

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

October 22, 2013

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

Director Vergara 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, JUDY CIMORELL, Human Resources Manager (joined the meeting at 9:25 a.m.), NANCY LAURSEN, Accountant/Insurance Administrator (joined the meeting at 9:25 a.m.), 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.

## 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

Mr. Cafferty presented an update of the Baker Water Treatment Plant Project costs. He further stated that the cost components consist of the Treatment Plant, Product Water Pump Station, and Raw Water Pump Station.

Mr. Cafferty stated that other Cost Components include the Baker pipeline capacity, 2<sup>nd</sup> Street pump station, and on-going O&M.

Mr. Cafferty stated that construction bid results were higher than the Engineer's Estimate for both the Baker WTP and the Raw Water Pump Station. He further stated that the estimated costs for Engineering, WTP Construction, PWPS Construction, RWPS Construction, and miscellaneous costs totaled \$90.4 million, and the bid results have increased the total cost to \$103.6 million.

Mr. Cafferty stated that at ETWD's capacity for 5 cfs, ETWD's cost share is 11.494% of the capital cost which equates to \$12,913,146. He further stated that the new total project cost for ETWD, including the Baker Pipeline Capacity Purchase, the 2<sup>nd</sup> Street Pump Station/IRWD Interconnection and construction period interest is \$15,348,142. Mr. Cafferty stated that the project funding sources will be CFRRP Budget of \$2,434,996, Baker Capital Charge Revenue of \$2,500,000, and the IRWD Installment Purchase Agreement of \$10,413,146.

Mr. Cafferty stated that, based on assumptions regarding inflation of both Baker O&M as well as MWD import water costs the Baker water may become cheaper than MET water within approximately seven years which is approximately 3 years later than previously predicted based on the construction cost estimate. He further stated that a MWD/Baker Cost Comparison shows the total water unit cost to be \$973 for MWD and \$1,052 for Baker in 2016 when the Baker WTP is scheduled to go on-line.

Mr. Cafferty stated that the detailed Baker WTP Agreement defines responsibilities for IRWD of maintenance and operation of the plant.

Mr. Cafferty stated that there are three agreements on the agenda. The first agreement is among ETWD, MNWD, and SMWD. The second agreement is between ETWD and IRWD, and the third is the installment sale agreement between ETWD and IRWD.

Mr. Cafferty stated that the status of all of the Baker agreements is:

- Baker Pipeline Capacity Transfer – Complete
- Baker WTP Agreement – amended and restated agreement under review
- IRWD Interconnection Agreement – Action Item
- MNWD Interconnection Agreement – Action Item
- IRWD Installment Purchase Agreement – Action Item

Baker Water Treatment Plant Interconnection Agreement Among ETWD, MNWD,  
and SMWD

Mr. Cafferty stated that SMWD is funding the proposed ETWD/MNWD interconnection. He noted that the SMWD funding satisfies a Prop 50 grant match requirement as well as the outstanding SMWD obligation in the R-6 Reservoir Agreement. He further stated that the project will provide additional water supply flexibility.

Mr. Cafferty stated that staff received comments from SMWD indicating some changes to the indemnification language, which ETWD's General Counsel has reviewed.

Mr. Cafferty stated that staff is recommending that the Board approve the ETWD/MNWD/SMWD Interconnection Agreement subject to non-substantive changes approved by legal counsel and contingent upon the District's ultimate participation in the Baker Water Treatment Plant Project, and to authorize the General Manager to execute the agreement.

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.

Baker Water Treatment Plant Agreement Between ETWD and IRWD Providing  
Domestic Water Interconnection

Mr. Cafferty stated that the Baker WTP product water is proposed to be delivered to ETWD through an interconnection with IRWD while retaining supply

delivered through the South County Pipeline and an MNWD interconnection as a backup.

Mr. Cafferty stated that additional energy costs could be as much as \$100,000 a year to convey the water through the South County Pipeline on a daily basis. These costs make the IRWD interconnection a more cost effective option. He further stated that a smaller pump station will be required to boost the pressure from IRWD to get the water to our service area.

President Martin asked if ETWD will own the 2<sup>nd</sup> Street pump station. Mr. Cafferty replied yes.

Director Vergara asked if IRWD plans changes to the system, who is responsible for costs. Mr. Cafferty replied that IRWD is not anticipating future modifications but if modifications to their distribution system do become necessary ETWD would be responsible for costs required to preserve capacity to serve the interconnection.

Director Kahn asked if IRWD owns and operates the plant and we pay for water, would our interests be protected. Mr. Cafferty replied that while IRWD owns the Baker WTP ETWD would own capacity in the Plant.

Ms. Freshley asked if there are hidden costs in the IRWD agreement. Vice President Goldman replied that these costs would be in the O&M.

Mr. Cafferty stated that there are some minimal energy costs associated with IRWD's seasonal need to move water from one zone to another in order to serve the interconnection as well as some administrative costs.

Mr. Cafferty stated that staff is recommending that the Board approve the ETWD/IRWD Interconnection Agreement subject to non-substantive changes approved by legal counsel and contingent upon the District's ultimate participation in the Baker Water Treatment Plant Project, and to authorize the General Manager to execute the agreement.

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.

Baker Water Treatment Plant Installment Sale Agreement Between ETWD and IRWD

Mr. Grandy stated that when the project was first discussed, IRWD indicated a willingness to finance the construction costs of certain participants (ETWD & TCWD). He further stated that the term sheet was turned over to IRWD legal counsel for purposes of drafting the appropriate agreements.

Mr. Grandy stated that IRWD's counsel's interpretation of the Water Code resulted in a modification of the terms originally discussed. He further stated that the resulting agreement, which took on the form of an Installment Purchase Agreement was shared with ETWD staff and legal counsel. This agreement went through a number of iterations until it included terms acceptable to both district's staff and legal counsels.

Mr. Grandy stated that changes to the terms included:

- The obligation was no longer collateralized by capacity rights

- The repayment term (20 years) would start after completion of construction
- The obligation was secured by a lien on Total Revenues, and
- The obligation would be on parity with all other obligations of ETWD

Mr. Grandy stated that subsequent reviews revealed that parity debt issued after the issuance of the recent SRF loan required a minimum of an "A" rating by two recognized rating agencies. He further stated that in light of this rating requirement, staff embarked on parallel courses: 1) to achieve the required rating, and 2) discussions with IRWD to amend the agreement to subordinate the IRWD obligation.

Mr. Grandy stated that the amended agreement is awaiting IRWD's legal counsel's final approval, and will then be presented to both Boards for approval.

Mr. Grandy stated that the interest rate shall be determined on whatever date the first draw happens to be, which could be in 2014.

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, to approve the ETWD/IRWD Installment Sale Agreement subject to non-substantive changes approved by legal counsel and contingent upon the District's ultimate participation in the Baker Water Treatment Plant Project, and to authorize the General manager and Legal Counsel to execute the Agreement.

Recycled Water Expansion Project Change Order Policy

Mr. Cafferty stated that a project of this magnitude is likely to generate the need for periodic construction change orders in amounts exceeding the General Manager's authority. He further stated that in order to avoid costly and time consuming delays to the project, staff is requesting that the Board authorize the Recycled Water Expansion Project Change Order Policy giving the General Manager authority to approve change orders in amounts up to \$100,000 for the duration of the project, and change orders exceeding \$100,000 will require prior approval by the Board.

Mr. Cafferty stated that this policy is similar in concept to the change order policy previously adopted for the Northline Lift Station Improvement 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

#### Central SCADA Upgrade Project

Mr. Cafferty stated that the new system is up and running in conjunction with the old system. He further stated that staff is working on final testing and verification, and the project should be complete by the end of October.

#### Radio Equipment Replacement

Mr. Cafferty stated that programming and testing of the radios and repeaters is in progress. He further stated that the truck mounted radio installations are complete, and the radio system is expected to be in service by



the end of November.

#### Recycled Water Expansion Project

Mr. Cafferty stated that the East Side System construction is complete, the West Side System is in progress, and the North Side System contract has been awarded to Paulus Engineering.

President Martin asked if the new employee is on board yet. Mr. Hill replied yes, Josh Perez has been hired as the new SCADA Operator.

Mr. Cafferty stated that the change orders for the West Side are now approximately \$100,000, which is an accumulation of time and materials.

Mr. Cafferty stated that the Tertiary Treatment Plan construction is in progress. He further stated that there is approximately \$30,000 extra costs on the treatment plant.

Mr. Cafferty stated that thus far approximately \$11.1 million has been spent on the Recycled Water project. He further stated that the State informed him that it could be 6-8 weeks before we see reimbursements for the projects.

Vice President Goldman asked about the SRF loan. Mr. Cafferty replied that we have billed for the planning costs, and cannot bill for construction until the agreement is modified based on final bids.

Director Werner asked if the District has received any SRF loan money yet. Mr. Cafferty replied that the District has received approximately \$2.1 million which is a result of billing for everything done prior to construction.

#### 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 9:15 o'clock a.m. the Engineering Committee meeting was closed and the Board took a short recess. Also at this time, Chairman Goldman left the meeting.

## FINANCE/INSURANCE COMMITTEE

At approximately 9:25 o'clock a.m., Chairman Werner called the Finance/Insurance Committee meeting to order. Also at this time, Ms. Cimorell and Ms. Laursen joined the meeting.

## Insurance Update Report

### Quarterly Insurance Update Report

Mr. Grandy stated that Judy and Nancy collaboratively prepared the Insurance Update.

Ms. Cimorell stated that this quarter there were no major changes. She further stated that open enrollment begins and rates are increasing slightly.

Ms. Cimorell stated that Anthem Blue Cross increased 2%, and Kaiser increased 14% to catch up to the industry. She further stated that JPIA used reserve funds to help buy down Anthem's costs.

Ms. Cimorell stated that dental rates remain the same, and Vision has increased 6%. She further stated that Kaiser has added chiropractic to their plan, and Anthem has added hearing aids to their durable medical equipment.

## Treasurer Action Items

Financial Package – Authorization to Approve Bills for Consideration dated  
October 22, 2013 and Receive and File Financial Statements as of September  
30, 2013

Ms. Shahbakhti stated that we have closed the first quarter of the fiscal year. She further stated that staff is planning to use money from the Tier 3 & 4 Reserves for the Recycled Water Expansion project until we receive the Prop 50 grant money and/or the SRF loan funds.

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.

Appointment of Auditor – 2013/14 Fiscal Year

Mr. Grandy stated that the Audit Committee has met and reviewed RFP's.

Ms. Shahbakhti handed out a comparison sheet showing a summary of fees for the RFP's.

Director Kahn stated that the Audit Committee reviewed the proposals and recommend to the Board the low bidder which was Charles Z. Fedak & Company.

Director Werner stated that the hours, estimates, and rates were reviewed.

The Board concurred to authorize the President and Secretary to enter into a letter agreement with Charles Z. Fedak & Company for an amount not to exceed \$27,000 to audit the District's Financial Statements and \$3,000 to perform quarterly agreed upon procedures for fiscal year 2013/14.

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 consumption information is included in the Board package, and is tracking consistently.

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

Director Werner asked if staff has contacted Media 55 to view the RWEP commercial on other TV channels. Mr. Grandy replied yes, they have rearranged the mix of stations, and have increased from 200 to 250 spots per month, at no additional cost.

##### Close Finance and Insurance Committee Meeting

At approximately 9:40 o'clock a.m. the Finance meeting was closed.

##### Attorney Report

Mr. Granito reported that a Closed Session is not necessary at today's meeting.

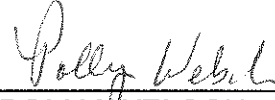
##### Adjournment

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 9:42 o'clock a.m. to

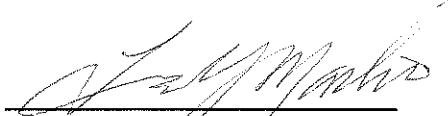
Monday, November 25, 2013 at 7:30 o'clock a.m. at the District's Administrative  
Offices at 24251 Los Alisos Blvd, Lake Forest, CA. 92630.

Respectfully submitted,

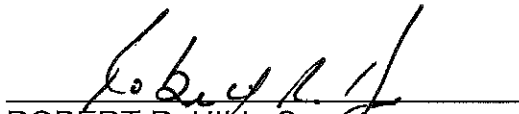


POLLY WELSCH  
Recording Secretary

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