

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

July 23, 2013

Chairman Goldman called the Meeting of the Engineering Committee and Finance/Insurance Committee to order at 7:30 o'clock a.m. on July 23, 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, JOSE F. VERGARA, and JERARD B. WERNER.

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, NEELY SHAHBAKHTI, Controller, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, RICHARD BABBE, CAMP Representative, KATHRYN FRESHLEY, Customer, and CAROL MOORE, Customer.

Oral Communication/Public Comment

There were no comments.

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.

CAMP

Mr. Grandy stated that Mr. Babbe is here to update the Board on the District's investment portfolio, and their evaluation of the economy.

Mr. Babbe stated that continued moderate U.S. Gross Domestic Product (GDP) growth is expected, and that second quarter is anticipated to have slowed, but GDP is expected to pick up during the second half of the year.

Mr. Babbe stated that moderate employment growth continues, with the June employment report coming in better than expected due to an increase of jobs, and the April and May reports revised upward. He further stated that the growth suggests that the economy has largely weathered the effect of higher taxes and federal budget cuts.

Mr. Babbe stated that interest rates surged on a combination of positive economic news and the Federal Reserve's announced intention to taper its purchases of long-term Treasury's and mortgage-backed securities sooner than expected. He further stated that markets became exceptionally volatile and showed elements of panic.

Mr. Babbe stated that the U.S. Treasury Yield Curve steepens significantly, and although rates rose sharply in the second quarter, they remain low by historical standards.

Mr. Babbe stated that the Operating Fund Portfolio is diversified among LAIF, CAMP Cash Reserves, U.S. Treasury, and Federal Agency Securities. He further stated that they made selective longer-term investments during the past 6 months. Mr. Babbe stated that 100% of the funds in the CAMP Pool, U.S.

Treasury and Federal Agency securities are rated in Standard & Poor's two highest credit rating categories.

Mr. Babbe stated that the Operating Fund Maturity Distribution portfolio is concentrated in short-term securities, as LAIF and CAMP continue to offer higher yields than most securities with maturities of less than two years. He further stated that with longer-term yields up, they will evaluate opportunities to make selective longer-term investments when able to identify securities that offer good value relative to the pools. Mr. Babbe stated that although longer-term yields are up, shorter-term yields are expected to remain low into 2015.

Mr. Babbe stated that a recent Bloomberg survey of economists indicates that the market's expectation is that the Fed will begin to decrease the size of purchases towards the end of 2013, and the markets anticipate that the initial reduction in purchases will be greater in the MBS sector than in Treasuries.

Mr. Babbe stated that while modest job growth has helped lower the unemployment rate, it has also benefited artificially from a shrinking labor force, caused by the combination of aging population, and an increase in the number of discouraged workers that have given up their job search.

Director Werner asked what to do with Reserves that we do not expect to use. Mr. Babbe replied that all Reserves should be targeted for your anticipated use of them.

Director Kahn asked if credit is given to the temporary workers in the Labor Market analysis. Mr. Babbe replied that part time employees are included in the equation.

At approximately 7:45 o'clock a.m. Mr. Babbe left the meeting.

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.

ENGINEERING COMMITTEE

Engineering Action Items

There were no action items.

Engineering General Information Items

El Toro Water District Capital Project Status Report

Mr. Cafferty showed some photos of completed projects. He showed the dissolved air floatation thickener rebuild, and the Spartan Booster station electrical gear replacement.

Director Kahn asked how water was able to get into the conduit at the Spartan Booster station. Mr. Cafferty replied that it was caused by water intrusion from the slope area and moisture on the galvanized material.

Mr. Cafferty stated that the Towers Booster Station roof was removed, but the existing walls were not sufficient to support the new roof, and therefore the walls also needed to be replaced.

Recycled Water East Side Distribution System

Mr. Cafferty stated that 13,600 feet of pipe has been completed on the East Side System. He further stated that this project is 60% complete.

Recycled Water West Side Distribution System

Mr. Cafferty stated that over 12,000 feet of pipe has been installed, and focus is now on the 16" pipe.

Director Werner asked if staff has satisfied the City's issue with the dirt placement. Mr. Cafferty replied yes.

Mr. Cafferty stated that there is potential for a significant change order, due to meter boxes being placed in sloped areas. He further stated that blocks may need to be placed around the meters, which could add to costs.

Recycled Water North Side Distribution System

Mr. Cafferty stated that 7 contractors attended the pre-bid meeting last week, and staff expects to present the construction contract for approval at the August Engineering Committee meeting.

President Martin asked if the current contractors are planning to bid for the North Side System. Mr. Cafferty replied yes, and both current contractors have the advantage of already having material storage available.

Tertiary Treatment Plant

Mr. Cafferty stated that the Notice to Proceed was issued to Pacific Hydrotech at a pre-construction meeting in May. He further stated that construction has commenced.

Mr. Cafferty stated that staff is considering how to document the progress of the project. He further stated that stationary cameras could be placed in certain locations that take photos on a pre-set schedule and allows the ability to tie into the internet and see what is happening at the site. Mr. Cafferty played a short video as an example. He further stated that he will bring this item before

the Board in August for further discussion.

Director Kahn asked why the meter's being placed near the slopes was not reviewed with the contractor prior to the beginning of the project. Mr. Cafferty replied that staff did not walk through the areas and could not determine whether there would be a slope near the meter area. He further stated that staff is considering using stackable blocks around the meters and what the cost could be.

Director Kahn asked on the District's central SCADA system, how secure is the system. Mr. Cafferty stated that the system is operated independently from the internet, and from a security standpoint, the system is secure.

Mr. Hill stated that on the Huntington Beach Poseidon project, OCWD will have a Board meeting to consider establishing a Citizens Advisory Group to evaluate whether they should participate in the project, and purchase all of the water. He further stated that they could then sell water to the South County agencies. Mr. Hill stated that he plans to attend the MWDOC/OCWD meeting on July 31st.

Director Kahn asked if the Mayor of Huntington Beach and some Council members have placed restrictions on holding up the Coastal Commission permit. Mr. Hill stated that the Coastal Commission has deemed the application complete, and will now go to a hearing in October or November. Director Kahn stated that they did say that they were asked to hold up the permit because of some specific changes they wanted to see. Mr. Hill stated that they wanted more information about the relationship between Poseidon and the agency, such as

the lease arrangement. Director Kahn stated that he is concerned because of the Letter of Intent. Mr. Hill replied that the only reason we have not signed the Letter of Intent is because we are still working through our reliability discussion and determining whether we want to do a non-binding for 1,000 acre feet or 1,500 to just be at the table. Director Kahn stated that he would like to know what concerns the Council has.

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

FINANCE/INSURANCE COMMITTEE

At approximately 8:40 o'clock a.m., Chairman Werner called the

Finance/Insurance Committee meeting to order.

Quarterly Insurance 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 Action Items

Financial Package – Authorization to Approve Bills for Consideration dated July 23, 2013 and Receive and File Financial Statements as of June 30, 2013

Ms. Shahbakhti stated that the fiscal year is finished, and the bottom line is better than the budget. She further stated that \$58,000 was a reimbursement from previously borrowed Property Taxes and an additional \$3,000 in interest.

Ms. Shahbakhti stated that there was a large withdrawal on the 401(k) Plan, due to a retirement.

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 report are water consumption and breakdown charts. He further stated that approximately \$800,000 has been added to the Restricted Reserves.

Director Werner asked if staff has requested payment from the State on the Recycled Water loan. Mr. Grandy replied that staff has made one request which the State has concluded to be complete, and reimbursement is expected soon.

Director Werner asked about the grant reimbursement. Mr. Cafferty replied that the grant reimbursement will take a little longer to receive.

Mr. Hill stated that water sales are up and generated slightly higher funds

than anticipated.

Mr. Grandy stated that most of the Tier 3 & 4 water is irrigation.

Comments Regarding Non-Agenda FIC Items

Mr. Grandy stated that the Audit Committee will be meeting with the Auditors next week. He further stated that the Annual Audit will begin in August.

Director Kahn asked the Board members if there is a specific subject they would like the Audit Committee to discuss with the Auditors. Vice President Goldman suggested asking them to review credit card statements as part of the process of random internal controls. Mr. Grandy stated that staff could ask them to include a month's worth of credit card expenditures, as a specific review item. Director Kahn stated that the Audit Committee will discuss this with the Auditors.

Director Werner asked when the new Auditors will be chosen. Mr. Grandy replied that staff will request proposals the first week in August, review proposals and interview Auditors, and the Audit Committee would make a recommendation to the Board in October for a 5-year period.

Mr. Hill stated that OCWD will be having a Board meeting tomorrow and one of the items on the agenda is to authorize execution of a confidentiality agreement and receive information from Poseidon Resources to study the economic feasibility of a seawater desal facility in Huntington Beach that may lead to a water purchase agreement for the entire productive capacity of the plant. He further stated that the agenda also suggests establishing a Citizens Advisory Committee for the potential project, and to authorize staff to hire financial and technical consultants up to \$100,000 if necessary to assist with the

review of Poseidon documents and research questions posed by the Committee.

Vice President Goldman stated that someone from ETWD should attend the meeting. Mr. Grandy replied that he will attend the OCWD Board meeting.

Close Finance and Insurance Committee Meeting

At approximately 9:11 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.

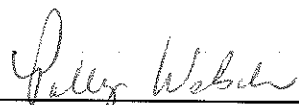
Comments Regarding Non-Agenda Items

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 Vergara and unanimously carried that today's meeting be adjourned at 9:12 o'clock a.m. to Tuesday, August 20, 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