

MINUTES OF THE REGULAR MEETING
OF THE
FINANCE & INSURANCE COMMITTEE

December 13, 2021

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

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

Committee Members MIKE GASKINS , KATHRYN FRESHLEY, JOSE VERGARA, MARK MONIN (arrived at 7:50 a.m.), and KAY HAVENS participated.

Also participating were DENNIS P. CAFFERTY, General Manager, JASON HAYDEN, CFO, GILBERT J. GRANITO, General Counsel, SCOTT HOPKINS, Operations Superintendent, HANNAH FORD, Engineering Manager, SHERRI SEITZ, Public Relations/Emergency Preparedness Administrator, LESLIE BLOOM, NHA Advisors, MARK NORTHCROSS, NHA Advisors, DAPHNE MUNOZ, Auditor, 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 7:32 a.m. Director Havens called the Finance meeting to order.

Consent Calendar

President Gaskins stated that he would like to pull item b. from the Consent

Calendar for further discussion.

Director Havens asked for a Motion.

Motion: Director Vergara made a motion, seconded by President Gaskins and unanimously carried across the Board to approve the Consent Calendar, with item b. pulled.

Roll Call Vote:

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

Approval of Items Removed from Today's Finance and Insurance Committee Consent Calendar

President Gaskins stated that the CASA Winter conference is January 19-21, 2022 in Palm Springs, and he authorized the Directors to attend.

Director Havens asked for a Motion.

Motion: Vice President Freshley made a Motion, seconded by President Gaskins and unanimously carried across the Board to approve item b. of today's Consent Calendar.

Roll Call Vote:

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

Financial Information Items

Tiered Water Usage and Revenue Tracking

Mr. Cafferty stated that page 18 was added to show Recycled Water use by United and Third Mutual. He further stated that the dedicated irrigation page reflects the ET factor.

Director Havens stated that functional turf could be mandated in the near future with profound impact on the District. Mr. Cafferty replied that ET factor could be reduced for ornamental turf that is irrigated with recycled water or potable water.

Update on the Implementation of the Springbrook Software System

Mr. Hayden stated that staff is completing questionnaires that Springbrook asked for by early January, and staff is entering chart of account information on a spreadsheet to be used to upload this information into Springbrook.

Phase 1 LRP Agreement Reconciliation

Mr. Cafferty stated that staff has been working on the Phase 1 LRP reconciliation. He further stated that the LRP rebate program was designed by MET to provide incentive for agencies to implement projects that will offset the need for potable water.

Mr. Cafferty stated that ETWD entered into an LRP agreement for our Phase 1 Recycled Water project in 2012 that pays \$250 per acre foot for recycled water produced for that purpose. He further stated that the costs associated with the project exceed the MET treated water cost, which we submit to MET compared to the benchmark, for costs higher than the benchmark, and MET pays the difference.

Mr. Cafferty stated that in the Phase 1 project for the 2020/21 fiscal year, we sold approximately 1,040 acre feet, and we collected approximately \$250,000 in LRP

rebates.

Mr. Cafferty stated that we sold more recycled water than we did in the previous year, an additional 212 acre feet. He further stated that this was \$492,000 of additional revenue in recycled water sales.

Mr. Cafferty stated that due to the additional sales of recycled water in the 2020-2021 fiscal year, under the terms of the contract with MWDOC the District is not able to justify the LRP rebate for the 2020-2021 fiscal year. Mr. Cafferty explained the amount of recycled water sold in 2020-2021 resulted in a calculated cost of recycled water that was insufficient to justify the full amount of the LRP rebate. Mr. Cafferty stated that the capital costs allocated to Phase I of the recycled water system were not high enough to keep the cost of recycled water higher than the cost of potable water. . He further stated that MWDOC has worked with the District to resolve this issue but after discussing the term of the LRP contract with MET , it was determined that a change to the contract could not be made after the expiration of the 2020-2021 fiscal year. Mr. Cafferty noted that this change could be made for future fiscal years and the District is working with MWDOC and MET to implement this change so this issue will be avoided in future years.

Director Havens asked if there is any time sensitivity. Mr. Cafferty replied that an amendment should be done during the current fiscal year.

Update on Financing Plan for Near-term Future Capital Projects

Mr. Hayden stated that NHA Advisors have drafted an RFP to be sent to bond underwriting firms who would serve as the District's underwriter to complete the issuance of the debt.

Mr. Hayden stated that NHA Advisors has advised staff that it could be beneficial to issue debt as Revenue Bonds instead of COP's. He further stated that Revenue Bonds are more accepted in debt markets.

Ms. Bloom stated that the District expects to fund 6 projects with an estimated cost of \$34 million with \$25 million funding needed after application of reserves. She further stated that the Recycled Water project is not expected to be funded at this time.

Ms. Bloom stated that the Plan of Finance goals include long-term fiscal sustainability, maintaining affordable rates for customers, securing low interest rates and repayment terms, and providing financial flexibility to the District.

Ms. Bloom stated that the District has examined funding alternatives including capital projects to be funded, inclusion of SRF loan refinancing, repayment shape, and COP's versus Revenue Bonds. She further stated that staff has decided the best alternative is to refinance the outstanding SRF loans.

Ms. Bloom stated that pushing back debt service is called a wrap structure. She further stated that financing assumptions support their analysis.

Ms. Bloom showed a comparison of the District's current debt payments versus combined new debt payments, and estimated debt service coverage.

Vice President Freshley asked if it makes any difference if we have COP's or Revenue Bonds. Mr. Northcross replied that the difference between calling a debt obligation a COP and a utility revenue bond may be very small in the current market environment but even a small reduction in interest cost more than makes up for the additional cost associated with issuing revenue bonds. He further stated that this could change significantly in the long run, and is driven by a technical term called credit spreads.

Mr. Cafferty stated that the next step will be to either form a JPA, or a non-profit financing corporation. He further stated that we need to pay attention to interest rates rising in the near future.

Director Monin asked if the \$10,000 fee is a one-time charge. Mr. Cafferty replied yes.

Vice President Freshley stated that she would like a chance to read the entire agreement before making any decisions.

Mr. Cafferty stated that the COP's are somewhat unique to California but Revenue Bonds are issued by entities throughout the United States and are therefore well understood and accepted by bond market participants..

Financial Action Items

ETWD Comprehensive Annual Financial Report/Audit – Fiscal Year Ended June 30, 2021

Daphne Munoz of White Nelson provided a brief presentation to the Board,

Mr. Hayden stated that the audit opinion is unqualified, and in addition to this opinion, the communication letter also communicates the auditor's opinion of working with the District's finance staff.

Director Vergara asked for clarification on what unqualified means. Mr. Hayden replied that there are several auditor opinions that can be issued for a set of financial statements and an unqualified opinion is the highest form of audit opinion that can be issued. An Unqualified Opinion means the auditors have opined that the financial statements are free of material mis-statements and therefore correctly reflect the results of the financial operations for the fiscal year.

Mr. Hayden stated that fiscal year 2021 was a successful year considering the challenging environment. He further stated that staff is recommending that the Board

Receive and File the Annual Financial Report for the fiscal year ending June 30, 2021.

Director Havens asked for a Motion.

Motion: Director Monin made a Motion, seconded by Vice President Freshley and unanimously carried across the Board to Receive and File the District's Annual Financial Report – Audit for the Fiscal Year ending June 30, 2021.

Roll Call Vote:

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

Financial Package – Authorization to Approve Bills for Consideration dated December 13, 2021 and Receive and File Financial Statements as of November 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 December 13, 2021, and receive and file the financial statements for the period ending November 30, 2021.

Roll Call Vote:

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

Water Use Efficiency Analyst

Mr. Cafferty introduced the concept of hiring a Water Use Efficiency Analyst to consolidate water use efficiency tasks that are currently being handled by various employees in Engineering, Finance, and Operations. He further stated that this area of responsibility is becoming more important as the State issues additional mandates and requires additional reporting from the District. Mr. Cafferty stated that staff is evaluating how other agencies staff this position and the salary range associated with the position. He further stated that this additional employee will impact the 2021/22 fiscal year budget.

Director Havens asked for a Motion.

Motion: President Gaskins made a Motion, seconded by Vice President Freshley and unanimously carried across the Board to approve the addition of the Water Use Efficiency Analyst position.

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

There were no comments.

Close Finance and Insurance Committee Meeting



There being no further business the Finance Committee meeting was closed at approximately 9:30 a.m.

Respectfully submitted,



POLLY WELSCH
Recording Secretary

APPROVED:


KATHRYN FRESHLEY, 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

