

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

May 21, 2013

Chairman Goldman called the Meeting of the Engineering Committee and Finance/Insurance Committee to order at 7:30 o'clock a.m. on May 21, 2013.

Chairman Goldman 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, ROBERT ADAMS, HighMark Representative, and CAROL MOORE, Customer.

Oral Communication/Public Comment

Ms. Moore stated that she feels the Public Hearing meeting and the District's effective date of the rate increase are too close together as customers need more time to respond to the anticipated increase.

Items Received too Late to be Agendized

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

Approval of 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.

PLAN ADMINISTRATOR MEETING

At approximately 7:36 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 7:48 o'clock a.m. the Plan Administrator meeting was closed and regular session resumed. Also at this time, Mr. Adams left the meeting.

Regular Session

ENGINEERING COMMITTEE

Engineering Action Items

Recycled Water Expansion Project Environmental Services During Construction

Director Werner asked if this is a new cost item, which was not originally factored into the project cost. Mr. Cafferty replied that it was not a line item in the budget, but will fit into the contingency costs. Vice President Goldman stated that this is a part of construction, which was a line item in the budget.

Director Vergara asked if Dudek was the only contractor that we obtained an estimate from. Mr. Cafferty replied yes, because they prepared the original Mitigated Negative Declarations.

Director Vergara asked if Dudek did the design of the project. Mr. Cafferty replied that Dudek did not design the Recycled Water Project.

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 construction is complete, and the odor from the floatable mat appears to have improved. He further stated that the grinder failed and is being repaired.

WRP Grit Classifier and Grit Chamber Covers

Mr. Cafferty stated that the grit classifier installation is complete. He further stated that the grit chamber air piping repairs are complete, and covers have been installed.

DAF #1 Component Replacement Project

Mr. Cafferty stated that staff has begun work on this project, by removing the old recirculation pump, retention tank, and air control panel from the DAF Unit #1. He further stated that Filanc Construction is scheduled to begin construction May 20th.

RAS Pump Station Upgrade

Mr. Cafferty stated that one of the pumps is being repaired and expected back May 20th. He further stated that staff will coordinate the installation and alignment of the pump. Mr. Cafferty stated that 4 new check valves for the RAS Pumps were delivered, and will be installed by Watson Mechanical the week of May 20th.

Spartan Booster Station MCC Replacement

Mr. Cafferty stated that construction is in progress, and the scope of work was expanded to accommodate the deterioration of the existing conduits between the MCC and pump vault. He further stated that the city is requesting that we replace the entire sidewalk.

Towers Booster Station Roof Replacement

Mr. Cafferty stated that the roof replacement is under construction.

Radio Equipment Replacement

Mr. Cafferty stated that the new repeaters have been received by Advanced Electronics, and new radios have been received by the District. He further stated that the FCC license has been received, and programming of the radios and repeaters is in progress.

RWEP

Mr. Cafferty stated that all of the required easements have been recorded and received. He further stated that Legal Counsel is waiting on some of the title insurance policies in order to generate the access rights letter required for the SRF loan.

Mr. Cafferty stated that staff will be sending an invoice at the next grant billing cycle.

Mr. Cafferty stated that staff has begun a commercial shoot on the project, which will be aired in Laguna Woods Village on various television channels beginning June 1st.

Director Werner asked if the size of the project signs are a state requirement. Mr. Cafferty replied yes, and staff is receiving positive comments on the signs.

East Side System

Mr. Cafferty stated that on the East Side System over 7500 feet of pipe has been installed, which is approximately 1/3 of the project completion.

West Side System

Mr. Cafferty stated that over 6500 feet of pipe has been installed.

Contingency Line Item

Mr. Cafferty stated that in each of the distribution system projects, staff has included a \$250,000 contingency line item, which is for change orders which may occur. He further stated that in the East Side System approximately \$18,000 in change orders have been incurred thus far.

Mr. Cafferty stated that there will be a \$3,000 change order which will not come from the contingency line item, which is required by the city of Laguna Hills to stripe Ridge Route and install reflectors. He further stated that he will create a Change Order Log and include in future Capital projects reports.

Mr. Cafferty stated that on the West Side System, there have not been any additional costs.

North Side System

Mr. Cafferty stated that design is 100% complete, and staff is preparing to put the project out to bid and present the construction contract for approval at the July Engineering meeting.

Tertiary Treatment Plant Design

Mr. Cafferty stated that the Notice to Proceed was issued to Pacific Hydrotech at a preconstruction meeting on May 14th.

President Martin suggested setting up a groundbreaking ceremony. Mr. Cafferty concurred.

Director Vergara asked if the design of the plant is new technology, or regular design. Mr. Cafferty replied that it is regular design in filtration which is approved by the Health Department and pilot tested. Vice President Goldman stated that the cloth media filters are relatively new, and the integrated Reservoir/contact basin is something that is not done everywhere.

Engineering Items Discussed at Various Conferences and Meetings

There were no comments.

Comments Regarding Non-Agenda Engineering Committee Items

Close Engineering Committee Meeting

At approximately 8:23 o'clock a.m. the Engineering Committee meeting was closed and the Board took a short recess.

FINANCE/INSURANCE COMMITTEE

At approximately 8:29 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 May 21, 2013 and Receive and File Financial Statements as of April 30, 2013

Ms. Shahbakhti stated that on page 2, Balance Sheet, cash is lower by \$3.3 million due to the Recycled Water Expansion Project, but in June we will receive \$1.3 million from SMWD. She further stated that the SRF money is anticipated to be received soon.

Director Werner asked how the grant money flows into the Balance Sheet. Mr. Grandy replied that it goes into Contributing Capital, as income that will end up in our retained earnings.

Ms. Shahbakhti stated that on page 10, Income Statement, we are 10 months into the fiscal year. She further stated that Gross Revenues are 105% of the budget, and the Expenses are at 96% of the budget which includes the Sinking Fund adjustment.

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.

ETWD's Quarterly Report by the Auditors

Mr. Grandy stated that the Auditors prepared a third quarter review of ETWD's financials and no exceptions were found.

President Martin stated that this is the 5th year of the Auditors contract. Mr. Grandy replied yes, although a year ago White Nelson merged with Diehl Evans.

Vice President Goldman asked how the audit report is prepared. Mr. Grandy replied that the Auditors pull a random sample of checks, review purchase orders or authorization, invoices, and receiving documents.

Vice President Goldman asked if they review credit card statements. Mr. Grandy replied that if the Auditors select to review the Bank transactions, they would do so randomly. Vice President Goldman suggested that the Auditors review the credit card statements as well. Mr. Grandy replied that company credit cards are provided to selected individuals to use as a payment option, but prior approval is required. He further stated that the Audit Committee will be meeting shortly with the Auditors and this could be the time to present the idea of reviewing credit card purchases on a quarterly basis.

Vice President Goldman asked if anyone reviews the credit card statements line by line. Mr. Grandy replied that staff does review each statement line by line.

Ms. Shahbakhti stated that in order to prepare for the audit, the Auditors present a list of items they plan to review.

Director Werner asked how the District handles wire transfers. Mr. Grandy stated that the only wire transfer we have besides payroll is debt service. He further stated that it has to be a recurring transfer, and a combination of two management staff approve the wire, and then Mr. Grandy executes the transfer.

Mr. Grandy stated that in the Treasurers Report, disbursements over \$20,000 are listed, all non-check disbursements, and the totals are identified.

Mr. Hill asked if it is routine for agencies to be doing quarterly audits. Mr. Grandy replied no, most agencies perform audits on an annual basis. Mr. Hill stated that during the budget process, it was determined that the District intends to hire a part-time Accounting person to assist with internal auditing, as well as reconciliation regarding the SRF loan, and general practices.

Director Vergara asked about the fee that the District pays the Auditors, could it increase if we ask them to perform additional tasks. Mr. Grandy replied that there could be an additional charge.

Ms. Shahbakhti stated that the Auditors also interview random individuals regarding how they handle expenditures, and this is included in their report.

Mr. Hill asked when staff will be reviewing RFP's for new Auditors. Mr. Grandy stated that it will be mid summer.

Director Vergara asked where we look for new Auditors. Mr. Grandy replied that staff surveys neighboring agencies.

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 included in the package is a line graph showing

Tier 3 & 4 consumption compared with the ET. He further stated that they are tracking closely with last year, and as ET increases, Tier 3 & 4 budgets increase. Mr. Grandy stated that as the ET goes down, if customers don't reduce water use, they could fall into Tier 3 & 4.

Director Kahn asked how customers would know that they are going into Tier 3 & 4 levels. Mr. Grandy replied that there are indicators on the customer bills, usage charts, and Tier levels. He further stated that if there is a water leak or broken sprinkler, the District works with the customer to adjust the water bill, including variances.

At approximately 8:55 o'clock a.m. Ms. Moore left the meeting.

Comments Regarding Non-Agenda FIC Items

Director Kahn asked what the status is of a Demonstration Garden in the front of the main office. Mr. Hill stated that a study was done several years ago, but the design was found to be very expensive. He further stated that staff could re-visit this topic, but from a liability standpoint the District is not sure they want to incur the responsibility. Mr. Hill stated that customers use the grassy area to walk their dogs and it is private property and the purpose of the project would not be to build a park area for their enjoyment.

Director Kahn suggested that the District could get donations to assist with the cost. Vice President Goldman suggested using some of the conservation funds from the Tier 3 & 4 reserves. Mr. Hill replied that staff will review the conservation fund, and possible grant opportunities.

Director Kahn stated that MNWD advertises landscape workshops, and

perhaps our District should consider such information to our customers. Mr. Hill replied that the District has partnered with MWDOC and MNWD to put on landscape workshops.

Director Vergara asked that in the budget we projected water sales of 8500 acre feet, and now we are anticipating selling 9000, does it mean we will make more money. Mr. Hill replied that the costs associated with water purchases are passed through to customers.

Close Finance and Insurance Committee Meeting

At approximately 9:05 o'clock a.m. the Finance meeting was closed.

Attorney Report

Mr. Granito reported that there is no need for a Closed Session at today's meeting, and therefore Regular Session continued.

Mr. Granito reported that at Thursday's meeting he will require a Closed Session to discuss the pending litigation.

Mr. Granito reported that at Thursday's meeting during the Open Session he plans to discuss the Brown Act's Prohibition of Serial Meetings, a Class Action Lawsuit challenging local revenues, and proposed legislation which formally introduces the concept of "comparative fault" when awarding damages to a plaintiff in an inverse condemnation matter.

Comments Regarding Non-Agenda Items

Mr. Hill stated that the HOA's receive the Prop 218 notices within the 45 day required notice, however the individual homeowners do not receive it since

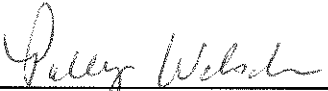
they don't get a water bill. Mr. Grandy stated that the District sends Prop 218 notices to all customers in our service area.

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 9:15 o'clock a.m. to Tuesday, June 25, 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,

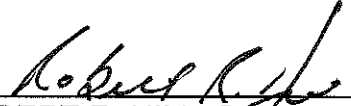


POLLY WELSCH
Recording Secretary

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

May 21, 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 7:36 o'clock a.m. on May 21, 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, and CAROL MOORE, Customer.

Quarterly Review of Pension Plan Performance

Mr. Adams stated that he feels there will be a pull back later this year in the stock market, as interest rates are anticipated to increase. He further stated that the portfolio first quarter was not spectacular.

Mr. Adams stated that HighMark made a decision to change to the Emerging Market Fund, making it shorter. He further stated that recent results of the indexes of Emerging Markets versus Foreign Large Blend Value diversification has not paid off.

Mr. Adams stated that the economy is expected to improve. He further stated that HighMark has sold sponsorship of its Mutual Funds to Nationwide who will take over administration, regulatory, distribution, and filing as opposed to HighMark, who will still manage the funds and remain a sub-advisory to Nationwide. Mr. Adams stated that this change will happen in mid September.

Mr. Adams stated that HighMark also sold the Money Market Funds to Reicht & Tang and this transaction will take place in July. He further stated that they are a very large money market manager and are ready to map into one of their funds.

Director Kahn asked why HighMark sold the Mutual Funds and Money Market Funds. Mr. Adams stated that as part of the negotiation, Nationwide is going to fund slightly over \$2 billion to HighMark to manage existing funds and start new funds. He further stated that HighMark will gain assets and relieve itself of cumbersome chores of administering Mutual Funds.

President Martin asked why large corporations are keeping billions of dollars off shore because of taxes, and asked if there is any effort in Legislation to reduce the tax to bring the money back here. Mr. Adams replied that he will check on this and report back to the Board.

Director Vergara asked if the sale of the assets will impact ETWD's funds. Mr. Adams stated that Mutual Funds will not be impacted, with the exception of the fee arrangement, and he feels it could be neutral although look a little different. He further stated that fees are sometimes built into the portfolio.

Mr. Hill asked when ETWD will receive the details of these transactions. Mr. Adams stated that it should be soon, however they may have to wait until the shareholders vote. He further stated that he will check and get back to staff.

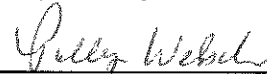
Director Werner asked about the over 60 Capital Preservation, that next year interest rates are likely to go up, and when this happens bond prices go down. He asked how HighMark intends to handle this. Mr. Adams replied that HighMark has built in parameters for this type of situation.

Director Werner asked if asset allocation would be changed. Mr. Adams stated that they could increase the short term slightly, but does not plan on making any big changes at this point.

ADJOURNMENT

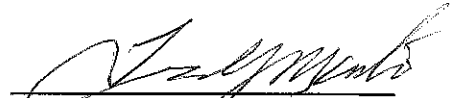
President Martin asked if there were any questions, comments or business to come before the Board (Plan Administrator). There being none, the meeting adjourned at approximately 7:48 o'clock a.m.

Respectfully submitted,

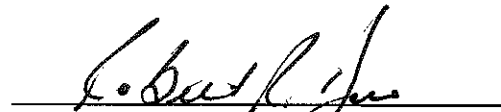


POLLY WELSCH
Recording Secretary

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