MINUTES OF THE REGULAR MEETING
OF THE
ENGINEERING COMMITTEE MEETING

May 21, 2019

Director Freshley called the Meeting of the Engineering Committee to order at 7:30 a.m. on May 21, 2019.

Director Gaskins led in the Pledge of Allegiance to the flag.

Present at today's meeting were Committee Members JOSE F. VERGARA, MARK MONIN, KATHRYN FRESHLEY, MIKE GASKINS, and KAY HAVENS.

Also present were ROBERT R. HILL, General Manager/Secretary, DENNIS P. CAFFERTY, Assistant General Manager/District Engineer, JUDY CIMORELL, Human Resources Manager, NEELY SHAHBAKHTI, Finance Manager/Controller, RICK OLSON, Operations Superintendent, BOBBY YOUNG, Project Engineer, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, MATT WEBBER, HighMark Representative, KEITH STRIBLING, HighMark Representative, and CAROL MOORE, Laguna Woods City Council.

Oral Communication/Public Comment

Ms. Moore stated that she hopes the District will not participate in the Poseidon project because of the recent studies from MET and UCLA.

Items Received too Late to be Agendized

Director Freshley asked if there were any items received too late to be agendized. Mr. Hill replied no.

Quarterly Review of the District's 401(k) Retirement Savings Plan

Mr. Stribling introduced Matt Webber of HighMark, who manages the West Coast participant plans. Mr. Webber stated that they would provide their report and then answer any questions that the Board may have.

Mr. Stribling provided an economic review of the first quarter of 2019. He further stated that there were trade disagreements, trade wars, Democrats taking back control of the house, checks and balances, potential fed rate hikes in 2019 which was pressuring the housing market, the GOP tax bill, changes in income tax deductions, and because the Chinese currency was under pressure, causing the yield curve to flatten.

Mr. Stribling stated that the last month of the quarter the stock market was hit hard, and rate hikes did not happen. He further stated that on page 12, Balanced Income Portfolio, for the quarter we were 40-45 basis points ahead of the benchmark.

Mr. Stribling stated that he re-balanced the portfolios at the end of the year which helped the portfolio. He further stated that looking ahead we continue the trend.

Vice President Monin stated that he is glad to see the portfolio is performing better. He further stated that the Balanced portfolio is doing better and he feels we should keep tracking the investments closely.

Director Freshley asked about the Capital Preservation Portfolio on page 9, 1-year, 3-year, 5-year performance are not annual years but rather rolling years. Mr. Webber replied yes it is an active portfolio which will deviate.

Director Freshley indicated that the performance is what concerns her. Mr. Webber replied that the same type of investments are in different portfolios weighted differently for higher risk vs. lower risk pools.

Mr. Hill stated that the questions were generated by the Ad-hoc Committee to address to the Board. Mr. Stribling stated that there is an Appendix in the back of the report which addresses some of these questions. The Board stated that they did not receive the Appendix, and therefore Mr. Webber handed out hard copies of the Appendix to the Board members.

Mr. Stribling stated that each of the HighMark team members' bios are included in the Appendix. Mr. Webber introduced each of their team members and gave a brief background report on the team.

Mr. Stribling stated that HighMark has approximately 4,000 clients, and $16 billion in assets under management, with 84 client relationships under himself. Vice President Monin asked if the 4,000 clients include 401(k) Plans, or are any of the clients private wealth. Mr. Stribling replied yes, the clients are a mixture of investors. Vice President Monin asked how many clients are 401(k) Plans. Mr. Stribling replied that he personally manages quite a few Retirement Plans, pensions, post-retirement healthcare plans, endowments, and private clients.

Mr. Stribling indicated who is on the Asset Allocation Committee. Mr. Webber stated that they meet once a month in San Francisco and he attends remotely most of the time. He further stated that the meetings range from 2-6 hours to review where we are today with the investment world, bonds, and stocks.

Mr. Webber stated that the data collected is a tactical asset allocation which is used to create our report. Vice President Monin asked how many people are on the Asset Allocation Committee. Mr. Webber replied that there are 16 people on the committee.

Mr. Stribling stated that analysts write reports and tie into the meetings. Vice President Monin asked how many analysts are reviewing Mutual Funds. Mr. Webber replied the total is four who manage the Mutual Fund process, along with others who get pulled into the discussion.

Vice President Monin asked what other third party independent research groups are used. Mr. Webber replied that besides Morningstar, they are pretty tied into Wilshire and Lipper.

Mr. Webber stated that the process for replacing funds or managers and decisions to buy or sell assets is sometimes very scientific. He further stated that on a quarterly basis a manager will be put on a watch list if their performance has deviated in either a negative or positive way.

Mr. Webber stated that the HighMark staff is not compensated on commission or the size of the client, or a share of the basis point fee. He further stated that they receive salaries and sometimes a discretionary bonus, based on their performance of portfolios.

President Vergara asked how much investment is targeted toward real estate development. Mr. Webber replied that they have between 1% & 1.5% invested in real estate.

Mr. Stribling apologized for the error in reporting bond returns for the 4th quarter of 2018, when human error caused data to be placed in the incorrect cell in the report.

Mr. Stribling stated that Morningstar reports for each of the Mutual Funds is already included in the quarterly reports that we receive from HighMark on pages 21-26. He further stated that they could also include the Lipper report and data summaries.

Mr. Stribling stated that what has transpired since the end of the last quarter, April was a good month and the economy continues to do well.

Vice President Monin asked of the balance, how much are equities and fixed income. Mr. Stribling replied that the current balance is approximately 70% equities on the balance.

Mr. Webber stated that Union Bank has an on-line access portal that can be set up for Ms. Shahbakhti to view daily performance of the portfolio.

Mr. Stribling stated that 2018 was a tough year for investments, which are doing better now; however Alternatives are struggling some this year.

The Board thanked the HighMark representatives for their presentation and answering some brief questions about how they handle our portfolio investments.

At approximately 8:38 o'clock a.m. Mr. Webber and Mr. Stribling left the meeting.

Resolution No. 19-5-1 Adopting the Eighth Amendment to the District's Bylaws

Mr. Hill stated that the Resolution included in the Board package was the old version, and staff has now received the correct Resolution.

Chairman Freshley asked for a Motion.

Motion: Director Gaskins made a Motion, seconded by President Vergara and unanimously carried across the Board to adopt Resolution No. 19-5-1 which adopts the eighth amendment to the District's bylaws.

Roll Call Vote:

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|---|---|
| Director Gaskins | aye |
| Vice President Monin | aye |
| President Vergara | aye |
| Director Freshley | aye |
| Director Havens | aye |

Resolution No. 19-5-2 adding a Standing Water Quality (WQ) Committee and Modifying the Standing Committee and External Organization Board/Staff Assignments

President Vergara stated that he discussed the Water Quality Committee with the Board members and it was added to the Standing Committee Assignments.

Mr. Hill stated that the Exhibit refers to adding a Standing Committee, an external organization Board/Staff assignments and so the Exhibit needs to use the same language in the heading.

Chairman Freshley asked for a Motion.

Motion: President Vergara made a Motion, seconded by Director Gaskins and unanimously carried across the Board to adopt Resolution No. 19-5-2 which adds a Water Quality Committee to the Standing Committee Assignments .

Roll Call Vote:

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| Director Gaskins | aye |
| Vice President Monin | aye |
| President Vergara | aye |
| Director Freshley | aye |
| Director Havens | aye |

Appointment Process and timeline for OC LAFCO Regular and Alternate Special District Member Seats

Mr. Hill stated that included in the Board package is information from LAFCO reflecting Charlie Wilson's departure and interested candidates running for the vacant seat. He further stated that by June 7, 2019 a designation must be nominated for the Regular and/or Alternate seat.

President Vergara asked the Board if anyone is interested in the vacant LAFCO seat. Chairman Freshley replied that she would like to have her name submitted for

the LAFCO Alternate seat, which only becomes available if Mr. Jim Fisler becomes the Representative, otherwise his current Alternate seat would not be available.

Vice President Monin asked who else is interested in running for these positions. Mr. Hill replied that at this point we have only received support letters for Jim Fisler and Saundra Jacobs for the Regular seat. He further stated that the ballot is expected to be received on June 17th, with the results announced on July 19th.

President Vergara asked for a Motion.

Motion: Vice President Monin made a Motion, seconded by Director Gaskins and unanimously carried across the Board to submit Director Freshley's name for the LAFOC Alternate seat.

Roll Call Vote:

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| Director Gaskins | aye |
| Vice President Monin | aye |
| President Vergara | aye |
| Director Freshley | aye |
| Director Havens | aye |

Chairman Freshley asked for a Motion.

Motion: Director Havens made a Motion, seconded by Director Gaskins and unanimously carried across the Board to submit the Declaration of Qualification to Vote for designating the authorized regular voting member and the alternate voting member as Vice President Monin for ETWD for this appointment process.

Roll Call Vote:

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| Director Gaskins | aye |
| Vice President Monin | aye |
| President Vergara | aye |
| Director Freshley | aye |
| Director Havens | aye |

At approximately 8:53 o'clock a.m. the Engineering Committee meeting was opened.

Engineering Committee

Consent Calendar

1. Consider approving the minutes of the April 23, 2019 Engineering Committee meeting.

Director Freshley asked for a Motion.

Motion: Vice President Monin made a Motion, seconded by Director Havens, and unanimously carried across the Board to approve the Consent Calendar.

Roll Call Vote:

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| President Vergara | aye |
| Director Havens | aye |
| Director Freshley | aye |
| Vice President Monin | aye |
| Director Gaskins | aye |

Engineering Action Items

There were no action items.

Engineering General Information Items

Capital Project Status Report

Mr. Cafferty stated that Bobby Young will report on the Capital Projects.

Oso Lift Station Project

Mr. Young stated that we are working with MNWD staff to finalize an agreement with them for the emergency overflow connection from the Oso Lift Station to the MNWD sewer collection system. He further stated that the land acquisition requires

approval of a lease amendment by the County Board of Supervisors.

Mr. Young stated that indications are that the City feels an agreement can be made with the State Coastal Conservancy for the property transfer.

Mr. Cafferty stated that the Coastal Conservance feels there should be some value and compensation for the property, which should be minimal.

Director Havens asked if there are any other issues that could cause a setback on the project. Mr. Cafferty replied that the potential concern would be that the location of this facility is near a wilderness park area where there could be nesting gnat catchers and how close they may be to the construction site.

Phase II Recycled Water Distribution System Expansion Project

Mr. Young stated that staff received final comments from the State and is their comments are being addressed. He further stated that we are out to bid now on the construction which went out to 7 contractors who expressed interest in the project.

Mr. Cafferty stated that the permit for the recycled water systems, Phase II will install in the Santa Ana region 9, which was agreed with IRWD and ETWD remaining in the Region 8 permit area.

Advanced Metering Infrastructure (AMI) Feasibility Study & Alternatives Analysis

Mr. Cafferty stated that staff is reviewing a revised report submitted by MC Engineering.

Laboratory Certification Update

Mr. Cafferty stated that we are still waiting for the assessor's report, which staff anticipates in the next 2-3 months.

Director Havens asked what is involved in obtaining the ELAP certification.

Director Gaskins replied that ELAP sends blind samples twice a year to all certified laboratories, and all submit testing and send them back to ELAP for each certified laboratory.

Baker Treatment Plant

Director Freshley stated that the tour of the Baker plant was very interesting. Mr. Cafferty stated that IRWD plans to meet with Serrano Water District to discuss options for storing water in Irvine Lake to sustain 60 days of supply to the Baker Plant in the event of an emergency interruption of raw water from MWD.

Poseidon Huntington Beach Ocean Desal Project

Mr. Cafferty stated that staff will be discussing options and anticipated costs of this project in the near future.

Engineering Items Discussed at Various Conferences and Meetings

There were no comments.

Comments Regarding Non-Agenda Engineering Committee Items

There were no comments.

Adjournment

There being no further business to come before the Board, the following motion was duly made and passed.

Motion: Director Gaskins made a Motion, seconded by Vice President Monin and unanimously carried that today's meeting be adjourned at 9:23 o'clock a.m. to Tuesday, June 25, 2019 at 7:30 o'clock a.m. at the District's Administrative Offices at 24251 Los Alisos Blvd, Lake Forest, CA. 92630.

Roll Call:

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| Vice President Monin | aye |
| Director Gaskins | aye |
| President Vergara | aye |
| Director Freshley | aye |
| Director Havens | aye |

Respectfully submitted,

POLLY WELSCH
Recording Secretary

APPROVED:

JOSE F. VERGARA, President
of the El Toro Water District and the
Board of Directors thereof

ROBERT R. HILL, Secretary
of the El Toro Water District and the
Board of Directors thereof