

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

August 20, 2013

Chairman Goldman called the Meeting of the Engineering Committee and Finance/Insurance Committee to order at 7:30 o'clock a.m. on August 20, 2013.

President Martin 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, BOB ADAMS, HIGHMARK Representative, BAIE NETZER, HIGHMARK Representative, and CAROL MOORE, Customer.

Oral Communication/Public Comment

Ms. Moore commented that she is pleased with the work that the Contractors are doing in Laguna Woods Village on the Recycled Water Expansion Project.

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

Director Kahn asked the Recording Secretary to review the recording from the July 23<sup>rd</sup> Engineering/FIC meeting, and include more of his comments on the Poseidon desal item. The Recording Secretary will review the recording and include more of Director Kahn's comments in the minutes of the July 23<sup>rd</sup> meeting.

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 7:32 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 8:23 o'clock a.m. the Plan Administrator meeting was closed and regular session resumed. Also at this time, Mr. Adams and Ms. Netzer left the meeting.

### Regular Session

### ENGINEERING COMMITTEE

### Engineering Action Items

### Radio Equipment Upgrade

Mr. Cafferty stated that the internet connection facilitates better communication between the repeaters. He further stated that if the internet fails, the repeaters will still function, just not as efficiently.

Director Kahn asked how the internet connects radios. Mr. Cafferty stated that with multiple cell phone towers, signals are passed along from one tower to another, which is how the internet would connect radio signals, enhancing coverage throughout the system.

Mr. Cafferty stated that when the repeaters were initially put in, there was no indication that an internet connection could be needed. Vice President Goldman stated that the radios are for emergency connection, and asked how much coverage do we really have in an emergency. Mr. Hill replied that if we lose the internet in an emergency, we should have improved coverage with the stand alone repeaters. He further stated that the internet connection will reduce the chance of dropped signals.

President Martin asked if there is an advantage to owning the cable. Mr. Cafferty replied no.

Vice President Goldman asked Mr. Cafferty to obtain more information and bring back to the Board. Mr. Cafferty concurred.

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

### Recycled Water Expansion Project

Mr. Cafferty stated that over 35,000 feet of pipe is in the ground.

Mr. Cafferty stated that the total change orders currently are less than \$50,000 for the East Side and West side projects. President Martin asked what was budgeted. Mr. Cafferty replied that staff budgeted a contingency of 7.5%, or around \$1 million for these two projects.

### East Side System

Mr. Cafferty stated that the East Side system is nearly complete.

### West Side System

Mr. Cafferty stated that the focus has been on the 16" pipeline to be finished before start of school.

Mr. Cafferty stated that the District has received and recorded all 56 executed easements.

### North Side System

Mr. Cafferty stated that the bids have been received, and staff expects to present the construction contract for approval at the September Engineering Committee meeting.

Mr. Cafferty stated that staff will be submitting the bid package to the State, and once they have it, they should be issuing the final SRF loan agreement. He further stated that once we have the final SRF loan agreement, we will be able to start invoicing them for construction costs.

Mr. Cafferty stated that staff has invoiced the County for \$3 million focused on construction for the East and West Side Systems.

### Tertiary Treatment Plant

Mr. Cafferty stated that construction is in progress. He further stated that grant funds are not being used for funding the Tertiary Treatment Plant. Mr. Cafferty stated that the grant money can be used for change orders, but the SRF loan money cannot be used for change orders.

### Other Comments

Director Werner stated that the cost breakdown was not included in the report. Mr. Cafferty stated that he will get a copy of the breakdown to the Directors.

### Poseidon Huntington Beach Ocean Desal Project

Mr. Hill stated that it is clear to Poseidon that the Commission staff will recommend that the Commission deny the permit. He further stated that expressed areas of concern by staff include but are not limited to lack of water supply need based on MWDOC's UWMP, growth inducement, sea level rise, and marine life impacts.

Director Vergara asked if MWDOC's UWMP includes the Poseidon Huntington Beach desal plant. Mr. Hill replied that it mentions the desal plant.

Mr. Hill stated that Poseidon is looking for support letters, LOIs, and attendance at the hearing to voice support for the project.

Mr. Hill stated that currently LOIs have been received from SMWD, IRWD, Seal Beach, and OCWD. He further stated that OCWD will be looking at opportunities to reduce the unit cost, financing alternatives, pipeline financing and ownership, operation of the WTP, shoring up the basin and retail product

water sales within OC.

Director Werner asked if there is a schedule for OCWD. Mr. Hill replied that OCWD expects to have a preliminary participation evaluation complete by January 2014. He further stated that OCWD identified the cost for desal water at \$1597 per acre foot, after the \$250 subsidy from MET, with the range based on the pipeline system.

Mr. Hill stated that they estimated the lines would cross with MET cost in 2038. He further stated that OCWD is considering purchasing 100% of the desal water and selling it to the retail agencies along the coast, which would allow them to draw down the basin further and create storage without the concern of seawater intrusion.

Mr. Hill stated that OCWD is considering what their relationship would then be with Poseidon, and if they would operate the plant.

Mr. Hill stated that the District should consider entering into a non-binding LOI for a minimal amount, so we are at the table as negotiations continue.

Director Kahn stated that they are considering mixing the desal water into the groundwater, and did they discuss what rate they would be charging. Mr. Hill replied that they are considering charging the retail agencies the MET rate.

Director Kahn asked if the rate would be melded into the rate they charge for the aquifer water. Mr. Hill replied that they would utilize the replenishment assessment charge to cover the cost, which would be a higher rate for basin water.

Director Vergara stated that the coastal agencies would be incurring

savings by obtaining the water and not pumping. Mr. Hill stated that everyone would be paying the same price for the groundwater.

Mr. Hill stated that some members of the City Council were planning to send letters to the Coastal Commission requesting that they deny the permit, and of the 7 Council members, 5 sent individual letters as opposed to taking a position as a municipal body. He further stated that although permits have been issued, there is still opposition to the project.

Mr. Granito asked if OCWD takes the water for the groundwater replenishment system, is it a lesser grade of treatment than what would otherwise be contemplated by the treatment plant. Mr. Grandy replied that OCWD will not be pumping the water into the ground, and level of quality would not be a lesser grade.

#### 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 9:13 o'clock a.m. the Engineering Committee meeting was closed and the Board took a short recess. Also at this time, Vice President Goldman, Mr. Cafferty, and Ms. Moore left the meeting.

### FINANCE/INSURANCE COMMITTEE

At approximately 9:24 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 August 20, 2013 and Receive and File Financial Statements as of July 31, 2013

Ms. Shahbakhti stated that staff has now completed the second closing. She further stated that the second closing consists of counting inventory and making any necessary adjustments.

Ms. Shahbakhti stated that this week is our annual Audit. She further stated that she was notified that the \$3.1 million grant money will be booked as a Receivable.

Director Vergara asked if the full amount of the grant will be booked as a Receivable. Ms. Shahbakhti replied that the amount billed thus far will be booked as a Receivable.

Ms. Shahbakhti stated that the increase in Expenses are vacation accruals, and sick accruals. She further stated that adjustments are made due to inventory. President Martin asked what is the value of the inventory. Mr. Grandy replied that the value of the inventory is anticipated to be around \$600,000, with the majority being water in R-6.

Director Werner stated that on page 10, there are a lot of items that appear to be over budget. Ms. Shahbakhti stated that staff did a review of each item and the budgeted amount for those items. She further stated that there are some variations in the Revenue where Recycled water was higher than budgeted, and Operating Income was also higher due to 48 hour final notices.



Ms. Shahbakhti stated that Other Income is high due to the MWDOC Tier 2 surcharge refund.

Director Werner asked if the word “budget” is more of a guess than a working budget. Mr. Grandy replied that on some items where we have scheduled maintenance like the R-6 Reservoir, can be fairly accurately budgeted. He further stated that there are pump station breakdowns, or unplanned repairs that are unanticipated items.

Director Werner suggested that staff review the standing items and discuss adjusting the budget moving forward. President Martin replied that the Budget Committee reviews each item in the budget and projects/anticipates the budget for the fiscal year.

Ms. Shahbakhti stated that we are very close to the budget, with Expenses being at 107% of the budget. She further stated that the bottom line was \$1.3 million, and as a whole bottom line was beyond what was budgeted.

Ms. Shahbakhti stated that some of the line items are educated guesses, such as air conditioning repairs, maintenance, and repairs for unpredicted items.

Director Werner asked for a breakdown on Contractor’s overrun on budget. Mr. Hill asked if staff could provide a breakdown. Ms. Shahbakhti replied that she can provide a breakdown on the Contractor line item.

Ms. Shahbakhti stated that the Board had asked that the Auditors take a look at the credit card statements. She further stated that the Auditors are performing a 100% audit for credit card activity.

Director Werner asked why employees are being reimbursed for purchases at Costco. Ms. Shahbakhti replied that Costco only accepts American Express credit cards, which the District does not use, therefore the employee would need to be reimbursed for company purchases.

President Martin asked about account number 5640 interest expense is lower than normal. Ms. Shahbakhti replied that it went down because last year the Baker item was overestimated and last year's expenditures were reviewed which resulted in a reduction in the budget for this line item.

Director Kahn asked how many employees retired last year. Mr. Grandy replied that one employee retired in the 2012/13 fiscal year, and one is scheduled to ease into retirement by working part-time in the 2013/14 fiscal year.

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 water sales comparisons are reported each month, and tiers usage is compared to the ET weather factor. He further stated that the ET factor was about 10% less, and as the ET comes down, budgets come down, and customer habits that do not change cause water usage to trend up.

##### Comments Regarding Non-Agenda FIC Items

##### Close Finance and Insurance Committee Meeting

At approximately 9:46 o'clock a.m. the Finance meeting was closed.

Attorney Report

Mr. Granito reported that there will not be a Closed Session today.

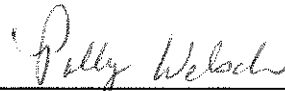
Therefore regular session continued.

Adjournment

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


Motion: Director Kahn made a motion, seconded by Director Vergara and unanimously carried that today's meeting be adjourned at 9:46 o'clock a.m. to Tuesday, September 24, 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,

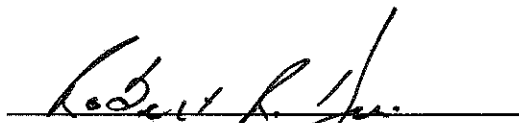


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POLLY WELSCH  
Recording Secretary

APPROVED:



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



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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

August 20, 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 7:32 o'clock a.m. on August 20, 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, BAIE NETZER, HIGHMARK Representative, and CAROL MOORE, Customer.

Quarterly Review of Pension Plan Performance

Mr. Adams introduced Ms. Baie Netzer of HighMark.

Mr. Adams stated that on the U.S. Economic and Market Overview, HighMark feels that the economy is strong and growth is accelerating, and they expect the Fed to tighten monetary policy to slow economic expansion and suppress inflation. He further

stated that when the economy is slow, they expect the Fed to relax monetary policy as a means to support employment growth.

Mr. Adams stated that in looking at the investment returns, the interest rate rose and returns were down. Director Werner stated that the year-to-date funds fell short of the benchmark and asked why. Mr. Adams replied that there are various reasons why some of the funds may not have performed well, and emerging markets have done terrible in the past quarter.

Mr. Adams stated that in the Capital preservation Portfolio there is no International benchmark for emerging markets. Director Werner asked if HighMark is considering making a change to the HighMark International Opportunities fund. Ms. Netzer replied no, as International Opportunities along with almost every international stocks, are rarely purely developed country equities and are usually combined with emerging market equities. She further stated that International Opportunities are about 16% of emerging markets and because of this they will look bad vs. their benchmark in the short term, but should look good in the long term. Ms. Netzer stated that this 16% affects other stocks in the International funds.

Mr. Adams stated that the longer term funds one year and out are looking better, and the year to date is only 6 months which is a short time span.

#### Dynamic Alternatives Portfolio

Ms. Netzer stated that Alternatives can provide the same end result with a smoother ride. She further stated that when understanding volatility drag, the higher volatility asset needs a higher average per period return and has to work harder to arrive at the same end point as the lower volatility asset.

Ms. Netzer stated that portfolio diversification eases the impact of roller coaster equity returns. She further stated that investors in the diversified portfolio had a higher risk-adjusted return than those who held just equities, and were paid more for the risk in their portfolios.

Ms. Netzer stated that the average per period return for stocks was slightly positive but not high enough or long enough.

Ms. Netzer stated that there is potential impact of adding dynamic alternatives to a traditional portfolio. She further stated that adding alternatives has the potential to lower the portfolio's volatility and improve return expectations.

Ms. Netzer stated that HighMark's Dynamic Alternatives strategy looks to improve the portfolio's risk/return profile by allocating to a diverse set of external managers and ETFs.

Ms. Netzer stated that in the Enhanced Portfolio, low volatility equity hedges are used for income, capital preservation, uncorrelated returns, and periods of rising interest rates. She further stated that higher return strategies with compensation are used for different types of risk.

Director Werner asked what the definition of a "hedge fund" is. Ms. Netzer replied that a hedge fund is a limited partnership with a minimum investment of between \$1 - \$2 million and carries a 1-2 year commitment to keeping the money in the fund no matter what, and after that time period a quarter's notice is required to withdraw the funds. She further stated that a hedge fund will charge 2% to manage the fund, and from whatever profit was made, they charge 20%.

Ms. Netzer stated that on page 13 is a 5-year Correlations with stocks and Bonds for the period ending June 30, 2013. She further stated that the lower the Correlation number, the better.

Mr. Grandy asked Mr. Adams if we wanted to pursue a different investment in our four portfolios, would HighMark come back with a new presentation to discuss making the change, or what would be the procedure. Mr. Adams stated that HighMark suggests no changes to the IPS at this time, as currently the alternatives they use are shown as part of the fixed income and none are listed as prohibited assets. He further stated if there are changes down the road, the IPS would need to be amended to reflect a lower equity target. Mr. Adams stated that the process would then be to sell some of the stocks in mutual funds and purchase those alternate funds.

Mr. Grandy asked if HighMark would be liquidating some of the bonds. Mr. Adams replied that they would probably take a small amount of bonds out of the portfolio.

Director Werner asked when an employee retires, does HighMark liquidate the funds uniformly across all investments within the pool. Mr. Adams replied yes, to maintain the allocation. Mr. Grandy stated that this was the District's choice when the portfolio was originally set up.

Mr. Grandy asked if 14-17% is a rule of thumb. Ms. Netzer replied no, rule of thumb is 10%, as the base.

Mr. Grandy asked if the 4 portfolios would it be 10% per pool, or vary. Mr. Adams stated that it would be close, and he will send an update to Mr. Grandy with some alternative investment options.

Director Werner asked Mr. Adams how he would categorize our portfolio from conservative to aggressive. Mr. Adams replied that given the assets in the 4 portfolios, they are somewhat conservative.

Director Kahn asked what HighMark sees as a “trigger” for a business to start spending trillions of dollars that they may have been holding onto. Mr. Adams replied that some business are doing capital spending in anticipation of the economy improving, and he feels unemployment may have something to do with it.

Director Kahn asked if the European market affects how our market is doing. Mr. Adams replied that it is not a huge factor, as a percentage of the portfolio in companies that are International is only a slight drag, and markets should pick up at the end of the year.

Ms. Netzer stated that one theme is natural gas and energy infrastructure, which could be a game changer. She further stated that energy companies are investing in their infrastructure, and the housing cycle is optimistic. She also stated that gaming is another trigger opportunity for investors.

#### 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 8:23 o'clock a.m.

Respectfully submitted,

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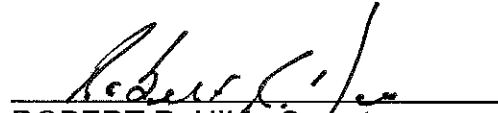
POLLY WELSCH  
Recording Secretary



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