

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

FINANCE AND INSURANCE COMMITTEE

April 11, 2022

Vice Chair Record called the teleconference meeting to order at 2:42 p.m.

Members present: Vice Chair Record, Directors Blois, Dennstedt, Dick, Faessel, Hawkins, Jung, Ortega, Quinn, Ramos, Smith, and Tamaribuchi.

Members absent: Director Goldberg.

Other Board Members present: Chairwoman Gray, Directors Abdo, Ackerman, Atwater, Camacho, Cordero, De Jesus, Erdman, Fellow, Fong-Sakai, Lefevre, McCoy, Miller, Morris, Peterson, Pressman, Sutley, and Williams.

Committee Staff present: Beatty, Hagekhalil, Kasaine, Ros, Scully.

1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

None

CONSENT CALENDAR ITEMS — ACTION

2. CONSENT CALENDAR OTHER ITEMS – ACTION

- A. Subject: Approval of the Minutes of the Finance and Insurance Committee held March 7, 2022; and the Special Finance and Insurance Committee meetings held February 22, 2022 and March 22, 2022

No presentation was given; Director Ortega made a motion, seconded by Director Jung, to approve the consent calendar consisting of item 2A.

The vote was:

Ayes: Directors Blois, Dennstedt, Dick, Faessel, Hawkins, Jung, Ortega, Quinn, Ramos, Record, Smith and Tamaribuchi

Noes: None

Abstentions: Director Dennstedt, Ortega, and Quinn abstain from March 7, 2022 minutes

Absent: Director Goldberg

Item 2A passed by a vote of 12 ayes, 0 noes, 3 abstain, and 1 absent.

The General Manager, Adel Hagekhalil, addressed the Committee with an overview of the proposed budget and strategies taken for the options.

3. CONSENT CALENDAR ITEMS – ACTION

7-2 Subject: Adopt the resolution finding that the ad valorem property tax rate limitation of Metropolitan Water District Act Section 124.5 is not applicable because it is essential to Metropolitan's fiscal integrity to collect ad valorem property taxes in excess of the limitation for fiscal years 2022/23 through 2025/26 or 2022/23 through 2023/24; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA.

Motion: Option 1:
Adopt the resolution finding that for fiscal years 2022/23 through 2025/26, the ad valorem property tax rate limitation of Metropolitan Water District Act Section 124.5 is not applicable because it is essential to Metropolitan's fiscal integrity to collect ad valorem property taxes in excess of the limitation (**Attachment 2**)

Presented by: Samuel Smalls, Manager of Treasury and Debt Management

Ms. Kasaine introduced the item and Mr. Smalls presented the committee with an overview of Metropolitan Water District (MWD) Act Section 124.5 ad valorem property tax for fiscal years 2022/23 and 2025/26. He presented a summary of the process, legal effect, property taxes, revenue sources, outstanding debt service, and State Water Contract costs. Next, he provided an overview of the financial policies and fiscal integrity.

The following Directors provided comments or asked questions:

1. Smith
2. Sutley
3. Ortega
4. Morris
5. Quinn
6. Pressman
7. Dennstedt
8. Peterson
9. Blois
10. Tamaribuchi
11. Ortega
12. Fong-Sakai

Director Smith noted that on February 3, 2022, the San Diego County Water Authority submitted a letter commenting on Item 7-2 and requested that the letter be made part of the record.

After completion of the presentation, Director Dick made a motion, seconded by Director Blois, to approve the consent calendar consisting of item 7-2.

The vote was:

Ayes: Directors Blois, Dennstedt, Dick, Faessel, Hawkins, Jung, Ortega, Ramos, Record, and Tamaribuchi

Noes: Director Quinn

Abstentions: Director Smith

Absent: Director Goldberg

The motion for item 7-2 passed by a vote of 10 ayes, 1 no, 1 abstain, and 1 absent.

7-3 Subject: Approve the proposed biennial budget for fiscal years 2022/23 and 2023/24, which includes the Capital Investment Plan and revenue requirements for fiscal years 2022/23 and 2023/24, and ten year forecast; adopt resolutions fixing and adopting the water rates and charges for calendar years 2023 and 2024; the General Manager has determined that the proposed action are exempt or otherwise not subject to CEQA.

Motion: 1. Direct staff to reduce O&M expenditures by \$55 million per year in order to hold the rate increases to 5% per year; and
2. Direct that the specific actions to be taken may be at staff discretion, starting with the recommendations contained in Options 2 and 3, except that there shall be:
a. No assumed elimination or limitation on demand management programs;
b. No cuts impacting desert housing as previously directed by board;
c. No increased use of reserves over Option 1.

Substitute Motion: Option 2:
a. Approve the FY 2022/23 and FY 2023/24 Proposed Biennial Budget with overall rate increases of 6.5 percent in FY 2022/23 and 6.5 percent in FY 2023/24, which includes:
(i) Appropriation of \$3,101.4M for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWC operations, maintenance, power and replacement costs and SWC capital charges, demand management programs including the local resources and Conservation Credits Program, and costs associated with supply programs, for FYs 2022/23 and 2023/24;
(ii) a continuing appropriation of \$589.0M for FY 2022/23 and FY 2023/24 for debt service on Metropolitan general obligation and revenue bonds;

- (iii) bond financing \$84.4M for the AVEK High Desert Program over the biennium, and
- (iv) bond financing \$36.0M of the budgeted Conservation Program over the biennium;
- b. Authorize the use of \$270M in operating revenues to fund the Capital Investment Plan for FYs 2022/23 and 2023/24;
- c. Determine that the revenue requirements to be paid from rates and charges are \$1,696.3M in FY 2022/23 and \$1,781.8M in FY 2023/24;
- d. Approve the Ten-Year Financial Forecast, as shown in the Proposed Biennial Budget FY 2022/23 and FY 2023/24;
- e. Approve water rates effective January 1, 2023, and January 1, 2024, as shown in Table 3 above;
- f. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2023, and 2024, in the form of Attachment 5, as will be updated to reflect the calculations and resulting rates pursuant to Option 2;
- g. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2023, in the form of Attachment 6, as will be updated to reflect the calculations and resulting RTS Charge pursuant to Option 2;
- h. Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2023, in the form of Attachment 7, as will be updated to reflect the calculations and resulting Capacity Charge pursuant to Option 2; and
- i. Authorize a change in the method of installing, keeping, and rendering all accounts from a modified-accrual basis method of accounting to a cash-basis method of accounting for the purpose of budgeting.

Substitute
Motion #2

Option 3:

- a. Approve the FY 2022/23 and FY 2023/24 Proposed Biennial Budget with overall rate increases of 5.5 percent in FY 2022/23 and 5.5 percent in FY 2023/24, which includes:
 - (i) Appropriation of \$3,091.1M for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWC operations, maintenance, power and replacement costs and SWC capital charges, demand management programs including the local resources and Conservation Credits Program, and costs associated with supply programs, for FYs 2022/23 and 2023/24;
 - (ii) a continuing appropriation of \$589.0M for FY 2022/23 and FY 2023/24 for debt service on Metropolitan general obligation and revenue bonds;
 - (iii) bond financing \$84.4M for the AVEK High Desert Program over the biennium, and
 - (iv) bond financing \$36.0M of the budgeted Conservation Program over the biennium;

- b. Authorize the use of \$270M in operating revenues to fund the Capital Investment Plan for FYs 2022/23 and 2023/24;
- c. Determine that the revenue requirements to be paid from rates and charges are \$1,677.6M in FY 2022/23 and \$1,769.7M in FY 2023/24;
- d. Approve the Ten-Year Financial Forecast, as shown in the Proposed Biennial Budget FY 2022/23 and FY 2023/24;
- e. Approve water rates effective January 1, 2023, and January 1, 2024, as shown in Table 5 above;
- f. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2023, and 2024, in the form of Attachment 5, as will be updated to reflect the calculations and resulting rates pursuant to Option 3;
- g. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2023, in the form of Attachment 6, as will be updated to reflect the calculations and resulting RTS Charge pursuant to Option 3;
- h. Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2023, in the form of Attachment 7, as will be updated to reflect the calculations and resulting Capacity Charge pursuant to Option 3; and
- i. Authorize a change in the method of installing, keeping, and rendering all accounts from a modified-accrual basis method of accounting to a cash-basis method of accounting for the purpose of budgeting.

Presented by: Katano Kasaine, Assistant General Manager/Chief Financial Officer
Arnout Van den Berg, Section Manager-Revenue & Budget

Ms. Kasaine introduced the item and Mr. Van den Berg presented the committee with the proposed biennial budget. His presentation included an overview of the options, ten-year financial projections, and the additional risks and impact of cuts.

The following Directors provided comments or asked questions:

1. Jung
2. Dick
3. Atwater
4. Lefevre
5. Peterson
6. Tamaribuchi
7. Record
8. Miller
9. Camacho
10. Ramos
11. Quinn
12. Abdo
13. Blois
14. Ortega
15. Fong-Sakai
16. Dennstedt
17. Fellow
18. Pressman
19. Smith
20. Sutley

Staff responded to the Directors' questions and comments.

Katano Kasaine noted the following correspondence were received commenting on Item 7-3 and will be made part of the record. Director Atwater's email, dated April 11, 2022; Director Quinn's email, dated April 11, 2022; City of Manhattan Beach letter, dated April 11, 2022; San Diego County Water Authority letter, dated February 19, 2022 and Metropolitan Water District's letter dated March 4, 2022 in response to San Diego County Water Authority letter; City of Pasadena letter, dated March 21, 2022.

After completion of the presentation, Director Quinn made a motion, seconded by Director Ortega, to approve the consent calendar consisting of item 7-3.

The vote was:

Ayes:	Directors Blois, Jung, Ortega, Quinn, and Smith
Noes:	Directors Dennstedt, Ramos, and Record
Abstentions:	Directors Dick, Faessel, Hawkins, and Tamaribuchi
Absent:	Director Goldberg

The motion for item 7-3 failed by a vote of 5 ayes, 3 noes, 4 abstain, and 1 absent.

Director Ramos made a substitute motion, seconded by Director Dennstedt, to approve the consent calendar consisting of item 7-3.

The vote was:

Ayes: Directors Dennstedt, Faessel, Ramos, and Record
Noes: Directors Blois, Dick, Hawkins, Jung, Ortega, Quinn, Smith and Tamaribuchi
Abstentions: None
Absent: Director Goldberg

The substitute motion for item 7-3 failed by a vote of 4 ayes, 8 noes, 0 abstain, and 1 absent.

Director Dick made a substitute motion #2, seconded by Director Blois, to approve the consent calendar consisting of item 7-3.

The vote was:

Ayes: Directors Blois, Dick, Faessel, Hawkins, Jung, Tamaribuchi
Noes: Directors Dennstedt, Ramos, Record
Abstentions: Directors Ortega, Quinn, and Smith
Absent: Director Goldberg

The substitute motion for item 7-3 failed by a vote of 6 ayes, 3 noes, 3 abstain, and 1 absent.

END OF CONSENT CALENDAR ITEMS

4. OTHER BOARD ITEMS – ACTION

None

5. BOARD INFORMATION ITEMS

None

6. COMMITTEE ITEMS

None

7. MANAGEMENT REPORT

- a. Subject: Chief Financial Officer's report
No Report given.

8. FOLLOW-UP ITEMS

Director Peterson requested to look at an opportunity to use the White Water land as a revenue source.

Director Tamaribuchi requested information on the State Water Contract that includes what the total cost is that we are paying charges on, how much is being invested in the coming years and does it include the Oroville spillway repair.

9. FUTURE AGENDA ITEM

None

10. ADJOURNMENT

Next meeting will be held on May 9, 2022.

Meeting adjourned at 6:08 p.m.

Randy Record

Vice Chair