

**TRABUCO CANYON WATER DISTRICT
FINANCE AUDIT COMMITTEE MEETING RECAP
APRIL 13, 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 April 13, 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 a recent article in the Orange County Register (OCR) regarding Sen. Feinstein's efforts to block the Cadiz Project. Director Safranski commented on a recent article in the OCR concerning the Metropolitan Water District of Southern California's (MWD) land purchase in Northern California. Discussion occurred concerning the impact of the rain events thus far on Northern California reservoirs, and the release of captured rain water into the ocean. Director Safranski suggested implementing a modification to the District's Water Conservation Ordinance for residential landscape irrigation equipment upgrades, including smart timers; Mr. Ruiz commented that this matter could be reviewed at the next District Water Conservation Measures Review Ad Hoc Committee Meeting.

Director Haselton had no comments.

REPORT FROM THE GENERAL MANAGER

Mr. Ruiz had no matters to report.

ITEM 1: FINANCE/AUDIT COMMITTEE MEETING RECAP

The March 9, 2016, Finance/Audit Committee Meeting Recap was presented to the Committee.

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RECOMMENDED ACTION:

The Committee approved and recommended that the March 9, 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. Director Safranski requested that the Directors' Fees and Expenses Report reflect his meeting with the South County Agencies Group Chair Sandra Jacobs and Moulton Niguel Water District General Manager Joone Lopez.

RECOMMENDED ACTION:

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

ITEM 3: FISCAL YEAR 2014/2015 FINANCIAL REPORTS (AUDITS) FOR THE TRABUCO CANYON PUBLIC FINANCING AUTHORITY AND TRABUCO CANYON IMPROVEMENT CORPORATION

Mr. Ruiz presented this matter for Committee review, and commented that the annual Financial Reports (Audits) are typically reviewed at the annual meetings for the Trabuco Canyon Public Financing Authority (TCPFA) and Trabuco Canyon Improvement Corporation (TCIC) in July. Mr. Ruiz commented that the Orange County Grand Jury has requested the submittal of audits of Joint Powers Authorities throughout the County. Mr. Ruiz said that District staff have reviewed the TCPFA Agreement and the TCIC bylaws, and have received direction from the Executive Committee to schedule a Special Meeting for the TCPFA and TCIC to receive and file the Fiscal Year 2014/2015 Audits, and then submit them to the Orange County Grand Jury per their request.

RECOMMENDED ACTION:

The Committee recommended that the Fiscal Year 2014/2015 Financial Reports (Audits) be forwarded to the Special Board Meeting of the Trabuco Canyon Public Financing Authority and the Trabuco Canyon Improvement Corporation for review and file (Action Calendar).

ITEM 4: DISCUSSION AND POSSIBLE ACTION(S) CONCERNING TCWD'S FISCAL YEAR 2016/2017 UNDEVELOPED LAND/WATER STANDBY ASSESSMENT

Mr. Ruiz presented this matter for Committee review, and commented that this is an annually recurring matter. Mr. Ruiz provided a brief historical background on the Undeveloped Land/Water Standby Assessment (Assessment), and mentioned that the District is required to make water available to parcel owners with undeveloped land in its service area. Discussion occurred concerning the financial impacts of Assessment on public agency and private parcel owners that have dedicated their property for mitigation purposes, and the opportunity to develop an application to waive the assessment based on certain criteria. Mr. Ruiz commented that District staff will work with District Legal Counsel to prepare a application for this purpose.

RECOMMENDED ACTION:

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

ITEM 5: DISCUSSION AND POSSIBLE ACTION(S) CONCERNING MUNICIPAL WATER DISTRICT OF ORANGE COUNTY (MWDOC) FISCAL YEAR 2016/2017 PROPOSED RATES, CHARGES, AND BUDGET

Mr. Ruiz provided a status update on this matter for the Committee, and mentioned that the Municipal Water District of Orange County (MWDOC) was meeting the same morning to review their Fiscal Year 2016/2017 Proposed Rates, Charges, and Budget. Mr. Ruiz commented that the Metropolitan Water District of Southern

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California (MWD) met to review the Fiscal Year 2016/2017 Proposed Water Rates and Charges Options. Mr. Ruiz presented a powerpoint presentation from the April 11, 2016 MWD Finance and Insurance Committee Meeting presentation on the Proposed Biennial Budget and Continued Suspension of §124.5 AV Tax Limit for FY2016/17 and 2017/18, Water Rates and Charges for 2017 and 2018, and Ten-Year Forecast. Mr. Ruiz reviewed the following highlights from the presentation:

- ***Biennial Budget Options***

Mr. Ruiz reviewed the details of the three budget option components, including PAYGo which offsets bond repayment requirements, and the Exchange Agreement Set Aside Fund.

- ***Water Rates and Charges Options***

Mr. Ruiz reviewed the three proposed options presented to the MWD Board of Directors, and mentioned that the Board passed Option Three on the condition of the formation of a group to review the treated water costs. Mr. Ruiz added that the MWD Board believed that they did not have enough time to review the options prior to adoption. Mr. Ruiz highlighted the Treatment Fixed Charge proposed Ten Year Rolling Average component of Option One versus the proposed minimum charge of Option Two.

- ***Option Three Rate Elements***

Mr. Ruiz reviewed the approved Option Three costs with the Committee, and highlighted the proposed adjustment for the Treatment Surcharge. Discussion occurred concerning the impact of the Baker Water Treatment Plant on the District's overall water purchase costs.

- ***Estimated Overall Rate Impacts by Service Type, CY 2017***

Mr. Ruiz commented that the District's purchased untreated water costs are estimated to increase by 12% for direct purchase of untreated water, and a combined total net increase of 8% in calendar year 2017. Discussion occurred concerning the overall impact of the increase on the District's water rates and the possibility of additional drought-related water reductions statewide.

Mr. Ruiz mentioned that the District Treasurer is scheduled to attend the next Finance/Audit Committee Meeting to review the District's proposed Fiscal Year 2016/2017 General Fund and Capital Improvement Program (CIP) Budgets. Mr. Ruiz added that District staff will work with the District Treasurer on budget challenges and determine impacts to the District's water rates.

RECOMMENDED ACTION:

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

ITEM 6: 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 provided a status update on 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 (CIP) and General Fund Budgets to the Board of Directors. Mr. Ruiz presented a handout on the Adopted and Revised Fiscal Year 2015/2016 CIP Projects for Committee review, and highlighted the following projects:

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Water System:

- Cooks Reservoir Replacement

Mr. Ruiz commented that although the Board approved this project at the March 16, 2016, Regular Board Meeting, that the contractor is unable to finish the project by the end of this fiscal year. Mr. Ruiz added that Water Operations staff recommends delaying this project to September/October in Fiscal Year 2016/2017.

- Dimension Water Treatment Plant Backwash Recycling

Mr. Ruiz commented that this project has been cancelled because it did not provide any benefit towards the District's compliance with the State Water Board's conservation mandate.

Wastewater System:

- Via Allegre Wet Well Replacement

Mr. Ruiz commented that this project will started next fiscal year, and will be partially funded by the developer deposit from William Lyon Homes for their Dahlia Court development.

Major Repairs/Expenses:

- Administration Building Coating

Mr. Ruiz commented that this project is scheduled for this year, and that District staff is currently securing cost proposals for the work.

- Plano LS/Bell LS/Via Allegre/NEQ Rehabilitation/Recoating:

Mr. Ruiz commented that some of this work will be completed this year, with the remaining facility rehabilitation and recoating to be completed in Fiscal Year 2016/2017.

- Pressure Regulating Station Rehabilitations

Mr. Ruiz commented that this project is close to completion for the fiscal year, and included work throughout the distribution system and at the Dimension Water Treatment Plant. Mr. Ruiz added that District staff plan to work on the remaining water pressure reducing stations, and to add the recycled water pressure reducing stations in Fiscal Year 2016/2017

- 2 MG Reservoir Study

Mr. Ruiz commented that this project has been completed.

Mr. Ruiz presented a handout of the Board approved Ten Year Essential CIP Projects for the Administrative Department for Committee review, and highlighted the following projects:

- Telephone System

Mr. Ruiz commented that the project has been completed, and complimented Ms. Carmouche for her help on this project. Ms. Carmouche provided a brief history on the District's prior phone setup with three different vendors for phone service, and the negotiations with Cox Communications for the proposed fiber wire improvements for the Robinson Ranch Wastewater Treatment Plant.

- Xerox Copier

Mr. Ruiz commented that the District's current copier has reached its end of life and is not operating properly, and that District staff has secured cost proposals on the replacement of the copier.

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- **Electronic Attendance Manager-Stanley Security**

Mr. Ruiz commented that this project has been completed, and has replaced the failing handscanners that were used for employee time management. Mr. Ruiz added that the new system has resulted in a savings of \$500 per month in administrative costs.

- **Pool Vehicle – SUV**

Mr. Ruiz commented that District staff uses an existing 2006 Ford Explorer for administrative purposes, but that the vehicle is approaching end of life due to extensive use and costly repairs. Mr. Ruiz added that District staff is collecting cost proposals for a new vehicle next year. Discussion occurred concerning fleet maintenance solutions and vehicle leasing with an option to buy.

- **Utility Billing System**

Mr. Ruiz commented that District staff received utility billing system demonstrations from two proposed vendors for the replacement of the District's current AS400-based system. Mr. Ruiz added that District staff has determined that based on the system requirements of both proposed systems that the District will need to invest in network infrastructure improvements to accommodate a new utility billing system.

Discussion occurred concerning project management and timelines for completion. Mr. Ruiz mentioned that District staff has recently submitted a Request for Proposals for Salary Survey and Total Compensation Consultant Services (Survey), with a deadline for proposal submission at the end of the month. Mr. Ruiz commented that District staff and the District Treasurer will build assumptions in the Fiscal Year 2016/2017 General Fund Budget based on preliminary data from the Survey.

RECOMMENDED ACTION:

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

ITEM 7: OTHER MATTERS

Mr. Ruiz had no other matters for discussion.

RECOMMENDED ACTION:

No action was taken.

ITEM 8: FINANCIAL REPORT

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

Statement of Revenues and Expenses

- **Operating Revenue –Sanitation Revenue:**

Mr. Ruiz reported that this line item is higher than originally budgeted due to the impact of the recently adopted wastewater rates. Discussion occurred concerning the District's Financial Plan and impacts of the adopted rates and charges.

- **Non-Operating Expenses –Principal and Interest Expense:**

Mr. Ruiz reported that this line item year to date percentage is based on different methodology than past years. Mr. Ruiz commented that through the use of this new methodology, the estimated expenses are divided equally each month and reconciled at the end of the fiscal year, as opposed to them being expensed when received. Mr. Ruiz added that the current methodology allows for more stable reporting.

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RECOMMENDED ACTION:

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

ITEM 8: BILLS FOR CONSIDERATION

Mr. Ruiz presented the bills for consideration for April 13, 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 April 13, 2016, as presented (Consent Calendar).

ADJOURNMENT

Director Haselton adjourned the April 13, 2016, Finance/Audit Committee Meeting at 9:02 A.M.