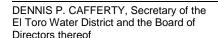I hereby certify that the following agenda was posted at least 24 hours prior to the time of the meeting so noticed below at 24251 Los Alisos Boulevard, Lake Forest, California.

DENNIS P. CAFFERTY, Secretary of the El Toro Water District and the Board of Directors thereof

AGENDA

EL TORO WATER DISTRICT SPECIAL MEETING OF THE BOARD OF DIRECTORS

July 26, 2021
7:30 a.m.

Members of the public who wish to comment on any item within the jurisdiction of the District or on any item on the agenda, attend the meeting in person at the District's office or may observe and address the Meeting by joining at this link: https://us02web.zoom.us/j/83022966861. (Meeting ID: 830 2296 6861). Members of the public who wish only to listen to the telephonic meeting may dial in at the following numbers (669) 900-6833 or (346) 248-7799 with the same Meeting ID noted above. Please be advised the Meeting is being recorded.

CALL MEETING TO ORDER – President Gaskins

PLEDGE OF ALLEGIANCE – Director Freshley

ORAL COMMUNICATIONS/PUBLIC COMMENTS

Members of the public may address the Board at this time or they may reserve this opportunity with regard to an item on the agenda, until said item is discussed by the Board. Comments on other items will be heard at the time set aside for "DIRECTORS COMMENTS/NON-AGENDA ITEMS." The public will identify themselves when called on and limit their comments to three minutes.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED

Determine need and take action to agendize items(s) which arose subsequent to the posting of the Agenda. (ROLL CALL VOTE: Adoption of this recommendation requires a two-thirds vote of the Board members present, or, if less than two-thirds of the Board members are present, a unanimous vote of those members present.)

1. **<u>Enterprise Resource Planning Software System Update</u>** (Reference Material Included)

    Staff will provide an update on the analysis of options for improvements to the Districts current business process software environment.

2. **<u>Advanced Metering Infrastructure</u>**

    Staff will lead a discussion on the benefits and challenges associated with the installation of Advanced Metering Infrastructure (AMI) at the District.

3. **<u>Analysis of Financing Options for Near-term Future Capital Projects</u>** (Reference Material Included)

    Staff will provide an update on the analysis of financing options for several upcoming large capital projects.

ADJOURNMENT

The agenda material for this meeting is available to the public at the District's Administrative Office, which is located at 24251 Los Alisos Blvd., Lake Forest, Ca. 92630. If any additional material related to an open session agenda item is distributed to all or a majority of the board of directors after this agenda is posted, such material will be made available for immediate public inspection at the same location.

<u>Request for Disability-Related Modifications or Accommodations</u>

If you require any disability-related accommodation, including auxiliary aids or services, in order to participate in this public meeting, please telephone the District's Recording Secretary, Polly Welsch at (949) 837-7050, extension 225 at least forty-eight (48) hours prior to said meeting. If you prefer, your request may be submitted in writing to El Toro Water District, P.O. Box 4000, Laguna Hills, California 92654, Attention: Polly Welsch.

STAFF REPORT

To:	**Board of Directors**	**Meeting Date: July 26, 2021**
From:	**Jason Hayden, Chief Financial Officer**	
Subject:	**Discussion of District Operational Activity Software and Potential Replacement with an Enterprise Resource Planning (ERP) Software System**	

As requested at the May 24, 2021 Finance Committee meeting, District Staff has prepared a more comprehensive analysis of the District's current business process software environment and has obtained additional information about potentially replacing the current non-integrated software systems with an Enterprise Resource Planning (ERP) software system.

An ERP software system is a suite of integrated software applications that allow an organization to manage all of its business processes within one software platform. Unlike most other water agencies in Southern Orange County, the District **is not** operating an ERP software system. The District's business processes are separated into five different software systems and none of these systems are integrated with each other, these systems are described below:

- Quickbooks – used for general accounting (general ledger maintenance), financial reporting, accounts payable, and non-utility billing accounts receivable;

- Utility Management Solution (UMS) – used for cash receipting and utility billing;

- Automated Data Processing (ADP) software and service – this is a cloud based software system and is used for the District's timekeeping and payroll;

- Geoviewer Online – this is a cloud based software system and is used for GIS activities, including the online work order system which is used to direct employees to customer requests and has been integrated into UMS through a software link (an Application Programming Interface or API);

- Requisition Manager – this is a cloud based software system and is used to manage the requisition and approval of purchases, this software was internally developed but is cloud based because it uses a web browser interface and can be accessed from the internet.

The primary challenge with the District's current software environment is the lack of integration and communication between the software systems. This causes multiple challenges for the District, including:

- Weakening of the internal controls of the District – the internal control structure of the District is critical to preventing fraud or theft of the District's assets. The lack of integration of these software systems degrades the internal control processes of the District because there are

opportunities for employees to alter data when they are moving information from one system to another through journal entries. An integrated software system would eliminate the process of using journal entries to move information from one system to another because the system would automatically generate and complete most of the journal entries that are currently being completed manually. This would greatly improve the District's internal control structure;

- Increased chances of errors or oversights – any instance when information is transferred from one software system to another using a manual journal entry enhances the chances of an error occurring which may cause an inaccuracy in the District's accounting records. An integrated software system would eliminate the need to generate so many manual journal entries because the system would automatically generate and complete journal entries, this would greatly decrease the odds of errors or omissions in the District's accounting records;

- Impaired efficiency – Finance Staff spends a significant amount of time completing manual journal entries every month that could be completed by an integrated software system. The implementation of an ERP software system would provide the opportunity for Finance Staff to redirect a portion of their current work product to other more value added activities;

- Data Security – the District's primary accounting software, Quickbooks, is operated onsite from the District's server. There is an additional backup, but the District's financial and accounting data is vulnerable to hacking especially since the security of the District's network is vulnerable to one bad decision by an employee. In addition, Quickbooks is a software that is used by millions of small businesses throughout the world and is therefore a well-known platform that is likely a primary target of malicious software (please the attached article on the vulnerability of Quickbooks). In contrast, a cloud based ERP system would be stored on a very secure server, with either Microsoft or Amazon responsible for the security, and the software is much less likely to the target of malicious software due to the small user base (as an example, Springbrook has 1,000 customers, making it unlikely to be a primary target of hackers).

In order to assess what other local water agencies are using for their general business processes (i.e. general ledger, accounts payable, accounts receivable, utility billing, payroll, asset management, purchasing, work orders, etc), Staff conducted a survey of other water agencies. The results of this survey are presented below.

Agency	Accounting	Utility Billing	Payroll
Irvine Ranch Water District	Oracle	Oracle	Oracle
Laguna Beach County WD	Abila	UMS	ADP Payroll
Moulton Niguel Water District	JD Edwards	JD Edwards	JD Edwards
Santa Margarita Water District	Munis by Tyler Technology	Advanced Utility	Munis by Tyler Technology
South Coast Water District	Munis by Tyler Technology	Enquesta	Munis by Tyler Technology
Trabuco Canyon Water District	Encode by Tyler Technology	Encode	Encode

In addition to investigating the software used by other local Water Agencies, Staff also talked to several Springbrook customers, including the following Water Agencies and Municipalities in California:

- Carmel-By-The-Sea

- Tehachapi-Cummings County Water District

- City of Compton

- Costa Mesa Sanitary District

In general, these current Springbrook customers had positive things to say about the software and provided some examples of how Springbrook has improved the processes within their organizations. Attached are the emailed responses or the notes from ETWD Staff discussions with these agencies.

Finally, in order to provide a price comparison, Staff obtained a price quote from Tyler Technologies for the implementation of Munis Software. Other software systems were also reviewed but were not considered because they do not have an applicable system (Salesforce which is primarily a Customer Relationship Management software system and does not provide governmental accounting applications), do not have customers on the West Coast (BS&A Software), or were not able to accommodate the District's complex water budget based billing model (Banyon Data and Caselle Software).   Provided below is a cost comparison showing the ten year ownership cost for maintaining the current systems, purchasing Springbrook, or purchasing Tyler Technologies Munis Software which is a primary competitor to Springbrook but tends to be utilized by larger organizations:

	Current Systems	Springbrook	Tyler Technologies Munis
Implementation Cost	$0	$130,133	$106,850
Annual License Cost	$58,196	$42,910	$69,516
10 Year Ownership Cost*	$651,992	$610,870	$885,664

*This is the nominal cost and assumes a 2.5% annual increase in cost for the annual license for each system(s)
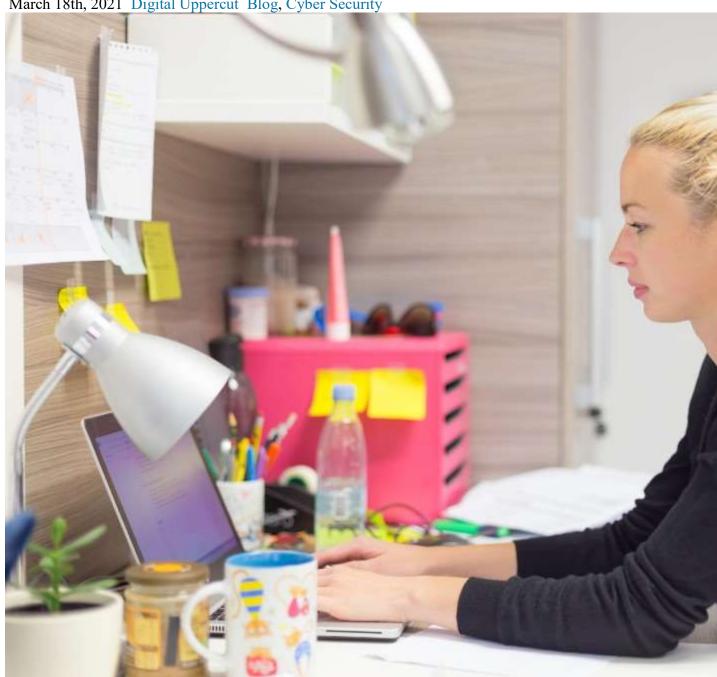
Conclusion

Based on Staff discussions with other agencies, the potential to achieve cost savings over the next ten years, and the potential to improve the District's processes and internal controls, Staff would recommend the District proceed with the purchase of Springbrook Software. With the Board's concurrence, Staff will finalize the contracting mechanism and Springbrook proposal and bring it to the Board for approval at the August Finance Committee meeting.

Attachments

- Article on QuickBooks Security Vulnerabilities
- Summary of comments from representative of Carmel-By-The-Sea regarding Springbrook
- Summary of comments from representative of Costa Mesa Sanitary District regarding Springbrook
- Summary of comments from representative of Tehachapi-Cummings County Water District regarding Springbrook
- Summary of comment from representative of the City of Compton regarding Springbrook

New Quickbooks Data Theft Attack Threatens CPAs, Bookkeepers & Businesses

March 18th, 2021   Digital Uppercut Blog, Cyber Security

Did you know that your accounting data may be at risk? The Quickbooks Data Theft Attack may have already stolen your accounting data, and you wouldn't even know it.

Do you consider your organization's accounting data confidential? All companies do, of course. And so you know that if your accounting data were to fall into the wrong hands, it could cause immeasurable damage. If you are like millions of companies and

organizations around the world, you use Quickbooks Desktop software by Intuit to manage your accounting. A new threat, as reported by ThreatLocker, uses two different methods (and some variants) for attacking a company's Quickbooks Data File via email. In some cases, the attack can be successful no matter which member of an organization is targeted, and all that staffer would need to do is open an innocent-looking email in order to tip the first domino.

The Threat

Threatlocker reported in February about the growth in the incidence of Quickbooks Data Theft after noticing a 600% to 700% increase in Powershell software accessing Quickbooks data files. Powershell is a scripting tool installed by default on all Windows 10 computers.
This rise in access led to their investigation, which revealed that companies were receiving emails with embedded Powershell scripts. These scripts silently look for and exfiltrate (a fancy word that means "steals") data from the company QuickBooks file.

Another method for stealing Quickbooks files data was also revealed in the same report. This slightly more complex method involves a piece of scripted malware living inside of an MS Word file that was delivered by email. The malicious script would download additional malware, possibly a Powershell script, which would access and exfiltrate the Quickbooks file.

How Quickbooks Makes The Threat Worse

According to Quickbooks experts Fourlane.com, Quickbooks is now the accounting software of choice for more than 29 million small and medium sized businesses. That makes this hack critically important. What makes it even more important is that hundreds of thousands of accounting and bookkeeping companies also have Quickbooks, and use it to connect to their clients' data, multiplying the threat this hack poses worldwide.
It's important to understand that we're talking about the traditional Quickbooks Desktop system, and not the newer Quickbooks Online. Quickbooks Desktop began life back in 1983 as a single-user accounting system, and was later modified to allow multiple users across a network using a separate piece of software called Quickbooks Server Database Manager (QSDM).

Quickbooks, like most other systems that contain important data, has security built into its data files. The ability for users to access the file are added using QSDM so that users can only access the parts of Quickbooks appropriate to the user's role. For example, Accounts Receivable clerks would not be in a group that allowed them to pay vendors.

When users are restricted to their appropriate groups, the malware can only exfiltrate data that the infected user can access.

Quickbooks has a well-known flaw, however: Quickbooks data files often get damaged, and when they do they need to be repaired. Intuit even supplies a tool for this purpose, called the Quickbooks File Doctor. But, according to Threatlocker, "When carrying out a repair, file permissions are reset and the 'everyone' group is added to the permission. As a result, access to the database is left wide open and this is a major security concern."

That means that any user can access all of the data in the Quickbooks file, allowing even more data to be stolen by the malware.

The Damage

Why is this Quickbooks Data Theft attack so dangerous to your company? Because once vendor and customer data is stolen, it can be exploited to the hackers' advantage. Social Engineering emails can be sent to customers asking for changes to payment terms, including making payments by bankwire to alternate bank accounts controlled by the hackers.
Additional damage can be done simply because the email addresses and identities of customers, vendors and employees would then be known by the hackers, allowing Phishing emails to be sent with very detailed messages, allowing even more malware to be spread.
Proprietary information could be used to threaten or blackmail the company to prevent its release.

But perhaps the worst threat is that the exfiltrated data can be offered for sale on the dark web, where it may be purchased by the highest bidder, or sold a thousand times over to anyone who is willing to pay the price. Either way, this puts the privacy, credit ratings, and identity of all the parties at risk.

How To Prevent The Quickbooks Data Theft Attack

Checking for the presence of the Everyone group and eliminating it is a good first step in protecting your company from the Quickbooks Data Theft attack, but falls far short from being all that needs to be done.

Disabling Powershell on workstations for most users is another good step -- Powershell is just not necessary in most cases.

Good security software should be able to prevent such malware from infecting most systems, but according to Threatlocker, this particular malware is "signed" software, which means it appears to be legitimate software to most antivirus and antimalware systems.

So how can the Quickbooks Data Theft Attack be prevented?

The answer lies in the type of cybersecurity system you are using. While normal antivirus or anti-malware software may not detect this threat, systems like the Digital Uppercut Business Protection Toolkit can. The Toolkit features a number of tools that, working together, can identify, trap and render malware like this harmless.

- **Advanced Email Filter** -- Opens every link and attachment in a Sandbox environment and tests it for malicious behavior before allowing the user to see or access it.
- **Advanced Endpoint Protection** -- Uses advanced Behavior-based and AV signature protection to identify and stop known and unknown threats in their tracks.
- **Cybersecurity Awareness Training** -- Helps teach users to join your team to defend themselves, your company and its data from attack.
- **Security Information and Event Management (SIEM)** -- Collects and automates the logs from all your network devices and workstations to help give your organization a true picture of the threats it faces, including when unauthorized data is trying to leave the network.
- **Security Operations Center** -- Our team of cybersecurity experts is constantly monitoring your network and the actions of your Advanced Email Filtering, Advanced Endpoint Protection and your SIEM.

Carmel-By-The-Sea

Ms. Scattini,

A representative from Springbrook provided me with your contact information as a reference for their software. I am the Finance Officer for the El Toro Water District in Orange County and we are considering replacing our non-integrated accounting, payroll, and utility billing software systems with the cloud version of Springbrook, including all of the modules that would be needed to replace our individual software systems.

I would greatly appreciate it if you would be willing to answer a couple of questions about your experience implementing and using Springbrook. I was going to give you a phone call but I think it is sometimes easier to respond to these reference type questions in writing, however, if you would prefer that I give you a call please let me know.

1. Could you describe why you chose Springbrook over any competing options?

    Springbrook was chosen because Carmel's analysis showed it to be the most cost effective but comprehensive solution for a City the size of Carmel. Carmel hired a third party consultant to analyze the several ERP software systems and selected Springbrook partly based on their analysis of the cost effectiveness of Springbrook.

2. Could you tell me about your organization's experience implementing Springbrook? I know this is never a fun process, but was the implementation successful and accomplished with a minimal amount of setbacks? What is your assessment of Springbrook's implementation process?

    The implementation process was well organized and effective. Springbrook spent the time to complete an assessments of City processes to understand how the City operates and then set up the modules, as much as possible without customizing the software, to work for the City processes. The City did have to modify some of its processes to fit in the way that Springbrook works.

3. Has Springbrook improved efficiencies in your organization? If so, can you provide some examples?

    Springbrook has definitely made the City more efficient. It has reduced the number of journal entries that need to be made and improved the bank reconciliation process tremendously. It used to take more than a week to complete a bank reconciliation but Springbrook has reduced this down to 2 days. As an example, Carmel had never received the Certificate of Achievement for Excellence in Financial Reporting before Springbrook because it was too much work and too difficult to get the information needed from the old system. Once Springbrook was implemented the City was able to redirect Staff time to develop a higher quality financial report and now receives the Certificate.

4. Has Springbrook helped to improve your internal control structure? If so, can you provide some examples?

   Springbrook greatly improved internal controls because it eliminated so many manual journal entry processes. This allowed the City to reduce the potential for errors or intentional changing of data. Also, allows our Staff to spend more time reviewing transactions rather than completing journal entries. However, the City did have to adjust how some processes work to make sure internal controls work with new software.

5. Are there any modules or processes in the overall Springbrook system that your organization is unhappy with? Is there a module/process that you would not recommend?

   Everything has worked well so far, City if implementing Fixed Asset module now and it seems to be working. No negative comments

6. Overall, has the purchase of Springbrook had a positive impact on your Organization?

   Springbrook has definitely improved how the City operates and made Staff more efficient. Customer service at Springbrook was great and very good at helping the City implement the new system. Definitely recommend the system to other organizations.

Thanks in advance for your assistance with these questions. I greatly appreciate any insights you can provide as we consider our options for making changes to our accounting/billing software environment.

Have a nice forthcoming weekend,

From:	Jenny Pfeiffer <jpfeiffer@tccwd.com>
Sent:	Friday, July 16, 2021 2:30 PM
To:	Jason Hayden
Subject:	RE: Reference Questions for Springbrook Software

Hi Jason;

I have replied to your questions in red.

Jenny Pfeiffer
Accounting Assistant

Tehachapi-Cummings
County Water District
Our Water • Our Future

Office: 661-771-1114
Fax: 661-822-5122
Email: jpfeiffer@tccwd.com

From: Jason Hayden [mailto:jhayden@etwd.com]
Sent: Thursday, July 15, 2021 4:00 PM
To: jpfeiffer@tccwd.com
Subject: Reference Questions for Springbrook Software

Ms. Pfeiffer,

A representative from Springbrook provided me with your contact information as a reference for their software. I am the Finance Officer for the El Toro Water District in Orange County and we are considering replacing our non-integrated accounting, payroll, and utility billing software systems with the cloud version of Springbrook, including all of the modules that would be needed to replace our individual software systems.

I would greatly appreciate it if you would be willing to answer a couple of questions about your experience implementing and using Springbrook. I was going to give you a phone call but I think it is sometimes easier to respond to these reference type questions in writing, however, if you would prefer that I give you a call please let me know.

1. Could you describe why you chose Springbrook over any competing options?
   The choice to move to Springbrook was one made completely by our former general manager who had a master's degree in accounting. I do know that he came across Springbrook at one of the conferences he attended and did research some other software companies prior to choosing Springbrook.

   I do recall that the County of Kern did not provide much advance notice that they would no longer be handling our payroll and the we would have to start doing payroll in house. He was trying to find a software which would combine all of our needs into one.

2. Could you tell me about your organization's experience implementing Springbrook? I know this is never a fun process, but was the implementation successful and accomplished with a minimal amount of setbacks? What is your assessment of Springbrook's implementation process?
The implementation to Springbrook was actually much smoother than I thought it would be. We were actually using 3 different programs; 1 for Utility Billing, 1 for A/P and since we are a special district of the County of Kern, we were using their payroll system. The days leading up to the switch were hectic but the staff from Springbrook was wonderful in helping us. There were 2 separate Springbrook representatives that came to our District to train us on site and once we went live, they were always available to answer any questions and concerns. We did have some unique Utility Billing issues as that we do our billing by the acre foot and Springbrook was set up to deal with gallons and cubic feet. They were able to accommodate this need with no real issues.

3. Has Springbrook improved efficiencies in your organization? If so, can you provide some examples?
Prior to migrating to Springbrook, everything was in different software so balancing at year end was quite challenging. Payroll and water billing had to be entered monthly into the GL via Journal Entries, very time consuming to say the least and of course, prone to keying errors. Once we moved over to Springbrook, everything was in the same place. When billing, payroll and A/P are done, they automatically hit the GL so no more journal entries and the yearend balancing is so much smoother.

4. Has Springbrook helped to improve your internal control structure? If so, can you provide some examples?
We just recently implemented Springbrooks Purchase Order module. Prior to that, we used paper purchase orders. Paper can be misplaced so having electronic purchase orders makes it much easier to track down who has made purchases which results in my spending much less time chasing after paperwork.

5. Are there any modules or processes in the overall Springbrook system that your organization is unhappy with? Is there a module/process that you would not recommend?

We are using the Payroll, Utility Billing, Accounts Payable, Purchase Order, Cash Receipts and Extended Budgeting modules. Overall, they all work; the extended budgeting module is a bit hard to use but we get through it. The only thing I am not happy with is the reporting processes. It's a bit complicated and time consuming to get the information through the various reporting tools in the general ledger and in Utility Billing. I think once the templates are created, it might be okay but I haven't really taken the time to do it.

6. Overall, has the purchase of Springbrook had a positive impact on your Organization?
Overall, I would have to say that yes, it has had a positive impact. The processes are streamlined making both mine and the business managers job much easier.

Thanks in advance for your assistance with these questions. I greatly appreciate any insights you can provide as we consider our options for making changes to our accounting/billing software environment.

Have a nice forthcoming weekend,

_____
Jason Hayden, Chief Financial Officer
El Toro Water District
24251 Los Alisos Blvd

Lake Forest, CA 92630
Ph: (949) 837-7050 x-240
Email: jhayden@etwd.com

Ms. Tran,

A representative from Springbrook provided me with your contact information as a reference for their software. I am the Finance Officer for the El Toro Water District in Orange County and we are considering replacing our non-integrated accounting, payroll, and utility billing software systems with the cloud version of Springbrook, including all of the modules that would be needed to replace our individual software systems.

I would greatly appreciate it if you would be willing to answer a couple of questions about your experience implementing and using Springbrook. I was going to give you a phone call but I think it is sometimes easier to respond to these reference type questions in writing, however, if you would prefer that I give you a call please let me know.

1. Could you describe why you chose Springbrook over any competing options?

   Springbrook was purchased 14 years ago so cannot really answer this question.

2. Could you tell me about your organization's experience implementing Springbrook? I know this is never a fun process, but was the implementation successful and accomplished with a minimal amount of setbacks? What is your assessment of Springbrook's implementation process?

   Springbrook was purchased 14 years ago so cannot really answer this question.

3. Has Springbrook improved efficiencies in your organization? If so, can you provide some examples?

   Springbrook makes the Sanitary District more effective because all of the modules work together, so for instance, payroll automatically enters payroll data into the general ledger module once a payroll process is complete.

4. Has Springbrook helped to improve your internal control structure? If so, can you provide some examples?

   Internal controls are strong because there are so few journal entries that need to be made, since the modules work together, very few manual journal entries need to be made. It is easier to design internal controls with fewer staff members since the software does so much.

5. Are there any modules or processes in the overall Springbrook system that your organization is unhappy with? Is there a module/process that you would not recommend?

   Sanitary District was using Building Permit module but was not happy with it and recently switched to a third party vendor. The building permit staff is happier with the new software but it causes problems because it does not interact with Springbrook so they have had to develop new processes for transferring data from building permit software to Springbrook. Definitely

recommend avoiding any customization if possible, this makes the software difficult to upgrade. Customer service was not so good for a couple of years but has been improving recently.

6. Overall, has the purchase of Springbrook had a positive impact on your Organization?

   The software has mostly worked well for the Sanitary District

Thanks in advance for your assistance with these questions. I greatly appreciate any insights you can provide as we consider our options for making changes to our accounting/billing software environment.

Have a nice forthcoming weekend,

STAFF REPORT

To: **Board of Directors**   **Meeting Date: July 26, 2021**

From: **Dennis Cafferty, General Manager**
Jason Hayden, Chief Financial Officer

Subject: **Analysis of Financing Options for Near-term Future Capital Projects**

Over the next several years the District needs to fund multiple capital projects as detailed below:

- **R-6 Floating Cover Replacement Project**
    - Estimated Project Cost: $6 million (District share of $13 million total project cost)
    - Project construction is planned to occur in the 2022-2023 and 2023-2024 Budget years.
    - The R-6 Cover Replacement Project is currently in design.

- **Filter Plant Site Use Project**
    - Estimated Project Cost: $3 million
    - Application of existing reserves earmarked for the Filter Plant Project will leave a funding requirement of $2.8 million.
    - Staff anticipates commencing design in November, 2021 and proceeding to construction in the 2022-2023 fiscal year.
    - The project provides for demolition of the old filtration plant facility and construction of a warehouse/storage facility for ETWD and Emergency Operations Center for WEROC.

- **SOCWA Capital Projects**
    - SOCWA's capital plan, inclusive of large capital projects at the Regional Treatment Plant and Effluent Transmission Main, is estimated to require approximately $10 million from ETWD over the next five years.
    - Application of existing reserves earmarked for SOCWA and capital revenues of $500,000 per year through the five-year capital plan will leave a funding requirement of $4.6 million.

- **South County Pipeline Turnout**
    - Estimated Project Cost: $3 million
    - Moulton Niguel (lead agency) continues to work on preliminary engineering to define the appropriate site and project schedule

- **Joint Transmission Main Pump Station**
    - Estimated Project Cost: $2 million
    - The project timeline can be established after preliminary engineering is complete.

- **Advanced Metering Infrastructure (AMI)**
    - Estimated Project Cost: $6 million
    - Application of existing reserves earmarked for the AMI Project and anticipated grant funding opportunities will leave a funding requirement of $5 million.
    - Anticipated accuracy improvements associated with the replacement of existing older meters are expected to increase revenues greater than the debt service required to fund the project thereby generating a net positive cash flow with no impact on capital revenue rates.

- **Phase III Recycled Water Project**
    - Estimated Project Cost: $6 million
    - Debt service for a recycled water project would be funded from the recycled water enterprise and would not impact capital revenue rates.

In total, the funding requirement to implement the above described projects is approximately $29 million.

There are four options that have been identified for financing these projects:

1. Obtaining grant funding for the projects;

2. Obtaining a low interest loan from the Drinking Water State Revolving Fund program;

3. Pursuing a financing arrangement with a single institution (similar to the Baker Plant Loan);

4. Issuing Certificates of Participation (COPs)

The following provides a further description of each of these options.

Option 1 – Obtaining Grant Funding for the Projects – the District has contracted with Soto Resources to monitor and identify potential opportunities to obtain grant funding for District projects. Soto Resources has identified some potential grant funding for the AMI program. It has not yet been determined whether grant funding might be available for a Phase III Recycled Water Project. Other than that, none of the other District projects seem to fit the funding priorities of granting agencies. Current grant opportunities seem to be directed toward the construction of new infrastructure and the District's projects, which involve the replacement of or addition to existing infrastructure, have not been prioritized by granting organizations.

Option 2 – Obtaining a low interest loan from the Drinking Water State Revolving Fund Program - The attractiveness of this option limits its availability. According to recent statements by Drinking Water State Revolving Fund (DWSRF) Staff, the program is very oversubscribed, with 345 current funding requests totaling $3.39 billion. The program has an average loan capacity of approximately $330 million per year so it appears the program is oversubscribed by approximately 10.2 times.

In addition, the projects the District needs to complete are not a good match for the priorities of the DWSRF program. The DWSRF program is granting priority to Severely Disadvantaged Communities (SDACs) and small Disadvantaged Communities (DACs). The program prioritizes immediate health risks (priority A), untreated/at-risk sources (priority B), and projects that are not compliant with regulations or may cause future shortages (priority C). These first three categories of priorities currently include 138 projects with a total request of $746 million.

Option 3 – Finance the projects using a loan or line of credit from a financial institution - This option has some disadvantages when compared to issuing bonds that make it a poor fit for financing the projects:

1. Loans or Lines of Credit from financial institutions are typically floating rate debt, usually tied to LIBOR (or whatever replaces LIBOR), especially when they are structured to include a draw period followed by a payback period. This would subject the District to potentially paying much higher rates of interest in the future if interest rates were to increase which seems likely since they are close to multi-generational lows.

2. The repayment period for loans from financial institutions is typically much shorter than the repayment period for bonds. Usually financial institutions want to structure a loan for a seven to ten year repayment period.

3. Oftentimes financial institution loans have onerous covenants that could be negative for the District. These are negotiable and but having a thorough legal review of the finance contract is critical to ensure the District is not agreeing to covenants that could negatively impact the District's finances in the future.

Option 4 – Issuing Certificates of Participation (COPs which are essentially bonds) – District Staff has concluded that this option best fits the needs of the District:

1. Bonds are issued for a long payback period at a fixed interest rate. As of a July 22, 2021, a AA+ rated local government agency (staff's estimate of the District's bond rating) could issue a 30 year bond for an average fixed interest rate of 1.45%. Please note that this is an average, so the District's bond issuance would include bonds that mature each year of the 30 year period. Bonds maturing in one year would have an interest rate of 0.17% but the bonds maturing in 2051 would have an interest rate of 2.52%. The District does have some flexibility to manage the maturity schedule and therefore has some control over the average interest rate paid.

2. The District can control the maturity schedule for the bonds. As an example, in Barrington bonds were issued with a managed maturity schedule so the principle repayment (and therefore the total debt service payment) increased once some of the Village's other debt matured. As a result, Barrington was able to maintain a stable total debt service payment amount over a 30 year period despite having issued additional debt.

3. Once bonds are issued, the proceeds can be utilized for a three year period after issuance without having to engage in a tax arbitrage process. This corresponds nicely to the timing of the District's capital projects.

4. The District has a lot of discretion in the use of the Bond Proceeds. Generally, a Bond Official Statement will describe the projects the bonds are being issued for but will also include a general use statement such as "and other capital expenditures". This provides flexibility to use the proceeds of the bonds as needed for various projects and encourages the District to be prudent in the use of the proceeds since any leftover proceeds can be used for additional projects.

5. Demand for municipal bonds is strong and this will probably continue in the future, especially as the Federal Government discusses raising tax rates for corporations and wealthy individuals. This provides the District with the opportunity to secure long term financing at very competitive interest rates.

6. Bonds are generally free from the covenants and requirements typically included in bank loan agreements. There are some requirements in bond agreements but they typically are not as onerous as bank loan agreements.

Debt Service

During the 2021-22 fiscal year budget process staff outlined a revenue plan to support additional debt service requirements associated with these proposed projects and the financing plan described herein. The budget process revenue plan did not anticipate the AMI or Phase III Recycled Water Projects but, as noted above, staff does not expect these projects to impact the capital rates. The anticipated revenue plan presented a phased implementation of capital revenue rate increases to provide approximately $750,000 per year of additional revenue. The debt service requirements associated with the funding described above is within the estimates presented during the budget process.

Financial Advisors

Based on the preliminary determination that COPs are the best fit for the District's projects, Staff began contacting Financial Advisors whose specialty is providing assistance to local governments in issuing debt. Staff contacted three Financial Advisory firms, all of whom submitted proposals, these firms included:

- Fieldman Rolapp & Associates

- NHA Advisors

- PFM Financial Advisors LLC

The pricing proposals are fairly close:

Firm	Proposed Price
Fieldman Rolapp & Associates	$45,000
NHA Advisors	$44,500*
PFM Financial Advisors LLC	$50,000

*NHA Advisors is also proposing a Phase I project to further analyze financing options for a proposed cost of $4,500

All three of these firms seem capable of providing effective financial advisory services. Based on the conversations District Staff had with the firms and the submitted proposals, some of the strengths of the firms are summarized below:

- Fieldman Rolapp & Associates – local firm familiar with South Orange County and experienced working with water agencies. Seems capable of providing a thorough analysis of the financing opportunities available to the District.

- NHA Advisors – extensive client list including many water agencies located throughout the State. Provided an extraordinarily detailed analysis within the proposal which provides a very good discussion of the various options the District may consider.

- PFM Financial Advisors – Largest of the three firms and also has an extensive client list. Has worked with the District in the past and therefore has some familiarity with the District's operations and finances. Seems to have some advantages due to the size of the firm, as an example, PFM has a municipal bond pricing operation that may be able to provide pricing and market insights.

Based on the proposal and discussions with the firms, Staff is recommending the District engage the services of NHA Advisors due to the thoroughness of their analysis and their discussion of the various debt strategies within their proposal.

Timeline for the Issuance of Debt

To provide the Board with an idea of the steps involved in the issuance of the COPs and the projected dates by which the steps may be completed, the following potential timeline has been developed:

Date(s)	Process Step
July 26	Board provides final direction to issue Certificates of Participation to finance upcoming Capital Projects
Week of July 26	Staff engages the services of Financial Advisor and Bond Attorney
August 1 to August 20	District's Attorney drafts Resolution(s) needed to re-establish El Toro Water District Public Facilities Corporation
August 26	Board approves Resolution(s) to establish El Toro Water District Public Facilities Corporation
August 1 to September 17	District Staff works with Financial Advisor to develop financing plan to include timing of issuance, amount of issuance, and provide information about rate impact of issuance
September 23	Financing Plan is Presented and Approved by District Board
September 24 to October 22	• Bond Attorney drafts preliminary Resolutions and agreements needed to approve financing • District Staff engages the services of a bond underwriter with help of Financial Advisor
October 28	Board Reviews and Approves Resolutions and Agreements needed to approve issuance of COPs
October 29 to November 19	El Toro Water District Public Facilities Corporation reviews and approves Resolutions and Agreements needed to approve issuance of COPs
November 23 to December 10	• District Staff works with Financial Advisor, Official Statement Counsel, and Bond Underwriter to draft Official Statement for COPs • District Staff completes Bond Rating Review process
December 16	District Board and El Toro Water District Public Facilities Corporation Board approve any final documents needed to complete issuance
January, 2022	Bond Underwriter engages in the COPs Issuance process
February, 2022	District Receives financing

Conclusion

With the Board's concurrence, Staff plans to engage the services of NHA Advisors and begin the process of issuing Certificates of Participation. The currently estimated funding amount is approximately $29 million. The actual funding amount will be determined at the time of adoption of the resolution and agreement need to approve the issuance of COPs anticipated to occur in October per the timeline described herein.