

**TRABUCO CANYON WATER DISTRICT
FINANCE/AUDIT COMMITTEE MEETING RECAP
NOVEMBER 6, 2013**

DIRECTORS PRESENT

Jim Haselton, Committee Chair

Stephen Dopudja, Committee Member

STAFF PRESENT

Hector Ruiz, General Manager

Michael Perea, District Secretary

Cindy Byerrum, District Treasurer

Karen Warner, Accounting Supervisor

PUBLIC PRESENT

There were no members of the public present.

CALL MEETING TO ORDER

Committee Chair Haselton called the November 6, 2013, Finance/Audit Committee Meeting to order at 7:01 A.M.

VISITOR PARTICIPATION

No comments were received.

ORAL COMMUNICATION

No comments were received.

COMMITTEE MEMBER COMMENTS

Committee Member Dopudja had no comments

Committee Chair Haselton commented on his attendance at Ms. Sharon Smith's, Former District Secretary and Treasurer, Memorial Service on Sunday, November 3, 2013. Mr. Haselton discussed the opportunity to honor Ms. Smith through a monument placed in the California-Friendly garden at the Administration Facility, and recommended presenting the matter to the Board at the November 20, 2013, Regular Board Meeting. The General Manager, Mr. Hector Ruiz commented that the matter will be agendaized for discussion at the Regular Board Meeting.

REPORT FROM THE GENERAL MANAGER

The General Manager, Mr. Hector Ruiz commented on the following matters:

1. The Municipal Water District of Orange County (MWDOC) has scheduled an Elected Officials Forum on Thursday, November 7, 2013, for Elected Officials from member agencies.

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2. The District received a public records request from the Orange County Register which requested information concerning Director Stipends. Mr. Ruiz added that the District provided the Orange County Register all documents records pursuant to the Public Records Act.

3. Mr. Ruiz reported that there were no bids received for the Golf Club Sewer Lift Station Upgrades and Rehabilitation project, and that this was the second round of public bid requests. Mr. Ruiz added that the project primarily consists of electrical instrumentation upgrades with some mechanical work with the intent to automate the surge control tank system. Mr. Ruiz shared with the Committee that a representative from the local International Brotherhood of Electrical Workers (IBEW) was the only individual at the public bid opening, and as a result, was provided a tour of the facility and reviewed the District's bid process. Mr. Ruiz added that the District intends to complete the project in-house with the assistance of an electrical contractor.

ITEM 1: FINANCE/AUDIT COMMITTEE MEETING RECAP

The October 2, 2013, Finance/Audit Committee Meeting Recap was presented to the Committee.

RECOMMENDED ACTION

The Committee approved and recommended that the October 2, 2013, 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 AND ATTENDANCE ITEMS

The Committee reviewed the information presented. Committee Member Dopudja commented that his schedule required a correction, and that he would coordinate with the District Secretary, Mr. Michael Perea with the correction.

RECOMMENDED ACTION

The Committee recommended that the Directors' expenses and fees for September and October, 2013, and tentative future meetings be forwarded to the Board for ratification, as corrected. (Consent Calendar)

ITEM 3: ARBITRAGE REBATE CALCULATION (SERIES A & B)

The General Manager, Mr. Hector Ruiz discussed this matter with the Committee, and presented the Arbitrage Rebate Calculation for Series A and B for Committee review. Mr. Ruiz added that there is no liability for a rebate on the part of the District, and that the interest paid is less than the amount yielded by the Arbitrage. Discussion occurred concerning the methodology for the determination of the Arbitrage Rebate Calculation.

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RECOMMENDED ACTION

The Committee received information concerning the Arbitrage Rebate Calculation (Series A & B) for the Senior Lien Series A and Junior Lien Series B, period ending through September 30, 2013, and recommended receipt and file by the Board (Consent Calendar).

ITEM 4: PREFUND OF DISTRICT OTHER POST-EMPLOYMENT BENEFIT (OPEB) OBLIGATION

The General Manager, Mr. Hector Ruiz discussed this matter with the Committee, and presented the independent Actuarial Valuation of the District's Retiree Health Program (Report), as of June 30, 2013, prepared by Nyhart Epler for Committee review. Mr. Ruiz added that future Reports will be completed bi-annually to determine the District's ongoing OPEB obligation. Mr. Ruiz commented that the Report included as an exhibit is the second Draft and is missing some information, but that the Final Report will be presented to the Board for their review. Discussion occurred concerning the proposed funding options for the District's OPEB obligation and the discount rate percentages used in the Report. The District Treasurer, Ms. Cindy Byerrum, commented that the discount rate for the amount at 7.61% is in line with the District's budget for funding the District's OPEB obligation. Mr. Ruiz added that funding through CalPERS California Employers' Retiree Benefit Trust (CERBT) allows for more flexibility and lower administration fees for the District. Discussion occurred concerning the possible impact of inflation on funding with CERBT, and how other local Districts have addressed OPEB funding.

RECOMMENDED ACTION

The Committee received the status update concerning the funding of the District's OPEB obligation through CalPERS CERBT, and recommended that the Board approve the CalPERS CERBT "Delegation of Authority to Request Disbursements" form (Action Calendar).

ITEM 5: SOUTH ORANGE COUNTY WASTEWATER AUTHORITY (SOCWA) BIOSOLIDS MANAGEMENT AGREEMENT WITH NURSERY PRODUCTS

The General Manager, Mr. Ruiz discussed this matter and commented that the South Orange County Wastewater Authority's (SOCWA) current biosolids management contract has expired and is working with temporary contracts with vendors to meet biosolids management requirements. Mr. Ruiz commented that the proposed agreement with Nursery Products is a green solution which converts Sub-Class B biosolids to Class A biosolids through a composting technological process. Mr. Ruiz added that the District currently uses the County of Orange landfill as its primary biosolids management solution, with a secondary contract solution with Terra Renewal (vendor) through SOCWA, and that this agreement provides the District with another option for solids management. Discussion occurred concerning the location of the composting facility; Mr. Ruiz commented that the Nursery Product facility is located in Hinckley, CA. Mr. Ruiz commented that participation in the agreement does not have a fiscal impact to the District, unless the District uses Nursery Product's services. Discussion occurred concerning legal review of the agreement; Mr. Ruiz replied that District General Legal Counsel has reviewed the agreement, and that the agreement was prepared by the legal firm Bowie, Arneson, Wiles, Giannone. Mr. Ruiz added that he has advised SOCWA of some non-substantive corrections to

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the agreement, and that the agreement has been agendized for SOCWA's November 7, 2013, Regular Board Meeting.

RECOMMENDED ACTION

The Committee received the information concerning the South Orange County Wastewater Authority (SOCWA) Biosolids Management Agreement with Nursery Products (Agreement), and recommended that the Board approve the Agreement (Action Calendar).

ITEM 6: DISTRICT FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2012/13

The General Manager, Mr. Hector Ruiz commented that the District Treasurer, Ms. Cindy Byerrum was in attendance to discuss this matter with the Committee. Ms. Byerrum commented that the Financial Audit, prepared by Charles Z. Fedak and Company (Fedak), was completed later this year due to the implementation of the District's Financial Software System upgrade, but that the Audit was completed effectively and in a time efficient manner. Ms. Byerrum reviewed the Financial Audit Report for Fiscal Year 2012/13 (Audit) with the Committee and highlighted the following items:

- **Independent Auditor's Report Letter to the Board of Directors**
 - Ms. Byerrum commented that it was Fedak's opinion that the financial statements presented the financial position of the District "fairly".
- **Statement of Revenues, Expenses, and Changes in Net Position:**
 - Ms. Byerrum commented that District's Revenue and Source of Supply costs had increased in Fiscal Year 2012/13.
 - Ms. Byerrum reviewed the Prior Period Adjustment per GASB Standard requirements.
- **Independent Auditor's Report on Internal Controls and Compliance**
 - Ms. Byerrum reviewed this letter with the Committee, and noted that Fedak did not find any "instances of noncompliance"
- Ms. Byerrum added that Fedak has recommended that the District complete an Accounting Manual for employee cross-training use.

Discussion occurred concerning the completion of the Audit, and the development of a District Accounting Manual.

RECOMMENDED ACTION

The Committee received the information concerning the District's Financial Audit Report for Fiscal Year 2012/13, as prepared by Charles Z. Fedak and Company, and recommended that the Audit Report be agendized and presented to the Board (Action Calendar).

ITEM 7: BAKER WATER TREATMENT PLANT AND PIPELINE CAPACITY FINANCING

The General Manager, Mr. Hector Ruiz commented that based on the direction from the Board at the October 16, 2013, Regular Board Meeting, that staff has evaluated the financing of the District's participation in Irvine Ranch Water District's (IRWD) Baker Water Treatment Plant (BWTP), and that

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the District Treasurer, Ms. Cindy Byerrum was in attendance to discuss the matter. Ms. Byerrum presented a handout which reviewed the District's Cash Flow Projections from the Water Reliability and Emergency Storage Fees (WRESF). Discussion occurred concerning the financial information presented in the handout. Ms. Byerrum recommended that the District use funds in the WRESF Fund to pay for its participation in the BWTP, and then, transfer funds from the District's Local Agency Investment Fund (LAIF) Special Designation Reserves to replenish the WRESF Fund. Discussion occurred concerning the potential impact of future BWTP project cost increases on the District's reserves; Mr. Ruiz commented that any project cost increases will be presented to the BWTP Project Committee, then to the IRWD Board of Directors, and then to the participating agencies for approval. Discussion occurred concerning alternative funding options for the District; Ms. Byerrum commented that self-funding the District's portion of the project costs results in an overall cost savings for the District, instead of funding through a loan with a banking institution or other options. Discussion occurred concerning the District's capacity right in the BWTP, and opportunities for the sale of water if the District commits to participating in the BWTP.

RECOMMENDED ACTION

The Committee received the proposed financing of the District's Capacity Rights in the Baker Water Treatment Plant and Baker Pipeline, and recommended that staff submit its evaluation of funding options to the Board at the Regular Board Meeting (Action Calendar).

ITEM 8: OTHER MATTERS

The General Manager, Mr. Hector Ruiz commented on the following other matters:

1. Mr. Ruiz commented that staff has reviewed the Metropolitan Water District of Southern California (MET) and Municipal Water District of Orange County (MWDOC) Imported Water Rates and Cost Estimates for 2014, and that staff analysis of the rates represent a negligible increase below half a percent. Mr. Ruiz added that staff does not recommend a water rate adjustment for 2014. Discussion occurred concerning MET Treated Water rates and energy costs. Mr. Ruiz added that although there is no staff recommendation for an increase in water rates, that staff has been notified by Southern California Edison (SCE) that energy costs for 2014 are likely to increase by \$100,000. Discussion occurred regarding the methods for customer notification of this development; Mr. Ruiz commented that staff intends to notify customers through the On Tap Newsletter of the water rates and electrical costs for 2014.

RECOMMENDED ACTION

No action taken.

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ITEM 9: FINANCIAL REPORT

ITEM 9A: PRESENTATION OF OCTOBER, 2013, UNAUDITED FINANCIAL STATEMENTS

The General Manager, Mr. Hector Ruiz commented that the District Treasurer, Ms. Cindy Byerrum was in attendance to present the unaudited financial statement for October, 2013.

Ms. Byerrum reviewed the following matters presented in the unaudited financial statements:

- **Operating Revenue, Residential Water:** Ms. Byerrum commented that 32% Year to Date is to be expected at this point;
- **Operating Revenue, Irrigation Water:** Ms. Byerrum commented that the revenue from Irrigation water Year to Date is well above the proposed budget;
- **Total Operating Revenue:** Ms. Byerrum commented that the Total Operating Revenue Year to Date is 36%, and that 34% is the typical target at this point of the year;
- **Total Operating Expenses:** Ms. Byerrum commented that 27% Year to Date is consistent with the District's budget;
- **Operating Expenses, Urban Runoff and Recovery:** Ms. Byerrum commented that the negative amount of 9,419 was due to the reclassification of the cost to sanitation in September, 2013;
- **Operating Expenses, Salaries & Benefits:** Ms. Byerrum commented that the increase was due to higher Workers' Compensation costs.
- **Net Income before OPEB & Depreciation & Capital Contributions:** Ms. Byerrum commented that the net income was on target for the fiscal year;

The Accounting Supervisor, Ms. Karen Warner presented an Analysis Report of the Irrigation Water Demands by Customer for July through September, 2013, for Committee review. Discussion occurred concerning fluctuations in monthly demands and the impacts due to weather-based irrigation controllers and Smart Timers.

RECOMMENDED ACTION

The Committee recommended that the Board receive and file the October, 2013, preliminary unaudited financial statement, as presented (Consent Calendar).

ITEM 4B: BILLS FOR CONSIDERATION

The General Manager, Mr. Hector Ruiz presented the bills for consideration.

RECOMMENDED ACTION

The Committee signed the bills for consideration and the warrant register and recommended that the Board ratify payment of bills for consideration for November 6, 2013, as presented (Consent Calendar).

ADJOURNMENT

Committee Chair Haselton adjourned the November 6, 2013 Finance/Audit Committee Meeting at 8:08 A.M.