

MINUTES OF THE REGULAR MEETING  
OF THE  
FINANCE & INSURANCE COMMITTEE

May 24, 2021

At approximately 7:30 a.m. President Gaskins called the regular meeting to order via zoom.

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

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

Also participating were DENNIS P. CAFFERTY, General Manager, JUDY CIMORELL, Human Resources Manager, JASON HAYDEN, CFO, GILBERT J. GRANITO, General Counsel, SCOTT HOPKINS, Operations Superintendent, SHERRI SEITZ, Public Relations/Emergency Preparedness Administrator, RORY HARNISH, Project Engineer, KEITH STRIBLING, HIGHMARK Representative, CAROL MOORE, Laguna Woods Council Member, JOHN PERREAULT, Springbrook Representative (joined the meeting at 8:00 a.m.), KEN HOFFMAN, Springbrook Representative (joined the meeting at 8:00 a.m.), JIM CORBETT, Springbrook Representative (joined the meeting at 8:00 a.m.), LORRAINE JOBES, Springbrook Representative (joined the meeting at 8:00 a.m.), and POLLY WELSCH, Recording Secretary.

Oral Communications/Public Comments

There were no comments.

Items Received Too Late to be Agendized

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

## Finance & Insurance Committee Meeting

At approximately 7:35 a.m. Director Havens called the Finance meeting to order.

### Consent Calendar

Director Havens asked for a Motion.

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

### Roll Call Vote:

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

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

Mr. Stribling stated that pages 10 through 16 are the portfolio performance pages, and pages 21 through 25 highlight funds. He further stated that the quarter was good on an Absolute basis and on a Relative basis.

Mr. Stribling stated that the Capital Preservation portfolio was even with the benchmark. He further stated that it was a bad quarter for Bonds, but good for everything else in the Fixed Income portfolio.

Mr. Stribling stated that portfolios were up roughly 65 basis points on a relative basis and the growth portfolio was up 5.7% for the quarter. He further stated that longer term numbers are starting to look much better.

Mr. Stribling stated that the Income and Growth portfolio and the Balance portfolio are now slightly leading the benchmark. He further stated that these are the funds with longer periods of investment.

Mr. Stribling stated that Active Management Funds had a good quarter and outperformed Passively Managed Funds. He further stated that he looked at the month of April and on an absolute basis most of the portfolios had gains of approximately 3.5%. The Balanced Fund is up 3.4% in April, and all the other Funds are in line with their benchmarks. The Capital Preservation portfolio was up 1.85%.

Director Monin referred to the Morning Star ratings on page 19, and stated that the Victory Small Cap Fund has been on fire other than the last couple of weeks, and asked why it wasn't doing better. Mr. Stribling replied that this fund is newer and Value outperformed Growth in its category.

Director Monin stated that on page 20, it's unfortunate that Morning Star has the Blackrock Total return as a 1.

Mr. Stribling stated that Cryptocurrencies are the big topic these days.

Mr. Stribling stated that on page 5 of the commentary, there is a chart that says "Negative Yielding Debt in Trillions", short rates are being held down by the Feds while longer term rates are back up.

Director Vergara asked are we considering whether we should issue Bonds or not, and would it be a good thing to do if the Feds get their way and inflation increases. Mr. Stribling replied that the Federal Reserves want inflation, but they want it with growth and increases in income.

At approximately 8:00 a.m. Mr. Stribling left the meeting.

#### Financial Information Items

#### Springbrook Financial Software

Mr. Cafferty stated that staff has been reviewing the software currently used by the District and considering the possibility of consolidating some of these systems.

Mr. Hayden stated that the District is currently using 5 different software systems to complete various processes for the District. He further stated that he has previous experience with Springbrook for numerous years and it provides all of the functions that our current 5 systems provide.

Mr. Hayden stated that there are some challenges with our utility billing system. He further stated that by using the Springbrook system, we could see improvement throughout the District.

Mr. Hayden stated that this is a big project which would affect every employee due to the difference in preparing payroll, training, and implementation. He further stated that there are significant upfront costs.

Mr. Hayden stated that our water budget based billing system would be a challenge for Springbrook. He further stated that some of Springbrook's representatives are on today's zoom meeting.

Mr. Hayden introduced Ms. Jobe from Springbrook who in turn introduced the other Springbrook representatives.

Ms. Jobe gave a presentation to the Board detailing their Cloud solutions and examples of recent customers.

Vice President Freshley stated that the decision to go with Springbrook is a critical investment and should be reviewed thoroughly and in detail.

Director Monin agreed with Vice President Freshley and suggested reviewing this in more detail before making any decision.

Director Vergara stated that he is concerned about using the Cloud system and being hacked for ransom.

Director Monin asked why we are considering Springbrook and not putting out an RFP to solicit other firms as well and compare costs and other details. Mr. Cafferty mentioned that this is an information item at today's meeting and staff is not seeking approval to award a contract.

Director Havens stated that she agrees that staff should use an RFP process before deciding to make any changes to our current systems. She further stated that currently Springbrook does not accommodate our current water budget based billing system so there would be additional costs.

Director Havens stated that she would like our IT Manager to review this system and see how secure it would be for the District and its employees and customers.

Vice President Freshley asked who "Civic Pay" is. Mr. Hoffman replied that they are an online payment billing service owned by Springbrook.

Vice President Freshley asked who "PAX" is. Mr. Hoffman replied that PAX is a hardware provider that guarantees that all products are warranted to be free from defect in workmanship and material within 2 years of initial shipment from their facility.

At approximately 9:00 a.m. the Springbrook representatives left the meeting.

#### Credit Card Bill Payments

Mr. Cafferty stated that we have a contract with a credit card processing vendor that charges customers a fee for using electronic checks and credit cards for payment. He further stated that the contract is expiring and the vendor asked whether the District would be interested in absorbing the fees rather than charging the customers a convenience fee.

Mr. Cafferty stated that if the District chose to absorb the credit card processing fee, the cost would impact rates. He further stated that this item is informational only.

President Gaskins stated that he is recommending no change. Director Monin stated that he agrees that no change should be made. Director Vergara agreed.

Vice President Freshley stated that she objects to paying the credit card fee for our customers' convenience. Director Havens agreed.

#### Project Funding Options

Mr. Cafferty stated that staff the District has significantly costly projects forthcoming; the replacement of the R-6 cover, the demolition of the filtration plant and the construction of a storage facility, and construction of the South County turnout, and the Joint Transmission Main pump station. He further stated that there are also upcoming SOCWA capital obligations.

Mr. Cafferty stated that staff is identifying options to fund some of these projects, in addition to our capital charge revenue. He further stated that there is not much available grant funding at this time, and so we anticipate financing a significant portion of these projects.

Mr. Hayden stated that staff has reviewed the low interest loan program from the State Water Resources Board and the Drinking Water System, and the program is significantly over-subscribed. He further stated that it could take a couple years to access the low interest loan program because the District's projects don't fit the program priorities at this point in time, so it is unlikely that the District would receive funding from the State Revolving Fund Program in a time period that would work to fund the projects that need to be completed.

Mr. Hayden stated that potential grant funding will also be challenging for these same reasons. He further stated that we are replacing existing structures and not building new ones.

Mr. Hayden stated that there is no opportunity to receive funding from FEMA for the demolition or construction of the filtration building because construction is ineligible for any FEMA programs at this time.

Mr. Hayden stated that staff also researched financing from a bank similar to the refinance of the Baker debt service. He further stated that one problem is that banks want to tie the interest rate to LIBOR or whatever the interest base rate is, and with the amount of money we need to access, we would prefer to have a long-term repayment schedule with a fixed rate interest. He further stated that bank loans also include a lot of covenants that could negatively impact the District.

Mr. Hayden stated that we could issue a long-term 30-year bond and get it at an average fixed interest rate of 1.7% assuming the District achieves a bond rating of AA+ from Standard & Poor's. He further stated that some challenges include issuance of bonds will be more costly than financing from the State or a bank loan, and more complex than securing a bank loan, and the District will need to complete a bond rating process, and bonds take a considerable period of time to complete the process.

Director Vergara stated that when we refinanced the Baker plant, we competed to get the most beneficial result. He further stated that we have considered bonds in the past and decided not to go with bonds.

Mr. Cafferty replied that when we considered the Baker refinance, we did a competitive rate analysis to see what best rate we could get from a bank, and Texas Capital was chosen based on the amount of money we were looking at. He further stated that the bond financing from a cost benefit analysis was more expensive based on the amount of money being financed at that time.

Director Vergara asked if the District ever issued bonds. Mr. Cafferty replied that

the District had a Public Facilities Corporation (PFC) which was dormant for many years and was dissolved. He further stated that the PFC could be reinstated easily if needed.

President Gaskins stated that of the options available, it appears that bonds are the best way to go, but he asked if we need approval from the public to issue bonds. Mr. Hayden replied that although we have been calling them bonds, the District would actually issue Certificates of Participation, and these can be issued without having to complete a referendum process, and the issuing entity controls the financing corporation (PFC).

Director Monin asked for comments on WIFIA. Mr. Cafferty replied that WIFIA is focused on much larger projects, but staff will take a look at it.

#### Tiered Water Usage and Revenue Tracking

Mr. Cafferty stated that we continue to trend slightly higher than last year which is weather driven.

Director Havens asked if all of the pages in the report could be consistent color coded for each Tier, showing red as the highest Tier, and recycled water purple, to make it easier for the public to read and stay consistent with our conservation message.

#### 2021/22 Fiscal Year Budget Preparation and Tentative Schedule Status Report

Mr. Cafferty stated that the Public Hearing is scheduled for June 24<sup>th</sup>, and the Prop 218 Notices were mailed out and thus far only 2 protest letters have been received.

Mr. Cafferty stated that there was an error in the agenda when the Board approved the 2021/22 budget. Mr. Cafferty explained that the agenda referred to the 2020/21 budget. Mr. Cafferty stated that the recommended action and minutes reflected that the Board did approve the 2021/22 budget, and the 2021/22 Prop 218 Notice. He

further stated that he reviewed with our General Counsel and it was determined that this was a harmless error and the record is clear that the Board approved the 2021/22 budget and Prop 218 Notice.

#### Financial Action Items

#### Financial Package – Authorization to Approve Bills for Consideration dated May 24, 2021 and Receive and File Financial Statements as of April 30, 2021

Director Havens asked for a Motion.

Motion: Director Vergara made a Motion, seconded by Director Monin 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 May 24, 2021, and receive and file the financial statements for the period ending April 30, 2021.

#### Roll Call Vote:

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

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

Mr. Cafferty stated that staff made some recommended changes which are minor correcting words and grammar. He further stated that the Baker funding reserve language added an update to modify the collection through Capital Revenue to fully support the entire amount of the Baker debt service.

Director Havens asked for a Motion.

Motion: Vice President Freshley made a Motion, seconded by Director Monin and unanimously carried across the Board to adopt Resolution No. 21-5-1 which amends the Districts Cash Reserve Policy Statement 1994-12 (IV).

#### Roll Call Vote:

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

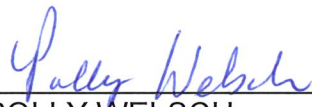
Comments Regarding Non-Agenda FIC Items

Director Monin stated that he attended the Laguna Woods City Council meeting where they discussed the Regional Housing Needs Assessment (RHNA) and doing 997 additional units. He further stated that they also discussed storm water issues, and he would like to see how the District can stay engaged with the City.

Close Finance and Insurance Committee Meeting

There being no further business the Finance Committee meeting was closed at approximately 9:40 a.m.

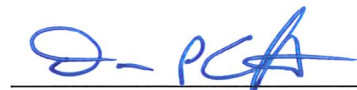
Respectfully submitted,

  
POLLY WELSCH  
Recording Secretary

APPROVED:



MIKE GASKINS, 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