consideration dated July 25, 2022 and Receive and File Financial Statements as of June 30, 2022

Mr. Hayden stated that current fiscal year we are expected to be in a positive position with OPEB and may receive a credit rather than a charge for the 2021-2022 fiscal year..

President Freshley stated that Accounts Receivables improved dramatically from last month.

Director Monin asked for a Motion.

Motion: Director Gaskins made a Motion, seconded by Vice President Havens and unanimously carried across the Board to approve, ratify, and confirm payment of those bills as set forth in the schedule of bills for consideration dated July 25, 2022, and receive and file the financial statements for the period ending June 30, 2022.

Roll Call Vote:

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

Annual Review of the District's Cash Reserve Policy Statement 1994-12 (IV)

Mr. Cafferty provided an overview of the revised Cash Reserve Policy Statement and noted that the new categories of Reserves reflect the categories of fund balances

established in GASB Statement 54. The intent with this change is to change the terminology used for the District's reserves to reflect the terminology used for governmental accounting so the District presents its reserves in categories that will be familiar to analysts, accountants, and auditors familiar with governmental accounting. Mr. Cafferty also noted that the policy has been drastically changed with the various reserve categories begin allocated to either Restricted, Committed, or Assigned Reserves. Some of the changes include moving the Tiered Conservation Reserve balance to Restricted Reserves, the Baker Funding Reserve from Legally Restricted Reserves to Assigned Reserves, and the Working Capital reserve from Board Mandated Minimum Reserve Levels to Assigned Reserves.

Mr. Cafferty stated that Resolution No. 22-7-1 amends the District's current Cash Policy Statement 1994-12 in its entirety. He further stated that the Assigned Reserves are established according to projects, bonds, and working capital.

Mr. Cafferty stated that the total minimum Reserve Balance at the end of each fiscal year should equal the minimum balances from the Committed Reserves combined with the minimum balance from the Working Capital Reserve. The total minimum balance is intended to equal 25% to 40% of projected expenses for the forthcoming budget year.

Mr. Cafferty stated that the existing policy states that we need to have six months of operational expense, but this is not a requirement, and we should be governing our Reserves by our policy.

Director Monin asked for a Motion.

Motion: President Freshley made a Motion, seconded by Director Gaskins and unanimously carried across the Board to approve Resolution No. 22-7-1 which amends the District's Cash Reserve Policy Statement 1994-12 (IV).

Roll Call Vote:

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

Comments Regarding Non-Agenda FIC Items

There were no comments.

Close Finance and Insurance Committee Meeting

There being no further business the Finance Committee meeting was closed at approximately 9:00 a.m.

Respectfully submitted,

Polly Welsch

POLLY WELSCH
Recording Secretary

APPROVED:

Kathryn Freshley

KATHRYN FRESHLEY, President
of the El Toro Water District and the
Board of Directors thereof

D. P Cafferty

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