

MINUTES OF A MEETING OF THE
FINANCE/INVESTMENT COMMITTEE
OF THE VALLECITOS WATER DISTRICT
MONDAY, APRIL 29, 2019 AT 3:30 P.M.
AT THE DISTRICT OFFICE, 201 VALLECITOS DE ORO,
SAN MARCOS, CALIFORNIA

Director Sannella called the meeting to order at the hour of 3:30 p.m.

Present: Director Sannella
 Director Martin
 General Manager Pruim
 District Engineer Gumpel
 Finance Manager Owen
 Capital Facilities Senior Engineer Hubbard
 Accounting Supervisor Glenn
 Financial Analyst Arthur
 Administrative Secretary Johnson

Others Present: Mia Corral Brown, Chandler Asset Management
 Genny Lynkiewicz, Chandler Asset Management

ITEM(S) FOR DISCUSSION

CHANDLER ASSET MANAGEMENT – POLICY AND STRATEGY UPDATE

General Manager Pruim stated representatives from Chandler Asset Management (CAM) would be providing an update on the District's investments. Mia Corral Brown introduced Genny Lynkiewicz, who co-manages the District's investment portfolio with Jayson Schmitt. Ms. Lynkiewicz presented the District's investment report for the period ending March 31, 2019 as follows:

- Economic Update
 - Employment
 - Inflation
 - Consumer
 - Economic Activity
 - Housing
 - 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
- Portfolio Holdings

General question and answer took place during the presentation.

The Committee requested an update from CAM in six months and then on a yearly basis going forward.

After comparing the District's investment policy to California State Code and best practices, CAM recommended changes to the District's investment policy. Ms. Lynkiewicz provided a letter outlining proposed changes including additional language and clarification related to time of purchase, ratings categories, federal agencies, commercial paper, asset-backed, mortgage-backed, mortgage pass-through securities, and collateralized mortgage obligations, money market mutual funds, risk management and diversification, and the glossary of terms.

Finance Manager Owen stated the information reviewed today will be presented to the Board at the May 15 Board meeting.

REVIEW DRAFT BUDGET

Finance Manager Owen provided background on the budget process to date and stated staff would present a preliminary review of water purchases and sales, the draft budget and the Cost of Service Study (COSS) update.

Accounting Supervisor Glenn responded to the Committee's questions from the previous meeting concerning the value of equipment and vehicles the District has disposed of in recent years and reimbursements the District will receive for Capital Improvement Program (CIP) projects. He provided five years of data on the amounts received for vehicles and equipment that was either sold through public surplus or traded in. The vector truck was sold in 2014-15 for \$40,100. General Manager Pruim noted that there is very little value left in the vehicles by the time the District gets rid of them.

Accounting Supervisor Glenn reviewed data regarding reimbursements the District will receive on several CIP projects with 100% certainty totaling \$4,692,000 which represents approximately 25% reimbursement. Those projects are:

- Land Outfall Gravity Sewer Sec D Phase 1
- San Marcos Interceptor Phase 2
- Land Outfall Clearing & Access Road

- Failsafe Buena Sewer Outfall Assessment
- Land Outfall West Assessment

Finance Manager Owen stated that a new line has been added to the reserve pages of the budget to show project reimbursements.

Finance Manager Owen presented information which included:

- Draft Operating Budget – Water
- Materials & Services Changes - Water
- Draft Operating Budget – Sewer
- Materials & Services Changes – Wastewater
- Salary and Benefit Estimates
- Draft Capital Budget
- Reserve Projections – No Debt
- Reserve Projections – With Debt
- Cost of Service Study Timeline
- Budget Calendar

Finance Manager Owen reviewed the changes incorporated into the draft operating budget for water. Total expenses increased from 3.65% to 4.05%, or \$41,000. Reasons for the increase include an increase in the South Lake dam fee, an assessment of the District's hillside property, GASB 75 reporting and the COSS.

Financial Analyst Arthur discussed water sales and purchases. The SDCWA's preliminary projections indicate a 4.3% increase in water costs that will be passed on to the member agencies. He anticipates the District's increase will be approximately 4.2%. He stated water sales are approximately 9.7% below what was budgeted due to rain this year, which equates to almost \$3 million. Water purchases are down approximately \$1.6 million.

Finance Manager Owen stated the changes incorporated into the draft operating budget for sewer include a decrease of \$27,000 cut from the Collections & Conveyance and Other categories, resulting in a projected increase of 3.0%. With the inclusion of Encina Wastewater Authority's expenses including accelerated PERS payments, the overall budget increase is 8.6%. Finance Analyst Arthur stated the sewer rates are projected to stay about the same.

Finance Manager Owen stated the salary and benefit estimates were recalculated reducing the Assistant General Manager (AGM) position to four months, resulting in a decrease from \$917,000 to \$780,000.

General discussion took place during which Director Sannella suggested eliminating the funding for the AGM position for now, and Director Martin expressed his opinion that the proposed Asset Management Supervisor position could be contracted out. Staff

discussed the importance of the District establishing a long-range asset management program.

The Committee recommended the Asset Management Supervisor position be presented to the Board for consideration.

COST OF SERVICE STUDY UPDATE

Finance Manager Owen provided a timeline for the Cost of Service Study. Staff anticipates issuing the Request for Proposal within the next couple of weeks. The rate study should be completed in July and preliminary results will be presented to this Committee in August. The final analysis and implementation plan will be presented to this Committee and to the Board in September. Staff will seek the Board's approval to release the Proposition 218 Notice in October. A hearing will be scheduled in December. The approved rates will be implemented in January 2020.

The next Finance/Investment Committee meeting is scheduled for May 13 at which the Committee will consider scenarios for PERS, review the draft proposed budget, and discuss any Board requested items. The Board workshop for review of the proposed budget is tentatively scheduled for May 29.

OTHER BUSINESS

None.

PUBLIC COMMENT

None.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at the hour of 5:11 p.m.