

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

February 26, 2013

Chairman Goldman called the Meeting of the Engineering Committee and Finance/Insurance Committee to order at 7:30 o'clock a.m. on February 26, 2013.

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

Present at today's meeting were Committee Members TED F. MARTIN, M. SCOTT GOLDMAN, WILLIAM H. KAHN, JERARD B. WERNER and JOSE F. VERGARA .

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, NEELY SHAHBAKHTI, Controller, KATHRYN FRESHLEY, Customer, and CAROL MOORE, Customer. Also during the Plan Administrator Meeting, ROBERT ADAMS of HIGHMARK attended via teleconference.

Oral Communication/Public Comment

Ms. Moore stated that she feels that most of the community is behind the recycled water project, and is impressed that the bids are so close and under budget.

Items Received too Late to be Agendized

There were no items.

Approval of Minutes

Director Werner stated that he gave some 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.

Mr. Grandy stated that the HighMark representative would be calling into the meeting at approximately 7:40 a.m. for the Plan Administrator meeting, and therefore the Engineering Committee meeting will begin first at today's meeting.

ENGINEERING COMMITTEE

Engineering Action Items

Spartan Booster Station MCC Replacement

Mr. Cafferty stated that the Spartan Booster Station provides normal service and fire flow pressure for the Spartan Zone portion of the ETWD water distribution system. He further stated that the existing motor control center failed following years of water intrusion from the slope behind the electrical equipment.

Mr. Cafferty stated a new motor control center was approved at a prior Board meeting, and has been ordered and expected to be delivered in March. He further stated that the installation will require services of an electrical contractor.

Mr. Cafferty stated that the existing Programmable Logic Controller (PLC) is over 20 years old and now obsolete and very difficult to obtain spare parts. He further stated that staff is suggesting replacing the PLC as the new Spartan electrical equipment is installed. Mr. Cafferty stated that in an effort to prevent recurrence of water intrusion, new courses of block will be added to the existing wall behind the motor control center.

President Martin asked why there is no total cost in the staff paper, and how the costs compare to budget. Mr. Cafferty replied that the total project cost is \$112,000. He added that there was no specific budget for this project in the 2012/13 Capital Budget. Mr. Cafferty further stated that the unbudgeted project cost can be accommodated by the District's capital construction reserve funds.

Chairman Goldman asked when the project is expected to be complete. Mr. Cafferty anticipated that the project could be finished by the end of March.

Ms. Freshley asked who is Motoronics. Mr. Cafferty replied that Motoronics is a consultant who works with the District's SCADA system,

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.

Replace DAF #1 Components

Mr. Cafferty stated that there are two Dissolved Air Floatation (DAF) Thickeners at the plant that thicken the Waste Activated Sludge before it is hauled to SOCWA's treatment plant. He further stated that DAF #1 has been the

main workhorse unit for the plant and has been in constant operation 24 hours a day, 7 days a week for 30 years.

Mr. Cafferty stated that rehab of DAF #1 requires sandblasting all metal surfaces, replacement of some metal components, welding repairs on other metal components, coating of all metal components, new scraper blades for the collector rakes, a new main collector drive and motor, new VFD control, new surface rakes, and a new Nikuni DAF recirculation system.

Mr. Cafferty stated that the installation of the Nikuni recirculation pump will require a small amount of programming work for which staff solicited a proposal from Motoronics.

Director Werner asked how the plant will continue to run when this DAF #1 is out of commission. Mr. Cafferty replied that there are two DAF's at the plant, and the DAF #2 will run while DAF #1 is down.

Chairman Goldman asked if staff considered using a centrifuge instead of the DAF. Mr. Cafferty replied that focus was on maintaining the existing DAF.

Director Werner asked how long the DAF would be down, and what if something happens to the other DAF in the meantime. Mr. Cafferty replied that the DAF should be down for repairs for a couple weeks, and a contingency plan will be developed in case DAF #2 fails while DAF #1 is out of service.

PLAN ADMINISTRATOR MEETING

At approximately 7:46 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. Mr. Robert Adams, HighMark representative was available via teleconference.

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

Close Plan Administrator Meeting

At approximately 7:57 o'clock a.m. the Plan Administrator meeting was closed and regular session resumed.

Regular Session

Replace DAF #1 Components (continued)

Director Kahn asked for information on additional technology. Chairman Goldman stated that there are a number of ways to treat sludge at the treatment plant. Director Kahn asked if the District would have to reconstruct the facility. Mr. Cafferty replied yes, it would be a whole new cost. He further stated that the District hauls the sludge to SOCWA and if it is thickened too much it will not go into the truck, or allow to be pumped out of the truck.

Director Vergara asked if staff will have to modify the DAF in any way to accommodate the Recycled Water project. Mr. Cafferty stated that there will be no need for change to the DAF to accommodate the Recycled Water project.

Director Kahn asked if staff has investigated newer technology, and a different mode of transportation to the SOCWA plant. Mr. Cafferty replied that the issue is conveying solids with sludge into the holding tank, and if we are too thick it cannot be pumped into the truck, or out of the truck at SOCWA.

Chairman Goldman asked staff to review with the contractor on costs for a centrifuge for consideration on future repairs for the second DAF.

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.

RAS Pumps Upgrade

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.

Engineering General Information Items

El Toro Water District Capital Project Status Report

Northline Lift Station Improvement Project

Mr. Cafferty stated that the well washer system is working, and the odor resulting from the floatable mat appears to have improved. He further stated that staff is evaluating potential odor monitoring options.

Mr. Hill stated that staff will be working on setting up a tour for the Board and will consider some dates that could work.

Recycled Water Expansion Project

Mr. Cafferty stated that the Preliminary Funding Commitment for the SRF loan has been received. He further stated that the Notice of Award has been issued for the first two pipeline projects.

Vice President Goldman asked if all of the easements have been received. Mr. Cafferty stated that the East side is done, and the West side is almost done.

Director Vergara asked if the District has received approval from the state

for the SRF loan. Mr. Cafferty replied yes, staff has received the executed Preliminary Funding Commitment, and the next step will be an actual agreement, which will not be completed until we have all of the construction numbers as they become part of the document. He further stated that preconstruction meetings are underway.

Mr. Cafferty stated that he received a phone call from one of the contractors regarding the Tertiary Treatment Plant who expressed that there is not enough time to produce a complete bid for the project, and is therefore pulling out of the bidding. He further stated that staff is recommending that the bidding date be extended about 10 days to allow the contractors enough time to bid the project accurately.

Director Vergara stated that he toured the District's water system, and is looking forward to touring the sewer system.

President Martin asked if the bidding process is delayed, will it impact the construction schedule. Mr. Cafferty replied it will not affect the Treatment Plant.

Baker

Mr. Cafferty stated that the plan specifications have been received and IRWD will need time to go through them. He further stated that bids will probably not go out until June, and the Go/No Go Decision will probably be August.

Mr. Cafferty stated that a new cost estimate is expected to be received soon.

Mr. Hill stated that staff will be considering discussing reliability projects at a future meeting.

Poseidon Huntington Beach Ocean Desal Project

Mr. Hill stated that the draft LOI and Term Sheet will be reviewed and discussed during the Board meeting.

Director Kahn asked if this could be included in the 5-year plan for the District. Mr. Hill replied that it could be a possible discussion during the next Strategic Planning workshop.

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 8:30 o'clock a.m. the Engineering Committee meeting was closed and the Board took a short recess

FINANCE/INSURANCE COMMITTEE

At approximately 8:38 o'clock a.m., Chairman Werner called the Finance/Insurance Committee meeting to order.

Treasurer Action Items

Financial Package – Authorization to Approve Bills for Consideration dated February 26, 2013 and Receive and File Financial Statements as of January 31, 2013

Ms. Shahbakhti stated that we are 7 months into the fiscal year. She further stated that on page 8, 401(K) Plan Summary, is doing well.

Ms. Shahbakhti stated that on page 9, Receivables & Payables Ageing, staff is seeking discounts from vendors whenever possible.

Ms. Shahbakhti stated that on page 10, Income Statement, water purchases are higher than water sold, due to MNWD delay in invoicing us.

Ms. Shahbakhti stated that Revenue and Expenses are doing better than budgeted. She further stated that without the Sinking Fund, the bottom line year to date is \$1.2 million.

Director Werner stated that he suggested that when a bill is final for the Recycled Water project tasks should show completion. Mr. Cafferty replied that the cost summary is part of the Capital Projects report.

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.

TREASURER INFORMATION ITEMS

Water Budget Based Tiered Conservation Rate Structure and Usage Activity Report

Mr. Grandy stated that it appears the Tier 3 & 4 Reserve may be close to \$1 million by year end. He further stated that the collection of funds in the Reserve appear to be able to support upcoming project costs.

Mr. Hill stated that customers are taking advantage of the rebate programs being offered.

Director Werner asked how many HOA's are taking advantage of the smart timer rebates. Mr. Hill replied that staff could track the HOA's taking

advantage of the rebate programs.

Ms. Moore asked if the District offers a variance for the large, medical walk-in bathtubs. Mr. Grandy replied that the District has had very few requests for variance due to medical reasons.

Accounting Best Practices – Internal Controls

Mr. Grandy stated that this was discussed at the MWDOC Managers meeting, to give them insight into Accounting Best Practices. He further stated that the list was shared with management and some changes were made to internal practices.

Vice President Goldman stated that there was discussion at the SOCWA Managers meeting to review agency to agency services. Mr. Hill stated that it has not been decided yet. Vice President Goldman asked Mr. Grandy to review any updates with SOCWA. Mr. Grandy concurred.

Mr. Grandy stated that the Auditors review our internal controls, investments, and payroll.

Vice President Goldman asked if the District has a barcode system to track capital assets. Mr. Grandy replied no, each item over \$5,000 is classified as Capital Assets. He further stated that licenses, programs, and computers are tracked separately.

Director Kahn asked about Fixed Assets, do we perform a physical inventory every year. Mr. Grandy replied no, staff did a warehouse inventory of hydrants and valves which are purchased and stored for replacement parts, and will continue each year.

Director Kahn asked if we have a Fraud Policy. Mr. Grandy replied yes, but employees are not required to sign the policy.

At approximately 9:03 o'clock a.m. Vice President Goldman left the meeting.

Mr. Hill stated that staff is planning an upcoming employee meeting on the District's Fraud policy and Ethics training.

Director Vergara suggested that staff could receive a confidential phone number or contact person who is not directly reported to the employee, such as an ombudsman.

Mr. Granito stated that CSDA has a complete library of policies, and he suggested that staff could obtain a copy from them.

2013/14 Budget Schedule and Considerations

Mr. Grandy stated that the Budget Schedule is included to provide the timeline for considering the budget for the 2013/14 fiscal year.

Mr. Hill stated that staff will be considering changes to the Organizational structure, dealing with the Succession Planning, and changes to the Operations department. He further stated that the Merit Pool will be reviewed, any increases to the medical contributions, and workers comp premiums.

Mr. Hill stated that in the Water Use charts, MWDOC reflects how much water the District uses. He further stated that MET and MWDOC rates are expected to be increasing.

Mr. Hill stated that Raftelis is anticipated to complete a Cost of Service study for use when increasing the District's rates.

Director Werner asked if the Cost of Service will be done for potable water. Mr. Hill replied that it will be for potable water, recycled water, and sewer. He further stated that the pass through is the commodity side of the cost of service.

Mr. Hill stated that Vice President Goldman suggested moving existing charges to the tax roll. He further stated that staff is considering this possibility.

Mr. Hill stated that cash flow is being reviewed regarding the Baker project. He further stated that debt coverage compliance, and Reserve levels are also being reviewed.

Comments Regarding Non-Agenda FIC Items

There were no comments.

Close Finance and Insurance Committee Meeting

At approximately 9:25 o'clock a.m. the Finance 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

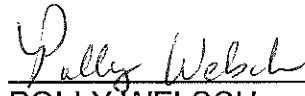
There were no comments.

Adjournment

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


Motion: Director Werner made a motion, seconded by Director Kahn and unanimously carried that today's meeting be adjourned at 9:26 o'clock a.m. to Tuesday, March 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

February 26, 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 7:46 o'clock a.m. on February 26, 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, JERARD B. WERNER, and JOSE F. VERGARA.

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, NEELY SHAHBAKHTI, Controller, ROBERT ADAMS, HIGHMARK Representative (via teleconference), KATHRYN FRESHLEY, Customer, and CAROL MOORE, Customer.

Quarterly Review of Pension Plan Performance

Mr. Grandy stated that Mr. Robert Adams, HighMark representative will be joining the meeting today via teleconference.

Mr. Adams stated that HighMark had a change in management, and David Wines is now the Chief Fixed Income Investment Officer, and Derek Izuel is the Chief Equity Investment Officer. He further stated that these officers are now preparing this report.

Mr. Adams stated that though there is little doubt that fiscal drag at the federal government level will detract from economic growth in 2013, the base case scenario assumes a compromise will be reached that will allow the economy to expand over the year ahead. He further stated that they expect any fiscal shock from the compromise will be most apparent over the first six months of the year, subsiding in the second half as higher taxes and lower government spending become the established norm.

Mr. Adams stated that interest rates may be rising soon due to economic strength. He further stated that the Investment Pools are doing well.

Mr. Adams stated that Floating Rate Note has been added to the portfolio.

Director Werner asked for clarification on Investment Returns & Rankings, the Morning Star rating would be number 1 being the best performer for the category and 100 would be worst. Mr. Adams replied that the Morning Star rating is a single digit number with 5 being the best and 1 being the worst.

Director Werner stated he meant the Morning Star "ranking". Mr. Adams replied that yes, 1 would be the best and 100 the worst.

Director Werner asked if the last column, SD is for Standard Deviation. Mr. Adams replied that is correct. Director Werner asked for an explanation of the "sharp" number. Mr. Adams replied that the sharp ratio is the return of the fund minus the risk free interest rate divided by the return of the benchmark. He further stated that he will get a better definition for the Board.

Director Werner stated that previously reported was the main value of the funds relative performance against the S&P 500, and the Alpha file which measures the fund management relative to the S&P, which are not in this report. Mr. Adams replied that it

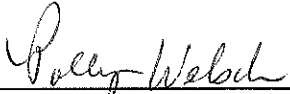
may have been a one time report. Director Werner asked if HighMark could show other types of Morningstar fund performance. Mr. Adams stated that it could be included.

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.

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 7:57 o'clock a.m.

Respectfully submitted,

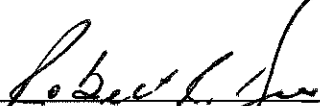


POLLY WELSCH
Recording Secretary

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