

Finance Committee Meeting Minutes– Draft

California Urban Water Conservation Council

November 2, 2016

Attendees:

Joe Berg
Heather Cooley*
Jack Hawks*
Richard Harris
Bill McDonnell
Peter Vorster*

Council Staff / Guests:

Sarah Foley
Kimberly Yost
Dave Ceppos
Greg Weber*

* via conference phone and webinar

Joe Berg brought the meeting to order at 10:05 am. Introductions were made on the phone.

Approve Finance Minutes of August 3, 2016 – Attachment #1

Joe asked for a motion to approve the minutes. Richard moved to approve the minutes, Bill seconded. There was no discussion. All agreed. None opposed. Motion passed.

Review and Approval of 2016 Q3 financials for Board packet – Attachment #2.

Richard moved to accept the financial report and to include the financial packet as a consent item for the Board meeting; Bill seconded the motion. All agreed, none opposed. Motion passed.

There was a brief discussion on the balance in reserves. Kimberly explained that the Designated Net Assets (Reserves) on the Balance Sheet differs from the actual Operating Reserve balance under Current Assets as it excludes unrealized gain/loss and accrued interest on the CD investments. Interest will be posted to Reserves when it is actually received.

Approve Morgan Stanley Account Changes (Attachment #3)

Staff recommended that the Board of Directors adopt the enabling resolution provided by Morgan Stanley, which will facilitate the following changes to the authorized persons listed on the account:

- Remove Gregory Weber, Fiona Sanchez and Heather Cooley as authorized persons on the account.
- Add Sarah Foley as an authorized person on the account until the Executive Director position is filled.

Staff also recommended that the Board of Directors adopt a policy of only listing the Executive Director and Treasurer as authorized persons on the account in the future.

Heather moved to accept staff's recommendations and forward them to the Board, Richard seconded the motion. All agreed, none opposed. Motion passed.

Review Council Transition Matters

Please refer to the attached meeting notes from facilitator Dave Ceppos that outline the discussions and decisions made on this agenda item. These notes will be provided under separate cover prior to the November 16 Board meeting.



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Approve Draft 2017 Council Budget (Attachment #4)

Staff asked the Finance Committee to recommend that the Board of Directors approve the Draft 2017 Council Budget. Staff noted that this is essentially a status quo budget that does not take into consideration the changes being contemplated by the Board. Heather asked how those would be addressed. Richard stated that the Committee should recognize that the budget may need to be amended depending upon the changes the organization agrees to.

Richard moved to recommend the Board approve the budget with the recognition that it may need to be amended, Heather seconded. All agreed, none opposed. Motion passed.

ADJOURN

The meeting adjourned at 3:00.

Meeting Notes
CUWCC Finance and Governance Committee Meeting
Asset Allocation Discussion
November 2, 2016

Attendees:

Committee Members:

Joe Berg	Heather Cooley (by phone)	Richard Harris
Jack Hawks (by phone)	Bill McDonnell	Peter Vorster (by phone)

Staff:

Sarah Foley	Kimberly Yost	Greg Weber (by phone)
Dave Ceppos, CCP		

The following provides a brief summary of the Committee's discussion about asset allocation, associated with the proposed CUWCC transition to a new focus and structure. This summary includes action items and a summary of initially agreed on next steps to resolve asset allocation challenges. This work is associated with the mutual goal of Groups 1 and 2 to conduct the CUWCC transition through amendments of the organization's bylaws, rather than through voluntary or involuntary dissolution.

Groups 1 and 2 moved to independent caucuses to discuss asset allocation and other transition principles and to address questions sent to them the previous afternoon by Dave Ceppos. The groups returned from caucusing and Committee discussion ensued. Member Jack Hawks exited the discussion at this time due to travel responsibilities.

Greg Weber reviewed the Committee information packet including various budget related spreadsheets. The Committee asked questions for clarification. Discussion ensued about how anticipated revenues from various grants and contracts are included in the analysis. The analysis assumed that, over calendar year 2017, the organization would collect 80% of the dues collected during calendar year 2016. No additional revenue sources (beyond member dues) for 2017 or 2018 were included. Questions were also raised about the weekly and monthly "burn rate" of cash assets. Kimberly Yost reviewed the assumptions and some of the questions raised and concluded that the burn rate should be reduced and will revise this information. Sarah Foley will then redistribute to the Committee and the Board.

Following some additional clarifying discussion, Dave asked Joe Berg and Peter Vorster to describe respective principles that Groups 1 and 2 have each defined to guide their aspirations for how asset allocation would occur.

Group 1 Principles:

1. Maintain financial viability of the organization.
2. Funds should be invested in mutually beneficial programs that produce public benefits.
3. Allocation of assets shall stay with the Council as temporarily restricted assets.
4. In addition to investing funds to produce public benefits, Group 1 members must ensure that allocated assets is done consistent with legal requirements, that the public benefits are consistent with the goals of their rate payers, and that the outcomes create publicly accessible intellectual property.

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Note: Through Committee discussion, a fifth important Group 1 principle emerged and was stated as such after the initial list was expressed.

5. Need a level of transparency about the legal requirements, use and expenditures of allocated assets provided to third parties for sufficient communications to the Board and membership toward a mutually favorable outcome

Group 2 Principles:

Asset allocation should:

1. Provide certainty to the Council and Group 2 members about the fate and use of the assets,
2. Be time efficient and carried out as rapidly as possible,
3. Be conducted in as simple a manner as possible,
4. Be addressed fairly and equitably, and
5. Further the current CUWCC MOU goals.

Note: Through Committee discussion, a sixth important Group 2 principle emerged and was stated as such after the initial list was expressed.

6. Provide autonomy to each group to make financial decisions with the assets allocated to them.

After these principles were stated, Peter proposed the following allocation approach:

- 50 percent split of all [net] cash assets (as of December 31, 2016) between Groups 1 and 2.
- Immediate delegation of Group 2 allocated assets to a third-party non-profit organization; with a mission compatible with the Council's.
- Assets allocated to Group 2 and retained by a third party, could be used to fund projects in partnership with the CUWCC successor organization.

Under this proposal, Groups 1 and 2 would have the autonomy to spend their respective allocations as each sees fit, provided that all assets be spent on activities consistent with the mission of the current CUWCC, as required by law.

Lengthy discussion ensued by the Committee. During this time, the Committee also took a lunch break and conducted another round of caucus meetings. Key topics raised during the resumed Committee discussions included:

- Group 2 members asserted that it must maintain autonomy to direct the use of allocated assets without oversight by the successor organization and that said assets need to be managed by a third party.
- Group 1 members stated that there must be some level of transparency about the third party use of assets, and that specificity be provided by Group 2 as to how the allocated assets will be spent. Group 1 members expressed this as a necessary step in order to communicate any Board agreement to Group 1 members and incentivize a mutually favorable and rapid decision about allocation;
- Group 2 members confirmed that they understand that Group 1 needs some level of clarification of how assets will be used, and they expressed a willingness to specify key principles of future use and potentially some specific projects with a caveat that they cannot commit to fully specifying all intended distributions;
- Group 1 members raised questions about the legal requirements to distribute assets, particularly regarding how much detail is legally required regarding future use;

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- Group 1 members stated that assets must create products that are publicly accessible and intellectual property of the new organization, that is available to all interested parties and particularly to water utility ratepayers;
- Group 1 members expressed concerns that 2017 budget projections already indicate a likely deficit for the new organization, CUWCC leadership has already lower the fixed expenses of the organization and that any further reduction in fixed expenses would have to come from further staff reductions and postponing key next steps such as hiring a new Executive Director and conducting communications about the new organization and that as a result of these factors, a 50 percent split of assets is not feasible. Group 2 members disagree with this characterization; in particular, they argued that the budget assumptions were conservative about payment from member dues and do not include the potential for new revenue sources, such as grants, contracts, and utility contributions for specific work products in 2017 and 2018. G1 reiterated that the budget and assets are based on what is known at the time, with some level of conservatism in recognition that the proposed budget anticipates a shortfall at the end of 2017;
- Group 1 members committed to seeking an equitable asset allocation as close to a 50 percent split as possible but not up to the specific 50/50 split proposed by Group 2.; Group 1 members expressed their need to more precisely review the necessary operating expenses and 2017 budget as a means to propose an alternative asset split to Group 2;
- Group 2 members stated that the financial stability of the successor organization will require further reductions in expenses and operating budget and/or an increase in revenue; further, they argue that any potential deficit the successor organization incurs is not the responsibility of Group 2 to subsidize; and
- Group 1 members stated that they are willing to have assets be distributed to a third party provided that that distribution meets State legal requirements and that there is sufficient information made available to Group 1 membership such that the membership can feel comfortable that their fiduciary responsibilities to rate payers will be met.

As a result of this discussion, the following action items were identified.

1. CUWCC staff will work with the organization's attorney to define the specific steps needed to document asset allocation and the specific requirements about what needs to be memorialized in these documents.
2. CUWCC staff and accountant will work with Group 1 members to refine the 2017 budget.
3. Based on information from Action Item 2, Group 1 members will propose an asset allocation split.
4. Group 1 members will dedicate time during this week to identify proposed allocation principles and potential projects to be pursued between Group 1 and Group 2 after asset allocation has been done. Group 1 members will send them to G2 members; G2 members will review and respond.

Related to the above Action Items, the following is a generally agreed on sequence of next steps. These steps are subject to review and modification by members of Groups 1 and 2 and do not reflect a formal decision by the Committee and agreed to by the Board and membership.

1. CUWCC staff, attorney, and accountant will address Action Items 1 and 2 above ASAP and will provide information on legal requirements for asset allocation and updated budget information for 2017 for the successor organization.
2. Group 1 members will prepare and communicate to Group 2 members a proposed asset split, based on information from the accountant.

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3. Group 1 and Group 2 members will prepare a proposed set of allocation principles and projects for review by each respective Group. Group 2 members stated they would need more time to come up with their list of proposed projects based on busy calendars over the successive two weeks. Group 2 stated they will review these proposed items as soon as feasible and will try to prepare similar information in the time available.
4. As soon as feasible, the Committee will meet again to discuss the different allocation proposals and, ideally, to reach an agreement. All members have a goal to try to achieve this and communicate a mutual proposal to the Board prior to the November 16 Board meeting.
5. Presuming an agreement can be reached by the Committee and the Board, the Board will direct CUWCC staff to rework the current cash assets budget and to earmark the mutually agreed on allocation amount for Group 2 to be moved into a category of “defined assets” and that said defined assets will have a mutually stipulated agreement describing the only use of said assets is to be for allocation to a third party after all legal allocation and mutually agreed to requirements have been completed.
6. The CUWCC plenary will be held on December 7. Presuming approval of the allocation proposal, CUWCC will initiate the legal requirements to transfer the mutually agreed on assets from the “defined assets” account of CUWCC to the designated and mutually agreed on third party recipient.