

**TRABUCO CANYON WATER DISTRICT
FINANCE AUDIT COMMITTEE MEETING RECAP
MARCH 9, 2016**

DIRECTORS PRESENT

Committee Chair James Haselton
Committee Member Michael Safranski

STAFF PRESENT

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

CONSULTANT(S) PRESENT

None

PUBLIC PRESENT

There were no members of the public present

CALL MEETING TO ORDER

Director Haselton called the March 9, 2016, Finance/Audit Committee Meeting to order at 7:00 A.M.

VISITOR PARTICIPATION

No visitor participation was received.

ORAL COMMUNICATION

No oral communication was received.

COMMITTEE MEMBER COMMENTS

Director Safranski commented on his attendance at the South County Agencies Meeting and his discussion with Moulton Niguel Water District (MNWD) General Manager Joone Lopez and Director Sandra Jacobs, Santa Margarita Water District (SMWD). Director Safranski commented on his attendance at the Municipal Water District of Orange County (MWDOC) Budget Workshop Meeting, and mentioned that the MWDOC Board Members present were very receptive to feedback and suggestions from the South County Agencies.

Director Haselton had no comments.

REPORT FROM THE GENERAL MANAGER

Mr. Ruiz reported the following matters:

- The Santiago Lateral was shut down for a scheduled inspection and maintenance by the Metropolitan Water District of Southern California (MWD) from February 21st through the 28th. Mr. Ruiz said that the District is back to normal operations and that during the shutdown the District purchased treated water for its service area, and completed preventative maintenance for the Dimension Water Treatment Plant.
- District Water Operations staff responded to an emergency break of the eight-inch pipeline on Santiago Canyon Road which disrupted water service for four customers. Mr. Ruiz said that District staff

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coordinated and worked with a contractor to repair the pipeline, and that the four customers received water service through temporary connections during the repair. Discussion occurred concerning future replacement of the existing eight-inch pipeline.

- Mr. Ruiz said that he would be out of town on vacation for the remainder of the week.

ITEM 1: FINANCE/AUDIT COMMITTEE MEETING RECAP

The February 10, 2016, Finance/Audit Committee Meeting Recap was presented to the Committee.

RECOMMENDED ACTION:

The Committee approved and recommended that the February 10, 2016, 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. Discussion occurred concerning the Municipal Water District of Orange County (MWDOC) Elected Officials Meeting scheduled for April 7, 2016; Mr. Ruiz commented that any Directors interested in attending the event may coordinate with Mr. Perea. Mr. Ruiz mentioned that he was scheduled to deliver a presentation highlighting the District at the Independent Special District's of Orange County (ISDOC) Meeting on March 31st. Director Safranski mentioned that he will be attending the Association of California Water Agencies Spring Conference in May. Discussion occurred concerning the Shadow Rock Detention Basin Facility's current water levels due to the capture of water from the recent rain event.

RECOMMENDED ACTION:

The Committee recommended that the Directors' expenses and fees for February, 2016, and the tentative future meetings be forwarded to the Board for ratification (Consent Calendar).

ITEM 3: DISCUSSION AND POSSIBLE ACTION(S) CONCERNING MUNICIPAL WATER DISTRICT OF ORANGE COUNTY (MWDOC) FISCAL YEAR 2016/2017 PROPOSED RATES, CHARGES, AND BUDGET

Mr. Ruiz presented this matter for Committee review, and presented the MWDOC Fiscal Year 2016/2017 Budget Preparation Schedule (Exhibit) for Committee review. Mr. Ruiz presented the February 10, 2016 MWDOC Administration and Finance Committee Meeting Rate Study Presentation for Committee review, and highlighted the following:

- ***Survey Results & Results Comparison:***

Mr. Ruiz reviewed the Survey Results Scoring of Structures by Rate Structure, and highlighted the three preferred rate structures. The three preferred structures included (1) number of member agency meters, (2) number of member agency meters by hydraulic size, and (3) historical average of imported water use. Mr. Ruiz mentioned that although MWDOC is not subject to Proposition 218, they are required to comply with Proposition 26. Discussion occurred concerning the challenges with the development of the survey and the methodology.

- ***OCWD Benefits from MWDOC Services***

Mr. Ruiz reviewed RFC's discussion on the current relationship between MWDOC and Orange County Water District (OCWD), and explained that there are genuine concerns regarding OCWD's payment for services rendered by MWDOC.

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- ***Member Agency Manager Comments***

Mr. Ruiz highlighted that discussion occurred in the survey process that OCWD provides regional benefits to all of MWDOC member agencies, and that the current rate structure is appropriate.

- ***Proposed Schedule***

Mr. Ruiz reviewed the Proposed Schedule for the Adoption of the Proposed Rates, and explained that he would continue to provide information concerning the matter as it is released to the MWDOC member agencies.

Mr. Ruiz presented the MWD Finance and Insurance Committee Meeting presentation on the Consideration of an Alternative Treatment Cost Recovery Mechanism. Mr. Ruiz reviewed the following highlights from the presentation:

- ***Treatment Fixed Charge Concept***

Mr. Ruiz mentioned that 38% of the total Treatment revenue requirements cost of service is based on the sum of Treatment Demand and Standby costs. Mr. Ruiz added that MWD current rates are based on the volumetric sale of water. Mr. Ruiz reviewed the Treatment Fixed Charge Concept which demonstrated the costs associated with variable and fixed costs of service.

- ***Current Treatment Surcharge -100% Volumetric Cost Recovery***

Mr. Ruiz highlighted MWD's formula for determining their current treatment rate surcharge which represents the 100% Volumetric Cost Recovery.

- ***Fixed Cost Recovery Cost of Service Perspective***

Mr. Ruiz reviewed the basis for MWD's cost of service perspective of demand or standby service, and that the rates charged should reflect the cost of having capacity reserved and available for the customer. Mr. Ruiz highlighted that MWD believes that there needs to be a fixed demand charge which reflects peaking costs and demands, in addition to a consumption rate. Mr. Ruiz reviewed MWD's recommended approach which includes a volume rate and a fixed charge based on a minimum appropriate assignment of demand and standby capacity costs, with a consideration for costs associated with peaking charges.

RECOMMENDED ACTION:

The Committee received information concerning the matter. No action was taken.

ITEM 4: DISCUSSION AND POSSIBLE ACTION(S) CONCERNING TRABUCO CANYON WATER DISTRICT'S FISCAL YEAR 2016/2017 CAPITAL IMPROVEMENT PROGRAM (CIP) AND GENERAL FUND BUDGETS

Mr. Ruiz presented this matter to the Committee, and mentioned that District staff is currently working with the District Treasurer to present the Fiscal Year 2016/2107 Capital Improvement Program and General Fund Budgets to the Board of Directors. Mr. Ruiz added that preliminary information will be presented to the Committee in the following month.

RECOMMENDED ACTION:

The Committee received information concerning the matter. No action was taken.

ITEM 5: OTHER MATTERS

Mr. Ruiz commented that the Orange County Grand Jury has requested the submittal of the financial reports (audits) of Joint Powers Authorities throughout the County. Mr. Ruiz said that this request impacts the audits Trabuco Canyon Public Financing Authority (TCPFA) and the Trabuco Canyon Improvement Corporation (TCIC),

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and that the audits are normally received and filed at their respective annual meetings. Mr. Ruiz said that District staff have reviewed the TCPFA Agreement and the TCIC bylaws, and have determined that a Special Meeting for the TCPFA and TCIC can be called to receive and file the audits, and then submit them to the Orange County Grand Jury per their request.

RECOMMENDED ACTION:

The Committee received information concerning the matter, and recommended that the matter be forwarded to the Executive Committee for review.

ITEM 6: FINANCIAL REPORT

Mr. Ruiz presented the unaudited financials for January, 2016, for Committee review, and highlighted the following items:

Statement of Revenues and Expenses

- Operating Revenue – Total Operating Revenue:

Mr. Ruiz reported that this line item is higher than originally budgeted. Discussion occurred concerning the Statement format; Director Safranski discussed the possibility of an additional column for tracking the normal percentage of budget per line item. Mr. Ruiz mentioned that the District's current utility billing system's limited resources prevent the additional data tracking.

- Operating Expenses – Total Operating Expenses:

Mr. Ruiz reported that this line item is lower than originally budgeted.

Restricted Assets Report

- BNY Accounts – Bond Reserve Series A/B:

Mr. Ruiz reported that approximately \$5.9M will be transferred from this line item to line item number one (LAIF, Special Designation), in accordance with the District's Investment Policy. Mr. Ruiz added that the District Treasurer is currently reviewing investment strategies which comply with the District's Investment Policy.

Discussion occurred concerning the impacts of the adopted water, wastewater, recycled water rates and meter flat charges.

RECOMMENDED ACTION:

The Committee recommended that the Board receive and file the January, 2016, unaudited Financial Statement, as presented (Consent Calendar).

ITEM 7: FINANCIAL REPORT

Mr. Ruiz presented the bills for consideration for March 9, 2016.

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 March 9, 2016, as presented (Consent Calendar).

ADJOURNMENT

Director Haselton adjourned the March 9, 2016, Finance/Audit Committee Meeting at 7:45 A.M.