

MINUTES OF THE REGULAR MEETING
OF THE
ENGINEERING COMMITTEE MEETING
AND
FINANCE/INSURANCE COMMITTEE

January 22, 2013

Chairman Martin called the Meeting of the Engineering Committee and Finance/Insurance Committee to order at 7:30 o'clock a.m. on January 22, 2013.

Chairman Martin led in the Pledge of Allegiance to the flag.

Present at today's meeting were Committee Members TED F. MARTIN, M. SCOTT GOLDMAN (arrived at 8:30 a.m.), WILLIAM H. KAHN, and JERARD B. WERNER .

Committee Member JOSE F. VERGARA was absent due to conference attendance at MWDOC.

Also present were ROBERT R. HILL, General Manager/Secretary, DENNIS P. CAFFERTY, Director of Operations and Engineering, MICHAEL P. GRANDY, Chief Financial Officer/Assistant Treasurer, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, LORETTA BANKS, Human Resources Manager, NANCY LAURSEN, Accountant/Insurance Administrator, NEELY SHAHBAKHTI, Controller, KATHRYN FRESHLEY, Customer, and CAROL MOORE, Customer.

Items Received too Late to be Agendized

There were no items.

Chairman Martin stated that today we will be conducting the Finance Committee meeting first.

FINANCE/INSURANCE COMMITTEE

At approximately 7:32 o'clock a.m., Chairman Werner called the Finance/Insurance Committee meeting to order.

Insurance Update Report

Quarterly Insurance Update Report

Mr. Grandy stated that the insurance report reflects the quarterly summary and includes any open claims. He further stated that the District has no new claims.

Mr. Grandy stated that included in the report is a short summary of the new Health Care Reform Act.

Ms. Banks provided a summary of updates and impact on new health legislation.

Director Werner asked if Delta Dental has a deductible on Preventative Maintenance. Ms. Banks stated that the Directors have the same plan as employees, which has no deductible for preventative care. Director Werner stated that he pays 20% deductible for teeth cleaning. Mr. Grandy stated that staff will check on this but perhaps the dentist charge exceeds the benefit allowable.

Mr. Hill asked Ms. Banks to explain the Budget vs. Actual sheet. Ms. Banks explained the sheet showing Annual Budget, Actual Paid to Date, and Differences, as well as Accumulative Quarterly.

Director Kahn asked why the Retiree Benefits numbers are so varied. Ms. Banks replied that as people move out of one category and into the Retiree

budget, new variables need to be adjusted on a moving forward basis.

At approximately 7:42 o'clock a.m. Ms. Banks and Ms. Laursen left the meeting.

Treasurer Action Items

Financial Package – Authorization to Approve Bills for Consideration dated January 22, 2013 and Receive and File Financial Statements as of December 31, 2012

Ms. Shahbakhti stated that we are now 6 months into the fiscal year. She further stated that on page 5, the 401(k) Plan Summary is descending due to long term employees taking an in-service distribution.

Ms. Shahbakhti stated that on page 6, Reserve Analysis, Tier 3 & 4 is \$1.6 million total.

Ms. Shahbakhti stated that on page 9, Receivable Aging is minimal.

Ms. Shahbakhti stated that on page 10, Income Statement, water sales are up, recycled water is up, and the MWDOC grant of \$62,000 has been received. Mr. Hill stated that the MWDOC grant was for ETWD's participation in the Water Budget Based Tiered Rate Study.

Ms. Shahbakhti stated that when water purchases are compared to commodity revenue, the water purchases are not high enough due to timing of purchasing water from MNWD. The invoices should go through in January.

Director Kahn asked why we purchased water from MNWD. Mr. Cafferty replied that the Spartan Booster Station is out of service and we are purchasing water from MNWD for that zone until the station repairs are complete.

There being no further comments or questions, the Committee approved placing this item on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Prepayment of the 1996 State Revolving loan and the 2002 Installment Purchase Agreement

Mr. Grandy stated that since 1994/95 a standby fee has been collected on customers county property tax bills and can only be used to retire the State Revolving Loan fund and the Series B COP's which were incurred to refurbish our treatment plant. He further stated that we now have collected sufficient funds to continue to pay through 2018 the principal and interest on these two debts.

Mr. Grandy stated that it would be prudent to pre-pay these two debts, and staff would like permission to pre-pay these two loans.

Director Kahn asked if there are any pre-payment penalties. Mr. Grandy stated that there is a 1.5% pre-payment penalty on the City Bank Series B COP's, but it would still be beneficial to ETWD.

Director Werner asked what the money will then be used for. Mr. Grandy stated that it would be freed to working capital.

There being no further comments or questions, the Committee approved placing this item on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Southern California Water Committee Annual Membership

There being no further comments or questions, the Committee approved placing this item on the Consent Calendar for the regular scheduled meeting of the Board of Directors

Resolution No. 13-1-2 Adoption of the Fair Political practices Commission Form 806, Agency Report of Public Official Appointments and Authorizing and Directing the Posting of Said Form 806 on the District's Website

Ms. Moore asked how the Directors handle receipt of gifts from vendors. Mr. Granito reported that the Board of Directors follows strict FPPC (Fair Political Practices Commission) rules, governed by the state code.

Mr. Granito reported that the common practice of Board Presidents creating committees has become problematic and the FPPC has addressed this issue by establishing a regulatory process which circumvents conflict of interest issues. Mr. Granito stated that he views this as creating a "safe harbor".

Mr. Granito reported that the process includes the completion and posting of a Form 806. The Form 806 designates appointments, alternates, dates, length of term, and stipends authorized.

Mr. Granito reported that adopting and posting of the Form 806 on the District's website furthers the transparency of the District and allows those voting or making such appointments (which assignments are compensable activities) staying free of conflicts of interest. Mr. Granito further reported that this subject matter is also on Thursday's agenda.

Director Kahn stated that there are times when Director's decide not to collect a stipend, and he feels the form should reflect "\$0 – maximum" on the stipend for all committee meetings. Mr. Hill stated that the form could be changed to reflect Director Kahn's recommendation.

Chairman Werner asked for a motion.

Motion: Director Martin made a motion, seconded by Director Werner, and unanimously carried across the Board to place this item on the Consent Calendar for approval at the regularly scheduled meeting of the Board of Directors.

TREASURER INFORMATION ITEMS

Water Budget Based Tiered Conservation Rate Structure and Usage Activity

Report

Mr. Grandy stated that funds collected for Tier 3 & 4 water sales are held in Restricted Reserves for use in the Recycled Water project.

Mr. Grandy stated that ETWD is due to receive a Tier 2 Contingency Fund refund from MWDOC. He further stated that staff's suggestion is to take a credit on the water bill. Mr. Grandy stated that the money will be tracked for auditing purposes.

Director Kahn suggested using the check as part of the District's Conservation Reserves. Mr. Grandy replied that the money will be recorded in our books and records.

Mr. Hill stated that MWDOC is asking for a response by the end of January.

Comments Regarding Non-Agenda FIC Items

There were no comments.

Close Finance and Insurance Committee Meeting

At approximately 8:23 o'clock a.m. the Finance meeting was closed.

Plan Administrator Meeting

At approximately 8:23 o'clock a.m. President Martin called the Plan Administrator meeting of the El Toro Water District's Retirement Savings Plan and Trust Agreement to order.

The minutes are attached hereto and made a part of these minutes.

Close Plan Administrator Meeting

At approximately 8:44 o'clock a.m. the Plan Administrator meeting was closed and regular session resumed.

Regular Session

ENGINEERING COMMITTEE

Approval of Minutes

Director Werner stated that he gave some minor corrections to the Recording Secretary. The Recording Secretary made the corrections to the minutes.

There being no further comments or questions the Committee approved placing the Engineering/FIC minutes on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Engineering Action Items

There were no action items.

Engineering General Information Items

El Toro Water District Capital Project Status Report

Northline Lift Station Improvement Project

Mr. Cafferty stated that new Anue well washer system was placed into operation and is working well. He further stated that it has successfully eliminated the debris in the wet well.

Mr. Cafferty stated that staff is evaluating any odor issues that remain at the site.

R-1 & R-2 Reservoir Management System

Director Kahn asked what is being redesigned. Mr. Cafferty stated that a new mixing system is being designed to minimize stratification in the Reservoir which keeps the water at a constant age, and allows for injection of sodium hydrochloride into the water.

Baker

Mr. Cafferty provided an updated status on the project. He stated that project design has lagged, and a design package is expected to be at IRWD by the end of this month.

Mr. Cafferty stated that bids are expected April/May, and the decision of Go/No Go projected for June/July. He further stated that project costs are now \$78.5 million, with \$64 million being construction.

Mr. Cafferty stated that ETWD is in the project for 5 cfs, and online 90% of the time should supply 3,250 acre feet of water. He further stated that \$9.3 million will be ETWD's costs which include the pump station and pipeline to get

the water to South County.

Mr. Cafferty stated that the Baker product water, other than IRWD's portion, will be conveyed to the South County Pipeline as determined by the majority of the project participants. He further stated that Staff has evaluated options to convey water to ETWD.

Mr. Cafferty said the first option is to receive Baker water through the South County Pipeline, wheeled through MNWD's system, through a new interconnection with MNWD. Mr. Cafferty stated that the interconnection has already been designed and that SMWD is proposing to pay for the construction to satisfy their obligation under the R-6 capacity sale agreement.

Mr. Cafferty indicated a second option would be to take Baker water from an interconnection with IRWD. Mr. Cafferty noted that this option would result in certain O&M savings at the Baker product water facilities but would require the upgrade of an existing pump station at the IRWD interconnection. Mr. Cafferty pointed out that there are certain periods of time where IRWD could not deliver the water to ETWD.

Mr. Cafferty stated that the final option is to convey water to ETWD on a daily basis through the IRWD intertie but retain the option to take water through the MNWD interconnection in an emergency.

Mr. Cafferty stated that staff is recommending the hybrid option in which we would continue paying capital costs associated with the Baker product water facilities, build the IRWD interconnection pump station, pay O&M costs at the new station, and use IRWD's system to bring the water to our service area.

Vice President Goldman asked if there is a South County surcharge. Mr. Cafferty stated that the surcharge would apply to the emergency condition.

Vice President Goldman asked if MNWD will be charging a capacity fee. Mr. Hill replied that this is part of detailed discussion that is underway regarding terms of the agreement.

Director Kahn asked if we have committed to a wholesale price structure with IRWD. Mr. Cafferty replied nothing has been documented yet.

Mr. Cafferty stated that under both plans ETWD will pay for the Baker pipeline capacity out of Reserves and the Second Street pump station out of the normal Capital Improvement Plan.

Vice President Goldman asked how much of the Baker costs assume it is MET water being treated. Mr. Cafferty stated all of the water.

Director Werner asked if the Baker costs will be paid from debt service. Mr. Cafferty replied yes, 20 years at 4.5% with IRWD.

Director Kahn asked if we have an alternative if we decide to take the off ramp. Mr. Hill replied that the other opportunity would be with Poseidon.

Director Kahn asked if the Pendleton option is no longer available. Vice President Goldman replied that they could provide possible options in the future.

Recycled Water

Mr. Cafferty stated that the cash flow discussion will be deferred to the meeting on Thursday.

At approximately 9:28 o'clock a.m. Vice President Goldman left the meeting.

Director Werner asked if we can start spending project money now. Mr. Cafferty stated that we have two contractors ready to begin but ETWD cannot award the contracts until the SRF loan documents are signed.

Engineering Items Discussed at Various Conferences and Meetings

There were no comments.

Comments Regarding Non-Agenda Engineering Committee Items

There were no comments.

Close Engineering Committee Meeting

At approximately 9:35 o'clock a.m. the Engineering Committee meeting was closed.

Attorney Report

There was no report.

Closed Session

Mr. Granito reported that there is no need for a Closed Session at today's meeting. Therefore, regular session continued.

Report on Closed Session

There was nothing to report.

Regular Session

Comments Regarding Non-Agenda Items

Mr. Hill stated that topics for the upcoming CAG meeting include an update on the Recycled Water Expansion Project, South Orange county Water/Wastewater Agency Associations/Cooperation, and State Wide Water Supply Conditions Forecast.

Adjournment

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

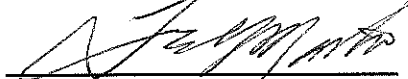
Motion: Director Werner made a motion, seconded by Director Kahn and unanimously carried that today's meeting be adjourned at 9:40 o'clock a.m. to Tuesday, February 26, 2013 at 7:30 o'clock a.m. at the District's Administrative Offices at 24251 Los Alisos Blvd, Lake Forest, CA. 92630.

Respectfully submitted,

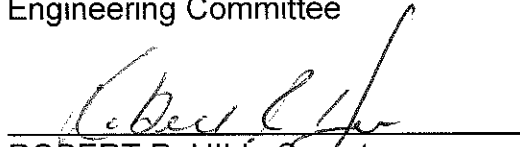


POLLY WELSCH
Recording Secretary

APPROVED:



TED F. MARTIN, President
of the El Toro Water District
Engineering Committee



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

MINUTES OF THE PLAN ADMINISTRATOR
MEETING OF THE
EL TORO WATER DISTRICT
RETIREMENT PLAN AND TRUST AGREEMENT

January 22, 2013

President Martin called the meeting of the Plan Administrator of the El Toro Water District's Retirement Plan and Trust Agreement to order at 8:23 o'clock a.m. on January 22, 2013.

The following persons as the Governing Board of the El Toro Water District serving as Plan Administrators were present: TED F. MARTIN, M. SCOTT GOLDMAN, WILLIAM H. KAHN, and JERARD B. WERNER.

Director JOSE F. VERGARA was absent due to conference attendance at MWDOC.

Also present were ROBERT R. HILL, General Manager/Secretary, DENNIS P. CAFFERTY, Director of Operations and Engineering, MICHAEL P. GRANDY, Chief Financial Officer/Assistant Treasurer, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, LORETTA BANKS, Human Resources Manager, NANCY LAURSEN, Accountant/Insurance Administrator, NEELY SHAHBAKHTI, Controller, KATHRYN FRESHLEY, Customer, and CAROL MOORE, Customer.

ETWD Retirement Savings Plan IPS Revisions

Mr. Grandy stated that there are two items to discuss. He further stated that the 401(k) Plan and the relationship with HighMark is dictated by the District's Investment Policy Statement (IPS).

Mr. Grandy stated that HighMark reports performance quarterly on fiscal basis. He further stated that most of the financial world works on a calendar year, and therefore staff is suggesting that HighMark report to us on a calendar year.

Mr. Grandy stated that the other item is investment options which HighMark can invest in. He further stated that there has been a question regarding the appropriateness of an investment manager selecting their own managed funds for the District's portfolio.

Director Werner suggested that the portfolio be reviewed on a calendar year. Mr. Grandy indicated that reporting can be done on a calendar year basis.

Vice President Goldman stated that he is comfortable with HighMark's investments and benchmarks. He further stated that he understands the concern for using proprietary funds in the portfolio, and suggests that if the Board has concern about the use of HighMark funds, they should be eliminated.

Mr. Grandy stated that today's agenda item is for information only, and not an action item. The Board concurred that the reporting period will be based on a calendar year moving forward.

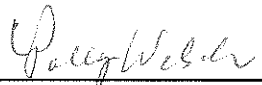
Mr. Grandy stated that an amendment would have to be made to the IPS regarding the use of proprietary funds, based on potential conflicts.

President Martin stated that there is no decision to be made today. Mr. Grandy stated that HighMark will be at next month's meeting, and staff will alert them that the Board plans to discuss the use of proprietary funds in the portfolio.

ADJOURNMENT

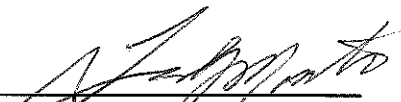
President Martin asked if there were any questions, comments or business to come before the Board (Plan Administrator). There being none, the meeting adjourned at approximately 8:44 o'clock a.m.

Respectfully submitted,

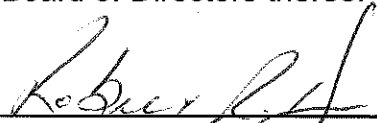


POLLY WELSCH
Recording Secretary

APPROVED:



TED F. MARTIN, 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