

**MINUTES OF A REGULAR MEETING
OF THE FINANCE COMMITTEE
OF OLIVENHAIN MUNICIPAL WATER DISTRICT**

November 4, 2024

A regular meeting of the Finance Committee of Olivenhain Municipal Water District was held on Monday, November 4th, 2024, at the District office, 1966 Olivenhain Road, Encinitas, California via teleconference and in person.

Director Meyers called the meeting to order at 10:01am. In attendance were Neal Meyers, Board Treasurer; Lawrence A. Watt, Board Secretary; Kimberly Thorner, General Manager; Rainy Selamat, Finance Manager; Leo Mendez, Accounting Supervisor; Jared Graffam, Financial Analyst II; Georgeanna Clark, Financial Analyst I; and Sophia Kuo from The Pun Group to discuss item 6.

1. CALL TO ORDER

2. ROLL CALL (BOARD MEMBERS)

3. ADOPTION OF THE AGENDA

Director Meyers moved to adopt the agenda, seconded by Director Watt, and carried unanimously.

4. PUBLIC COMMENTS

There were no public comments.

5. CONSIDER APPROVAL OF THE MINUTES OF THE AUGUST 12, 2024, SPECIAL FINANCE COMMITTEE MEETING

Director Meyers moved to approve the August 12th, 2024, meeting minutes, seconded by Director Watt and carried unanimously.

6. REVIEW AND DISCUSS FISCAL YEAR 2023-24 AUDITED FINANCIAL STATEMENTS AND SINGLE AUDIT

Sophia Kuo from The Pun Group (the District's audit firm) provided an overview of the audit process and discussed the District's audited financial statements with the committee. Ms. Kuo stated that there were no material findings during the audit and

her team did not encounter any difficulties in performing their audit. Ms. Kuo also stated that the District received a clean audit and no material weaknesses or significant deficiencies in internal controls were noted.

Ms. Kuo then presented an overview of the District's audited financial statements and other pertinent information, such as key financial indicators and pension information. Key financial indicators that were presented included a comparison with the average of ten local districts, and Ms. Kuo added that the District performs better than its peers across the presented financial indicators. Ms. Kuo noted the most significant variances from the prior year financials which include an increase in Unrestricted Assets caused by an increase in Cash and Investments, an increase in Restricted Assets caused by an increase in Grants Receivable, an increase in Liabilities from \$3.5 million in Grants Payable for the pass-through amount on the Title XVI Grant owed to subrecipients, resulting in an overall increase in Net Position of approximately \$4 million.

Director Meyers inquired if the District had purchased or put into service any new assets during the fiscal year, because Capital Assets decreased in value compared to last year. Accounting Supervisor Mendez explained that new assets were put into service, but the amount of depreciation recorded during the year was greater than the amount of new assets added which resulted in a net decrease.

Ms. Kuo then presented the Single Audit results. Ms. Kuo stated that there were no material findings during the audit and her team did not encounter any difficulties in performing their audit. Ms. Kuo also stated that the District received a clean audit and unmodified opinion.

Director Meyers asked Ms. Kuo if she or her team made any suggestions to District staff regarding current accounting practices in place or things that could be done better moving forward. Ms. Kuo reiterated that the District has strong internal controls over its accounting practices and there were no disagreements with staff during the audit process so there were no suggestions that needed to be made.

Both Director Meyers and Director Watt voted to approve presenting the audited financial statements and annual comprehensive financial report to the full Board at the December meeting.

7. REVIEW STAFF'S REPORT ON DISTRICT PENSION PLANS FUNDING STATUS WITH CALPERS AND DISCUSS STAFF'S RECOMMENDED PENSION FUNDING PLANS FOR 2024

Finance Manager Selamat presented the District's pension funding status to the committee based on the most recent actuarial report available from CalPERS. Finance Manager Selamat reported the District's pension funding status as of June 30, 2023 (the most current available) was slightly lower compared to fiscal year 2022 due to an

increase in normal cost contributions caused by an increase in District employee salaries, combined with a larger than average Cost-of-Living-Adjustment (COLA) in retired members payments. Finance Manager Selamat further reported that the District's PEPR plan has a funded status of 86.6%, which is above the 85% goal set by the Board, but the Classic plan has a funded status of 71.8% which does not meet the 85% funding goal. Director Meyers asked why the District's funded ratio went down despite making Additional Discretionary Payments (ADPs) each year, and how the District can improve its funding ratio moving forward. Finance Manager Selamat explained that the funding ratio of each plan can vary significantly from year to year depending on CalPERS actual investment returns compared to their target. Finance Manager Selamat further explained that the current ADP plan was calculated during a year when CalPERS had high returns resulting in a greater funding ratio for the District, but in the following years CalPERS showed lower returns and has increased Cost of Living Adjustment to retirees resulting in an increase in the Districts unaccrued pension liability, thus a lower funded ratio for the Classic plan. Finance Manager Selamat noted that the current \$311k per year ADP may need to be reevaluated in the future and possibly increased.

Director Meyers asked what percentage of employees are included in each plan. Finance Manager Selamat explained that most current employees are now under the PEPR plan, but almost all retired and former employees are under the Classic plan.

Finance Manager Selamat also presented staff's recommended pension funding plan for 2024 which includes: (1) making a \$311,000 Additional Discretionary Payment (ADP) before December 31, 2024, and (2) transferring \$500,000 to the Water Pension Stabilization Fund and \$50,000 to the Wastewater Pension Stabilization Fund from the Water and Wastewater Operating Funds, respectively. Directors Watt and Meyers voted to bring the staff recommended pension funding plan to the full Board at its November 2024 meeting.

8. QUARTERLY REVIEW OF INVESTMENTS AND CASH REPORT (3RD QTR OF CY 2024)

Finance Manager Selamat reviewed the investment report as of September 30, 2024, with the committee. Cash and investments were discussed. Finance Manager Selamat reported that the current yield on the District's investment portfolio has decreased slightly compared to the last quarter due to replacing matured securities with lower yields available in the current market. Finance Manager Selamat reported that District investments are in compliance with the District's Investment policy and that the District has sufficient funds to meet its financial obligations for the next 60 days.

Finance Manager Selamat next presented the draft summary of fund balances over the previous five years. Finance Manager Selamat explained that once the fiscal year 2024 audit is complete, any fund balance over the maximum allowed per the District's Fund Balance (Reserves) policy will be brought to the finance committee and Board for

review. Any handling of excess funds will be discussed with the finance committee prior to Board discussion.

Finance Manager Selamat also presented a three-year history of quarterly yields on investments that Director Meyers had requested at the August 2024 meeting. The graph showed increasing yields over the last three years.

9. QUARTERLY REVIEW OF OMWD'S FINANCIAL REPORT - BUDGET vs. ACTUAL REPORT (1ST QTR OF FY 2025)

Finance Manager Selamat presented the Q1 Budget vs Actual report for the current fiscal period. Revenue and expenses are close to budgeted numbers with most variances being caused by timing differences. Finance Manager Selamat then presented the water sales budgeted vs actuals graph for the first 3 months of fiscal year 2025, and explained that water sales are in line with budgeted predictions. Finance Manager Selamat noted that staff will include a summary of the Budget vs Actual report and water sales graph in the Finance Committee meeting packet for review and discussion with the Committee.

Director Meyers noted that Metropolitan Water District of Southern California and San Diego County Water Authority (SDCWA) are reporting that they are currently selling less water than forecasted. Director Meyers mentioned that this may lead to higher rate increases than previously planned from the water wholesalers. Finance Manager Selamat and General Manager Thorner commented that they will continue participating in SDCWA meetings to monitor changes to future water wholesale rates.

10. ANNUAL REVIEW OF INVESTMENT AND BOARD DESIGNATED FUND BALANCES (RESERVES) POLICIES AND PROPOSED CHANGES TO THE POLICY FOR 2024

Finance Manager Selamat reported PFM Asset Management (PFM) reviewed the District's annual Investment Policy (Policy) and recommended certain updates which include: adding a mention of Government code section 16429.1 to subsection VI for consistency, and removing the language "seek to maintain a constant net asset value" from subsection VI, item L, to provide more flexibility for other types of investments, such as CAMP Term. Additionally, Staff changed any reference of "2024" to "2025" to extend the Policy through calendar year 2025.

There were no proposed changes to the Board Designated Fund Balances (Reserve) Policy.

The proposed changes to the Investment Policy were approved by the committee to be presented to the full Board.

11. RECEIVE STAFF UPDATE ON CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY FOR THE PINNACLE PROJECT (VERBAL REPORT)

The Committee received a verbal update from Finance Manager Selamat on the status of the Pinnacle Project to check the box in the 2024 annual objectives for feasibility assessment for Pinnacle Community Facilities District financing with Pinnacle's developer and California Statewide Communities Development Authority. The committee received the update with no further actions.

12. FUTURE AGENDA ITEMS/INFORMATION

No future agenda items for the next finance committee meeting were discussed.

13. ADJOURNMENT

The meeting was adjourned at 11:19am.