

**TRABUCO CANYON WATER DISTRICT
FINANCE AUDIT COMMITTEE MEETING RECAP
APRIL 8, 2015**

DIRECTORS PRESENT

Committee Chair James Haselton
Alternate Committee Member Stephen Dopudja

STAFF PRESENT

Hector Ruiz, General Manager
Michael Perea, District Secretary
Karen Warner, Accounting Supervisor
Lisa Carmouche, Administrative Assistant

DISTRICT CONSULTANTS

Cindy Byerrum, District Treasurer

PUBLIC PRESENT

There were no members of the public present

CALL MEETING TO ORDER

Mr. Haselton called the April 8, 2015, Finance/Audit Committee Meeting to order at 7:01 A.M.

VISITOR PARTICIPATION

No visitor participation was received.

ORAL COMMUNICATION

No oral communication was received.

COMMITTEE MEMBER COMMENTS

Mr. Dopudja had no comments.

Mr. Haselton had no comments.

REPORT FROM THE GENERAL MANAGER

Mr. Ruiz had no comments.

ITEM 1: FINANCE/AUDIT COMMITTEE MEETING RECAP

The March 11, 2015, Finance/Audit Committee Meeting Recap was presented to the Committee. Mr. Dopudja was not present at the March 11, 2015, Finance/Audit Committee Meeting, and had no comment.

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RECOMMENDED ACTION:

Committee Chair Mr. Haselton and Mr. Perea, District Secretary, approved and recommended that the March 11, 2015, Finance/Audit Committee Meeting Recap be received and filed by the Board (Consent Calendar).

**ITEM 2: RATIFICATION OF DIRECTORS' FEES AND EXPENSES, TENTATIVE FUTURE MEETINGS/
ATTENDANCE ITEMS**

The Committee reviewed the information presented, and had no comments.

RECOMMENDED ACTION:

The Committee recommended that the Directors' expenses and fees for March, 2015, and the tentative future meetings be forwarded to the Board for ratification (Consent Calendar).

ITEM 3: DISCUSSION CONCERNING TCWD'S CALPERS ANNUAL VALUATION REPORT

Mr. Ruiz mentioned that this matter was reviewed the prior month, and presented the CalPERS Projected Future Employer Contributions for the District through Fiscal Year 2020/2021 per Committee request. Discussion occurred concerning the District's projected contribution rates and Unfunded Accrued Liability (UAL). Mr. Ruiz mentioned that CalPERS assumed 3% cost of living adjustment in determining the projected payroll values in the analysis as payroll is anticipated to increase during the projected timeline. Discussion occurred concerning Governmental Accounting Standards Board (GASB) rules and requirements and impacts on District employee benefits.

RECOMMENDED ACTION:

The Committee received the information concerning the matter, and recommended that the Board receive and file the CalPERS Annual Valuation Report for June 30, 2013 (Consent Calendar).

ITEM 4: DISCUSSION CONCERNING TCWD'S RESERVES POLICY AND RESERVES

Mr. Ruiz mentioned that this matter was reviewed the prior month, and that District staff has reviewed the Reserves Policy and Reserves. Mr. Ruiz reviewed the objectives of a reserve policy, and summarized the reserves that were adopted from 1999 to 2001. Ms. Byerrum presented and reviewed the Proposed TCWD Reserve Policy and Proposed Committed Operating Reserves which included the following:

- **Working Capital (Operating) Reserve:** Ms. Byerrum recommended that the District set this reserve at a minimum of 60 days of budgeted operating expenses, and adjust annually when the final budget is adopted.
- **Refundable Deposits Reserve and Developer Deposits Reserve:** Ms. Byerrum recommended the dissolution of these reserves.
- **Oaks at Trabuco Reserve:** Ms. Byerrum recommended that the District continue to adjust the amount in this reserve on a quarterly basis for interest and maintain reserve account, as required by the agreement.
- **Water and Sanitation Rate Stabilization Reserves:** Ms. Byerrum recommended that the District set the Water Rate Stabilization Reserve at 10% of the budgeted operating revenues, less

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Standby and Other Revenues, and set the Sanitation Rate Stabilization Reserve at a minimum of 20% of budgeted operating expenses. Discussion occurred concerning the increase of the Water Rate Stabilization Reserve as a result of the impacts of the State Water Board's proposed Drought Regulations. Mr. Ruiz mentioned that District staff will return with a wider range of proposed reserve levels based on drought-related impacts.

- **Internal Financing Reserve:** Ms. Byerrum mentioned that this reserve is used for the internal and temporary financing of large projects, like the District's capacity purchase in the Baker Water Treatment Plant and the FEMA reimbursable Alternate Raw Water Transmission Line Project. The reserve is replenished when reimbursements are received from FEMA, the Water Reliability and Emergency Storage (WRES) fund, or other source, as applicable. Ms. Byerrum recommended the continued use of this reserve for Board-approved large projects.
- **District Capital Projects Reserve:** Ms. Byerrum recommended the funding of this reserve at a flat amount of \$200,000, and then annually evaluate during the budget process.
- **Equipment Maintenance Program Reserve:** Ms. Byerrum recommended the funding of this reserve at \$900,000, and then annually evaluate during the budget process.
- **Capital Improvement Charge (CIC) Reserve, Water Storage Facilities Reserve, and Sanitation Capital Improvement Reserve:** Ms. Byerrum mentioned that these are restricted reserves, and recommended that the District continue to use these reserves to fund the respective future improvements.
- **Baker Water Treatment Reserve, Trabuco Creek Wells Reserve, and Reservoir/Distribution Improvements Reserve:** Ms. Byerrum mentioned that these are restricted reserves, and recommended that the District continue to use these reserves to fund the respective future improvements.
- **RD No. 5 Reserve:** Ms. Byerrum mentioned that this is a restricted reserve, and recommended that the District continue to use this reserve to fund the respective future improvements.

Ms. Byerrum reviewed the District's Reserves as of February 28, 2015 (Exhibit B), and highlighted the recommended amounts to for the respective proposed reserves. Discussion occurred concerning a comprehensive rate study and the preparation of a request for proposal; Mr. Ruiz commented that the completion of a comprehensive rate study is a priority for District staff. Discussion occurred concerning District staff working with General Legal Counsel to prepare a resolution to formalize the proposed Reserves Policy; Mr. Ruiz mentioned that District staff will return to the Committee with additional information concerning the Reserves Policy the following month.

RECOMMENDED ACTION:

The Committee received the information concerning the matter.

ITEM 5: OTHER MATTERS

Mr. Ruiz commented on the following other matters:

- Mr. Ruiz mentioned Governor Brown's mandated statewide 25% reduction of potable water production and the State Water Board's proposed regulatory framework. Discussion occurred concerning Metropolitan Water District of Southern California's (MET) proposed water allocations for

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member agencies, and District staff preparation of a special mailer to District customers concerning the drought regulations.

- Mr. Ruiz recommended the scheduling of a Special Board Meeting for a Budget Workshop to the review the proposed Fiscal Year 2015/16 General Fund and Capital Improvement Plan Budgets. Discussion occurred concerning preliminary budget numbers and the timeline for completion of the comprehensive rate study.

RECOMMENDED ACTION:

There was no recommended action.

ITEM 6A: FINANCIAL REPORT

Ms. Byerrum presented the unaudited financials for February, 2015, for Committee review, and highlighted the following items:

Statement of Revenues and Expenses

- Operating Revenue –Irrigation Water:
Ms. Byerrum mentioned that this line item was at approximately 77% Year to Date, although lower than the prior Year to Date. Discussion occurred concerning irrigation water users and agricultural water users; Mr. Ruiz mentioned that agricultural users were currently excluded from the monthly report to the State Water Board.

Investment Schedule

- 1994 Refunding Bonds – Restructured to Debt Service:
Ms. Byerrum reviewed the 1994, Series A and B Bonds values, and mentioned that the reserves are approaching maturity.

RECOMMENDED ACTION:

The Committee recommended that the Board receive and file the February, 2015, unaudited Financial Statement, as presented (Consent Calendar).

ITEM 6B: FINANCIAL REPORT

Mr. Ruiz presented the bills for consideration for April 8, 2015.

RECOMMENDED ACTION:

The Committee signed the bills for consideration and the warrant register, and recommended that the Board ratify payment of the bills for consideration for April 8, 2015, as presented (Consent Calendar).

ADJOURNMENT

Mr. Haselton adjourned the April 8, 2015, Finance/Audit Committee Meeting at 8:07 A.M.