

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
BOARD OF DIRECTORS MEETING

MINUTES OF February 10, 2016
1:30 P.M.

President Corneille called the Board Meeting of the Board of Directors to order at 1:30 p.m. All present stood for the pledge of allegiance, led by President Corneille.

ROLL CALL:

BOARD MEMBERS PRESENT:

Richard Corneille, President
Melody McDonald, Vice President
David E. Raley, Director
Manuel Aranda, Director

BOARD MEMBERS ABSENT:

John Longville, Director - Excused

GENERAL COUNSEL PRESENT:

David Cosgrove, Rutan & Tucker, LLP

STAFF PRESENT:

Daniel Cozad, General Manager
Athena Monge, Administrative Services Specialist

GUESTS PRESENT:

Charles Roberts, Highland Community News
Michelle Diamond, Tetra Tech
Nanette Shelton, East Valley Water District
Jose Martinez, East Valley Water District
Patrick Milroy, East Valley Water District
Sarah Meacham, PFM Asset Management, LLC
Lesley Murphy, PFM Asset Management, LLC
Jan Leja, Representative of Congressman Cook

1. PUBLIC PARTICIPATION

President Corneille announced this as the time for any persons present, who so desire, to make an oral presentation to the Board of Directors. Hearing none, the meeting continued with published agenda items.

2. ADDITIONS/DELETIONS TO AGENDA

There were none.

3. CONSENT CALENDAR

It was moved by Director Aranda and seconded by Vice President McDonald to approve Consent Calendar Item A: Board Minutes, January 13, 2016 and Item B: Expenditure Report, January 2016. The motion carried 4-0 with all Directors present voting in the affirmative and Director Longville noted absent from the vote.

**President Corneille: Yes
Vice President McDonald: Yes
Director Longville: Absent
Director Raley: Yes
Director Aranda: Yes**

4. COMMITTEE REPORTS/ACTION ITEMS

A. 2ND QUARTER UNAUDITED FINANCIALS REVIEW FOR 2015-2016

Vice President McDonald introduced this item for discussion. The Finance & Administration Committee met January 20th to review the 2nd quarter financials and financials are in order. Mr. Cozad indicated that the roll up format is located on package page 20. He also stated that revenues exceed expenses. The groundwater revenue is lower this year due to conservation efforts implemented by producers. There are no significant changes.

It was moved by Director Raley and seconded by Director Aranda to approve the 2nd Quarter Unaudited Financials for FY 2015-2016. The motion carried 4-0 with all Directors present voting in the affirmative and Director Longville noted absent from the vote.

**President Corneille: Yes
Vice President McDonald: Yes
Director Longville: Absent
Director Raley: Yes
Director Aranda: Yes**

G. SANTA ANA WASH PLAN LAND EXCHANGE ACT, HR-4024 RESOLUTION OF SUPPORT

This item was taken out of order.

Mr. Cozad requested that this item being taken out of order as the district representative for Congressman Cook, Jan Leja was present for this item.

Mr. Cozad indicated that the land exchange between the District and the Bureau of Land Management is a critical component of the Wash Plan. He stated that congress set aside land for conservation that cannot be moved or changed without an act of congress. Mr. Cozad thanked Congressman Cook for introducing the bill and Congressman Aguilar for co-authoring

it. Ms. Leja spoke briefly regarding the process pursued in preparing the bill. She indicated that this is a high priority for her office and that they are presenting as a stand-alone bill to possibly expedite the process. Brief discussion ensued related to land being exchanged. President Corneille indicated that Resolution No. 532 is presented today to assist in helping move the Wash Plan forward. Ms. Leja stated that the City of Highland approved a resolution in support of HR-4024 as well as the mining entities, and conservation groups. Additional letters of supports are being requested. Vice President McDonald stated that SBVMWD has a pending resolution item on their agenda for approval as well. Mr. Cozad indicated that support has been requested from Task Force members and it will be a combination of both letters of support and resolutions. Ms. Leja expressed the need to obtain these as soon as possible.

It was moved by Vice President McDonald and seconded by Director Raley to approve Resolution No. 532 supporting District sponsored Santa Ana Wash Plan Land Exchange Act HR-4024. The motion carried 4-0 with all Directors present voting in the affirmative and Director Longville noted absent from the vote.

**President Corneille: Yes
Vice President McDonald: Yes
Director Longville: Absent
Director Raley: Yes
Director Aranda: Yes**

B. PFM ASSET MANAGEMENT REVIEW OF INVESTMENT OPPORTUNITIES

Vice President McDonald introduced this item for discussion. This item was discussed in depth at the January 20th Finance & Administration Committee where they agreed to have the presentation for the full Board for review and discussion. Mr. Cozad stated that PFM Asset Management (PFM) will present on basic investment strategies related to two items: 1) Operating Reserve Funds and 2) Wash Plan Habitat Conservation Plan Endowment. Based on the Committee discussion and Board recommendations staff and consultants will develop and implement a revised Statement of Investment Policy for Board approval in March.

Sarah Meacham of PFM presented a PowerPoint on Investment Policy Overview. She reviewed the foundation of any changes in policy and the related regulations are California Government Code; Investment of Surplus Funds (53600-53610) and Deposit of Funds (53630-53686). Ms. Meacham stated that she will be reviewing strictly the Operating Reserve Funds options today. Ms. Meacham reviewed the universe of investments available and outlined the different options for Operating Reserve and Endowment Funds permissible by code highlighted in green and yellow for potential inclusion in Policy. Public funds have strict restrictions meant for preservation of principal. The top priorities are 1) safety 2) liquidity and 3) yield. The following securities were detailed:

- US Treasuries: These are issued by US Government and are debt secured. The credit rating is AA+/Aaa/AAA and secured by the full faith and credit of the US government. The maturity term is between 3 months-30 years and liquidity is high. California Code limits investments to five years without special approval. This is the largest fixed income in the world and the most active.
- Types of investment are: Bills (3-6 month maturity), notes (1-10 years maturity), bonds (10-30 year maturity) and strips (3 month-30 years maturity).

- Federal Agencies: These are issued by the US Government and government sponsored enterprises. These are most popular and are issued by housing agencies. PFM has seen changes due to the financial crisis in 2008-2009. The US government put Fannie Mae and Freddie Mac under conservatorship. With decreased operations these housing agencies do not need to finance themselves as much so they are issuing less debt today. Their debt has fallen over a trillion dollars since 2009 impacting yields significantly.
- Municipal Obligations: These are bonds and/or notes that are issued by public agencies including local governments of California, treasuries and departments of the other 49 states. Public agencies are not allowed to purchase municipal obligations from local public agencies in other states. The credit rating is from Nationally Recognized Statistical Ratings Organizations. The maturity term is 1-30+ years and liquidity is moderate. The rates depend on credit quality, supply and tax exemption. There is not a lot of available supply in the under 5 year market.
- Bankers' Acceptance: These are obligations issued by banks; basically a promise to pay on behalf of an importer. There are three backings for these; the bank, the importer and the goods in transport. These are based on the banks credit rating and can be issued for a term of 1-180 days. Liquidity is high but supply is low currently. The return is higher because overall the risk is higher.
- Commercial Paper: They are referred to sometimes as money market securities. These are unsecured promissory notes issued by corporations and financial institutions. They are typically short term; 1-270 days and can be issues by both foreign and domestic corporations operating in the US. In the past these have been issued to finance companies short term operations. The supply of this investment has gone down.
- Negotiable Certificates of Deposits: These are issued by a local banks; negotiable because you can buy and sell them in the secondary market. If you need to get your money out prior to maturity you can sell them to another investor. The typical maturity term is between 0-5 years and liquidity is moderate.
- Corporate Notes: These are unsecured securities issued by corporations and financial institutions. They are owned by the public through stocks and are issued for a maturity term of 1-40+ years. There is a minimum "A" credit rating required, 30% maximum and 5 year maximum maturity per Code.
- Asset-Backed Security (ABS): These are secured by assets or receivable that the company has to commit to paying back. For example, a company will create a trust and dedicate receivables to the trust and the trust will issue securities backed by those assets. Those assets cannot then be used by the parent company; they are for the sole purpose of paying back the investors. Code allows for "AA" minimum credit rating, 20% maximum and 5 year maximum maturity.
- US Instrumentalities: also known as supra-nationals and this investment class was added January 1, 2015. The District can now buy bonds issued by International Bank

for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank with a maximum maturity of 5 years.

Other investment options discussed were:

- Mutual Funds and Money Market Funds: Since the District uses LAIF and other governmental investment pools it's not likely that the District would need to utilize these. However, it would be available and requires no more than 20% of the portfolio invested, AAA rated, stable net asset value and underlying investment must be same as CGC. Money market funds can be those that invest in government securities and those that invest in a broader range which are called "prime". Prime money market funds are very limited. Because the value of the fund changes these may be difficult for the District to use since it has to maintain liquidity.
- Local Government Investment Pools: 1) LAIF-state treasures pool and 2) CalTrust and 3) CAMP – California Asset Management Program. These are local government pools run by government. The District currently uses LAIF and CalTrust.

Ms. Meacham explains that California Government Code requires for the District to utilize investments with a credit rating of "A" or higher which is one step higher than what is generally considered investment grade. Other aspects of the policy that need to be included in District policy is the Delegation of Authority clearly described in section 53607 states the governing body may delegate to Treasurer for a one year period, but it must be renewed annually or it converts back to the Board automatically. And if the District does this the Treasurer must provide a list of transactions to the Board each month. Recommended policy components include; policy, scope, prudence, objective, delegation of authority, investment procedures, ethics and conflicts of interest, authorized financial dealers and institutions, authorized and suitable investments, investment pools/mutual funds, collateralization, safekeeping and custody, diversification, maximum maturities, internal controls, performance standards, reporting, policy review, and glossary. PFM can assist the District with submitting it for certification, however certification is not required. Ms. Meacham described the risk and return on investment strategies. She indicated that yields are higher in non-government sectors. Ms. Meacham spoke on the value of diversification where she recommended keeping funds in various sectors because there is no way of knowing which sector would outperform the other during various periods. The securities and options above reflect the District's investment options based on the size of its portfolio, cash flow needs and liquidity needs.

Ms. Murphy presented a PowerPoint on Discussion of Investment of Reserve Funds. She indicated that the Finance & Administration Committee will meet on February 29th to discuss the initial draft policy. As of December 31, 2015 the District had \$447,000.64 in LAIF, \$4,277,704.96 in CalTrust Short-Term Fund, and \$3,893,298.01 in CalTrust Medium-Term Fund. The cumulative unrealized loss to date was -\$31,361.36. \$3.5 million to be invested with an average duration of 3 years and \$5 million prepaid royalty which must be able to be liquidated within 12 months from notice by depositor. Once the Wash Plan is fully implemented that will trigger the final act to fulfill the District's part of the agreement and then there will not be a need to have these funds readily available. Ms. Murphy reviewed Market Yields for treasuries, federal agencies, AA corporate, A Corporate and Tax-Exempt Municipal as of January 31, 2016. She provided an analysis on the District's current investments and project annual earnings which were project to be \$61,785 with a 0.72% yield. However, the unrealized cumulative losses for CalTrust are what the District needs to keep in mind. If the District chose to invest in Individual Portfolio projected net earnings could be \$67,733. Individual Portfolios

carry out of pocket fees which for this analysis were projected to be \$18,500 including management of portfolio and custodian fees. The custodian fees are a fixed \$3,500 and its purpose is to ensure that money is being invested properly and is a third party; typically a bank of our choosing. PFM recommended that the District possibly invest in FDIC-insured CD's which are purchased through a local bank or CD placement program. These have guaranteed earnings, FDIC insured and out of pocket fees are low. This would be a good alternative to keeping money in CalTrust because in CD have no risk of loss of principal. PFM manages the CAMP Fund which operates similar to LAIF which may be an option for the District. They are not recommending that the District buy a portfolio of securities right now because of the fixed costs and management fees. Additionally, the District's current level of assets and need for capital do not allow for proper diversification. PFM is working on the Statement of Investment Policy primarily so that the District has a proper governing document. CD placement programs and non-negotiable CD's are recommended because they do not require a custodian which saves the \$3500 cost. PFM will find a representative for the program and forward to staff. The Board thanked PFM for their in depth analysis and recommendations. This item was received and filed.

C. UNAUDITED FINANCIAL REPORTS, JANUARY 2016

It was moved by Vice President McDonald and seconded by Director Aranda to approve the Unaudited Financials for January 2016 as presented. The motion carried 4-0 with all Directors present voting in the affirmative and Director Longville noted absent from the vote.

**President Corneille: Yes
Vice President McDonald: Yes
Director Longville: Absent
Director Raley: Yes
Director Aranda: Yes**

D. GROUNDWATER ASSESSMENT REPORT FOR GWA #45

Mr. Cozad referred to package page 29 which includes the groundwater producers reported to date. There are several large producers that have requested additional time to gather production data, report and pay. However, East Valley Water District who is present today was not one of those. Mr. Cozad thanked them for reporting and paying on time. Late notices have been sent out. The investigation list will be brought back at the March Board meeting. Production is expected to be lower due to state mandates and increased conservation efforts. This item was received and filed.

E. DRAFT 2016 ENGINEERING INVESTIGATION REPORT

Mr. Cozad presented a PowerPoint on the Draft Engineering Investigation (EI) Report for 2016. The draft has been posted to the District's website for review and comment. The organic act requires that the District repeat the same process every year. The purpose is to collect data from the basin and surrounding areas to report to our constituents the status of the groundwater basin. Each year an EI Plan is prepared and comments are solicited. Data from other entities has been requested and received and analysis has been performed. The EI Plan has not changed significantly since 2005. Ms. Scholte, Part-Time District Engineer performed data management, calculations, prepared draft report, maps and draft preparation. She requested GIS locations for all of the wells so the maps have been updated based on this information. The

Sub-basin variations were reviewed. The District boundaries are primarily on the East End of the Basin; however data is collect for the entire Bunker Hill Basin. The change in water level decreased by -45,252 AF since last year and is less of a decrease than the previous year. Mr. Cozad reviewed storativity/annual change in storage broken out by sub-area. He reviewed the Water Elevations for 2014 compared to 2015; noting the decrease in water levels. Although the water levels in the basin have decreased it is not a drastic change from the prior year. The accumulated change in storage is -583,447 AF from 1993. The groundwater production from the basin is 169,444 AF; 169, 392 AF (previous). The annual change in storage is -84,647 AF decrease and -94,727 AF (previous year). The precipitation for current water year is 11.41 inches; 50.8% of normal and the estimated annual production at for the ensuing year is 212,546 AF. The annual change in storage with average precipitation for ensuing water year (2016-2017) is +2701 AF (increase) and +1351 AF (previous). The average annual change in storage is -36,461 AF (decrease and -10,035 AF (previous) for each basin. The estimated production from District Boundaries for the ensuing water year (2016-2017) is 11,098 AF (agricultural) and 103,183 AF (non-agricultural). The estimated surface diversion is 66,338 AF (Basin) and 53,704 AF (District); this is the water for direct use. The replenishment required for constant storage is 144,425 AF (Basin) and 11,580 AF (District). It would take 512,519 AF to bring the basin back to full (1993 level).

Mr. Cozad requested feedback from the Board and stated that a hard copy of the report is available upon request and can be found on the District website. President Corneille obtained a hard copy for review and comment. He indicated that the preliminary results are consistent with what he would anticipate. Mr. Cozad said that this was just a preliminary review, the report was provided to major producers and is open for public comments; it will be brought back for final approval at the next Board meeting in March. President Corneille asked what wells were used for this report. Ms. Scholte indicated that previously only 60 wells were used for mapping and contouring but this year staff used all 450 wells which helped identify the exact sub-basin they were in. This item was received and filed.

F. BUDGET PLANNING FOR GROUNDWATER ENTERPRISE FOR FY 2016-2017 AND ADVERTISED GROUNDWATER CHARGE

Mr. Cozad presented a PowerPoint on this item for discussion noting that it began on package page 47. This is a preliminary review to assist in identifying a rate for 2016-2017 for noticing and newspaper advertising. He indicated that potential rate options are located on package page 54. The Groundwater Public Meeting is scheduled for April 13th and the Groundwater Public Hearing will be held on April 27th. Mr. Cozad reviewed projected revenue for groundwater agricultural/non-agricultural production for 2016 is \$860,558. He reviewed the Draft Groundwater Enterprise Budget Revenue Budget and revenue sources in total estimated at \$1,076,001.27. The other enterprise budget numbers are not confirmed revenue or cost numbers. Mr. Cozad reviewed the capital costs included in Groundwater Budget such as costs for biological surveys, engineering, and a percentage of costs for the River HCP as well as a portion of other miscellaneous costs based on impacts on Groundwater Enterprises. He noted that Directors Fees are specifically allocated to the General Fund Enterprise. Out of the funds collected there is \$244,516.27 allocated to a contribution toward Capital Maintenance. Staff recommends leaving the groundwater Charge rate per acre foot at its existing level but believes the District needs to utilize the Rate Stabilization Fund rather than increase the rate this year. Staff does not recommend a rate increase this year. The District will need to address this issue next year and possibly increase rates as it has not raised rates in 3 years to avoid a large increase later. The Rate Stabilization Fund is funds transferred in the amount of \$25,000 per year from the General Fund. Director Raley recommended notifying producers of potential

increase for next year. Mr. Cozad estimates that it will be a 3-4% rate increase for next year, but depends on production for this year. Vice President McDonald reiterated that the District has not had a rate increase in 3 years and supports the motion on the floor. However, she indicated that depending on production and needs this year it may be prudent of the District to consider an incremental increase for next year in order to avoid a large increase in future years. Mr. Cozad indicated that another reason to avoid an increase this year is because the Groundwater Sustainability Council will be the group that would represent the producers and help identify appropriate. They would address how groundwater costs would be allocated amongst its members throughout the entire basin rather than just the producers within our basin.

It was moved by President Corneille and seconded by Director Raley to authorize Staff to advertise for no groundwater rate increase for 2016-2017 period and to utilize approximately \$28,000 of the Rate Stabilization Fund for the 2016-2017. The motion carried 4-0 with all Directors present voting in the affirmative and Director Longville noted absent from the vote.

**President Corneille: Yes
Vice President McDonald: Yes
Director Longville: Absent
Director Raley: Yes
Director Aranda: Yes**

H. FORM 806 UPDATE

President Corneille introduced this item for discussion. He stated that a revised Form 806 has been provided as a handout to the Board. The handout shows that the Wash Plan Ad Hoc Committee was removed as this Committee has been dissolved upon completion of its task. Mr. Cozad said that the Form 806 has been updated to reflect committee appointments and changes made to Appendix C.

It was moved by Vice President McDonald and seconded by Director Aranda to approve the revised Form 806 form as handed out for posting on the District website based on revisions made to Appendix C during the January 13th Board meeting. The motion carried 4-0 with all Directors present voting in the affirmative and Director Longville noted absent from the vote.

**President Corneille: Yes
Vice President McDonald: Yes
Director Longville: Absent
Director Raley: Yes
Director Aranda: Yes**

I. BOARD POLICY RESOLUTION

It was moved by Vice President McDonald and seconded by Director Aranda to approve Resolution No. 533 related to revisions that were approved at the January 13th Board meeting. The motion carried 4-0 with all present voting in the affirmative and Director Longville noted absent from the vote.

**President Corneille: Yes
Vice President McDonald: No
Director Longville: Yes
Director Raley: Yes
Director Aranda: Yes**

5. INFORMATION ITEMS

A. BOARD COMMITTEE REPORTS-WITHOUT ACTION

There were none discussed.

B. WASH PLAN REPORT

Mr. Beehler introduced this item for discussion. The written Wash Plan Report is included in the Board package on page 66 along with the Wash Plan financial spreadsheet. Mr. Beehler said that staff is working on addressing solicitor comments and FWS senior management comments. He indicated that with the assistance of District Counsel we were able to resolve some issues related to the Certificates of Inclusion, phasing and conservation easements. Near the end of January a list was composed of issues which were reviewed by Ken Corey with FWS. Mr. Corey asked staff to postpone the Task Force meeting to allow time to resolve these issues since they were not significant. Additional work needs to be performed to EIR/EIS due to changes made to HCP. To date most of the issues have been resolved. Mr. Cosgrove stated that in house the non-profit structure has been completed and it has been filed with the Secretary of State. He stated that we are working on final revisions to the Agreement between the non-profit and the District. Mr. Beehler said that he is working on costs for the EIR/EIS; it's different from what originally was scoped. Mr. Cosgrove stated that initially when we started the project we were told that we had to separate the EIR/EIS and now FWS requested that they be done together. Brief discussion on costs and endowment ensued. Ultimately additional costs have not yet been identified, but once they are these will be brought back to Task Force and Board for review and approval. FWS issues have been resolved by altering the structure of the HCP. Legislation needed to fully implement Wash Plan is being moved forward. Senator Feinstein's staff is reviewing currently. Mr. Cozad said that the District has received a letter of support from Inland Action and it has been forwarded to legislators. Staff is waiting for paperwork from the Secretary of State before we schedule the first meeting related to the Trust. This item was received and filed.

C. GENERAL MANAGER'S REPORT AND MONTHLY RECHARGE REPORT

Mr. Cozad indicated that the written General Manager's Report is included in the Board Package on pages 68. He noted that the year to date recharge as of today's date is estimated to be 1335 AF; around 252 million gallons. This is only 2.5% of what would be expected in a wet year. Today the District has received 4.95 inches of rainfall; a quarter of an inch more than last year. A scope of work was developed for a facilitator for the GSC process and staff is seeking proposals. Staff will report any progress on this to the Board in the General Managers Report. CalFire is performing cleanup of Mentone dump site. The District has hired a new Field Operations Specialist, Tommy Purvis. A copy of the updated District Priorities list is included on package page 71 for reference. This item was received and filed.

D. FUTURE AGENDA ITEMS & STAFF TASKS

Vice President McDonald requested that the per diem rate be discussed at the next Board meeting in March.

6. MONTHLY BOARD MEMBER COMMITTEE ACTIVITY REPORTS, AND/OR COMMENTS BY BOARD MEMBERS

Vice President McDonald attended the SBVMWD Board of Directors Meeting on February 9th where they discussed outreach programs and their investment portfolio. She attended the BTAC meeting on February 1st. Vice President McDonald attended the Baseline Feeder meeting at SBVMWD and a meeting with ACWA/JPIA. Additional written reports are included in Board Package.

Director Aranda stated all written reports are included in Board Package. He noted that he did attend a conference call on February 8th for ACWA Communications Committee where they discussed the drought and water retailers who are increasing their rates.

Director Raley attended Redlands Rise N Shine meeting.

President Corneille stated his written reports are included in Board Package. He indicated that staff will be modifying the MACA Community garden information and reminded the board of his potential travels during the March meeting date.

7. UPCOMING MEETINGS

President Corneille noted that the next Advisory Commission on Water Policy will be held on March 16th at Valley District, 6:30 p.m.

8. ADJOURN MEETING

It was moved by Director Aranda and seconded by Vice President McDonald to adjourn. The motion carried 5-0 with all Directors present voting in the affirmative.

**President Corneille: Yes
Vice President McDonald: Yes
Director Longville: Yes**

Director Raley: Yes
Director Aranda: Yes

At 4:13 p.m. the meeting adjourned to the next regular Board Meeting scheduled for March 9, 2016 at 1:30 p.m. at District Headquarters, 1630 W. Redlands Blvd., Redlands, CA.



Daniel B. Cozad
General Manager