

MINUTES OF A MEETING OF THE
FINANCE/INVESTMENT COMMITTEE
OF THE VALLECITOS WATER DISTRICT
TUESDAY, OCTOBER 30, 2018 AT 3:00 P.M.
AT THE DISTRICT OFFICE, 201 VALLECITOS DE ORO,
SAN MARCOS, CALIFORNIA

Director Martin called the meeting to order at the hour of 3:01 p.m.

Present: Director Martin
 General Manager Pruim
 Finance Manager Owen
 Accounting Supervisor Glenn
 Financial Analyst Arthur
 Administrative Secretary Johnson

Absent: Director Sannella

Others Present: Jayson Schmitt, Chandler Asset Management
 Kara Raynor-Sanchez, Chandler Asset Management
 Mia Corral, Chandler Asset Management

General Manager Pruim stated this meeting would be informational only due to the lack of a quorum as Director Sannella was unable to attend.

ITEM(S) FOR DISCUSSION

INVESTMENT REPORT

Finance Manager Owen introduced Jayson Schmitt, Mia Corral, and Kara Raynor-Sanchez of Chandler Asset Management (CAM), the firm that was hired by the District in March 2018 to manage the District's investment portfolio. Mr. Schmitt, Portfolio Manager for the District, provided a presentation on the District's quarterly investment report for the period ending September 30, 2018 as follows:

- Economic Update
 - Employment
 - Inflation
 - Consumer
 - Economic Activity
 - Housing
 - Manufacturing
 - Gross Domestic Product (GDP)
 - Bond Yields
- Account Profile
 - Objectives

- Compliance
- Portfolio Characteristics
- Sector Distribution
- Issuers
- Quality Distribution
- Duration Distribution
- Investment Performance
- Portfolio Characteristics
- Sector Distribution
- Consolidated Information
 - Portfolio Characteristics
 - Sector Distribution
- Portfolio Holdings
 - Holdings Report

General question and answer took place during the presentation.

Mike Hunsaker, member of the public, inquired if the reported portfolio incomes included CAM's fees and what CAM's fees are. Mr. Schmitt responded that the incomes are gross amounts and that CAM's fees adjust based on the amount of the portfolio. Mr. Hunsaker commented about reports of another possible recession in 2020-2021, bonds, long and short-term rate inversions, and inflation rates.

RESERVE LEVELS REPORT

General Manager Pruim stated the Board receives a monthly reserve report. Staff has been working to create a reserve report that would encompass a longer period of time and be more useful to show trending.

Finance Manager Owen presented two different versions of a reserve report to be included in the Board agenda packet on a quarterly basis. One version covers the quarter ending September 30, 2018 and illustrates trending for years 2013 through 2018 as well as data for water and wastewater replacement reserves and capacity reserves. The second version of the report is similar to the first version except that it shows data for the past five quarters.

Director Martin stated he liked both versions of the report but thought the report showing annual trending may be more useful.

Mike Hunsaker, member of the public, stated he recalled VWD staff saying that in the past some of the reserves were used to modify rate structures to keep them down and that was not a proper use of reserves. He asked if capacity reserves included deferred fees and if they are included in the deficit. Finance Manager Owen stated that only once during the time he's been with the District have rate stabilization funds been rolled into replacement funds and used for rate stabilization in the budgeting period. He explained that deferred fees are recorded as they are received on a cash basis and are not included in the deficit.

ELECTRIC COSTS FOR DISTRICT FACILITIES

General Manager Pruim addressed a question he'd received about the District's electrical costs. He reviewed a handout which detailed SDG&E expenses for the District's major electric meters: pump stations in the pump zones (higher elevations), sewer lift stations, pumps (non-elevated), and administration (MRF and the District Headquarters). He noted that SDG&E's commodity, fixed, ready-to-serve, and stand-by charges are reflected in the total charges. Total electrical costs for July 2017 to June 2018 were \$1,471,499.39.

Director Martin inquired about the District's cost of operating MRF compared to how much is received from Olivenhain and Carlsbad. General Manager Pruim stated staff is currently analyzing this issue; however, MRF only has one electrical meter for the two different processes, secondary and tertiary treatment. Without a submeter, it is difficult to calculate how much energy is used in the tertiary treatment process. Staff is considering proposing funds in next year's budget to install a submeter to be read only by the District so that energy costs for secondary and tertiary treatment can be separated. General Manager Pruim anticipates the cost analysis currently being performed will be completed in about a month and will be used in negotiations with Olivenhain and Carlsbad concerning the existing agreement with those agencies. Similar information has been shared with the consultant for the District-wide solar project to assist them in sizing the facilities for the study.

General discussion took place regarding the District-wide solar project.

Mike Hunsaker, member of the public, complimented the District on the recent Water Academy which he found to be very comprehensive and informative. He commented that the current market value of water treated at MRF and sold to Olivenhain is a little less than the cost to produce it, the water received from Olivenhain is not drought-proof, and that he is an advocate for power storage.

OTHER BUSINESS

General Manager Pruim stated the PERS actuarial report will be presented at the next Committee meeting.

PUBLIC COMMENT

None.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 4:11 p.m.