

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

September 23, 2014

Alternate Chairman Vergara called the Meeting of the Engineering Committee and Finance/Insurance Committee to order at 7:30 o'clock a.m. on September 23, 2014.

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

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

Committee Member M. SCOTT GOLDMAN and ROBERT R. HILL, General Manager/Secretary, were absent.

Also present were, 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, FRED ADJARIAN, Customer (and future Board member), CAROL MOORE, Customer, and KATHRYN FRESHLEY, Customer.

Oral Communication/Public Comment

There were no comments.

Items Received too Late to be Agendized

Alternate Chairman Vergara asked if there were any items received too late to be agendized. Mr. Grandy 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.

Alternate Chairman Vergara asked for a Roll Call Vote to place the approval of the minutes on the agenda for the regular Board meeting of Thursday, September 25, 2014.

Roll Call Vote:

Alternate Chairman Vergara:	yes
Director Kahn:	yes
Director Werner:	yes
President Martin:	yes

Engineering Action Items

There were no action items.

Engineering General Information Items

El Toro Water District Capital Project Status Report

Mr. Cafferty stated that next month's action item will be the Oso Lift Station project.

Recycled Water Expansion Project

Mr. Cafferty stated that the distribution system construction is nearing completion and the contractor is focusing on final service installations and pipeline disinfection and testing.

Tertiary Treatment Plant

Mr. Cafferty stated that the contractor estimates construction to be over 98% complete. He further stated that a tracer test was done to validate the

system's ability to meet the Title 22 disinfection contact time requirements at design flow rates, which will be provided to the State Water Resources Control Board Division of Drinking Water.

Mr. Cafferty stated that the on-site conversion entry license agreement language has submitted to most of the major property owners for review.

President Martin asked if a dedication ceremony will be planned when the Tertiary Treatment Plant is finished. Mr. Grandy replied yes.

#### On-Site Retrofits

Director Vergara asked if customers are complaining about the agreements. Mr. Cafferty replied that the indemnity clause is being questioned, and staff is working with General Counsel on clarifying the language.

Ms. Freshley asked if all problems have been worked out with Mutual 50 on the licensing agreement.

Mr. Granito reported that as Mr. Cafferty stated previously, the indemnity clause language is being questioned. He further reported that MET is providing financial assistance to the Recycled Water customer, and as such is requiring that the customer agree to hold MET harmless via applicable indemnity language. Alternative solutions to MET's requirements are being considered by staff.

#### Funding

Mr. Cafferty stated that the District has received 4 SRF disbursements to date totaling \$20,088,547, and is preparing to submit another disbursement request for construction related costs amounting to nearly \$4 million.

## Rules & Regulations

Mr. Cafferty stated that due to the State's regulations on Recycled Water, the District's Rules and Regulations on Recycled Water Use may need to be adjusted.

## Change Orders

Mr. Cafferty stated that the Change Orders are included in the Board package.

Director Werner asked if a line item could be added to show the capitalized interest cost. Ms. Shahbakhti replied that staff accounts for the capitalized interest at year end, as required by the Auditors. Mr. Cafferty stated that he will add a line item in the Capital Costs Summary to reflect the interest.

Director Werner asked when will the project be complete. Mr. Cafferty replied project completion is anticipated to be the end of this year.

## Recycled Water Expansion Project – Phase II

Mr. Cafferty stated that staff is preparing Engineering contracts for Tetra Tech and Dudek to begin the engineering design and environmental work to prepare a shovel ready project.

## Baker Water Treatment Plant Project

Mr. Cafferty stated that included in the Board package is a construction report that IRWD prepared.

## Comments Regarding Non-Agenda Engineering Committee Items

President Martin asked if GRF was issued a Will Serve for some development they planned. Mr. Cafferty stated that it is the Village Activities

Center Specific Plan of which ETWD performed a Water Supply Assessment. He further stated that the Assessment determined how ETWD could provide water to the anticipated construction were it to be built.

Mr. Cafferty stated that the Assessment was provided to GRF and the City of Laguna Woods.

Director Werner asked if ETWD will be reimbursed for the cost of the Assessment. Mr. Cafferty replied yes, after we have determined all of the consultant's costs.

President Martin asked if Mr. Cafferty knew how much the costs would be. Mr. Cafferty stated that the costs are anticipated to be less than \$25,000.

#### Close Engineering Committee Meeting

At approximately 8:02 o'clock a.m. the Engineering Committee meeting was closed, and the Board took a short recess.

Director Werner asked if staff will be meeting with the Consultant at Northline regarding the odor issue. Mr. Cafferty stated that the media in the existing scrubber has been replaced, and there have been no complaints lately. He further stated that the Consultant is working with staff to determine the best process for a long term solution.

#### FINANCE/INSURANCE COMMITTEE

At approximately 8:10 o'clock a.m. Chairman Werner called the Finance Committee meeting to order.

#### Treasurer Action Items

Financial Package – Authorization to Approve Bills for Consideration dated  
September 23, 2014 and Receive and File Financial Statements as of August 31,  
2014

Ms. Shahbakhti stated that the first two months of the fiscal year have done better than budget.

Director Kahn asked for an explanation of the budget process. Ms. Shahbakhti replied that some items are budgeted for the entire 12 months, and currently we are only two months into the fiscal year.

Ms. Shahbakhti stated that the 401(k) Plan has been consistently performing well.

Chairman Werner asked for a Motion.

Motion: President Martin made a Motion, seconded by Director Kahn to place this item for approval on the Consent Calendar for Thursday, September 25, 2014 Board meeting.

Chairman Werner asked for a Roll Call Vote to place this item on the agenda for the regular Board meeting of Thursday, September 25, 2014 to approve paying the bills.

Roll Call Vote:

Director Vergara:	yes
Director Kahn:	yes
President Martin:	yes
Director Werner:	yes

TREASURER INFORMATION ITEMS

## Utility Billing Software Systems Upgrade Project

Mr. Grandy stated that staff has reviewed with the Computer Committee, options for enhancement of the District's Utility Billing system.

Mr. Grandy stated that the existing system is 10 years old, has limited GIS functionality, is not integrated with the general ledger, is difficult to run reports and reconcile, has no electronic bill pay which requires a third-party for credit card processing.

Mr. Grandy stated that the chosen vendor changed prices and was not able to deliver the functionality for GIS.

Mr. Grandy stated that staff has reviewed cost comparisons from four vendors and is recommending that the District enter into a purchase agreement with the current vendor, CUSI, for the acquisition of a Utility Billing package. He further stated that the Utility Billing package would be implemented in the 2014/15 fiscal year.

Mr. Grandy stated that the CUSI system will be able to integrate with GIS and the general ledger, has no reconciliation, has the ability for electronic bill pay, does not require a third-party for credit card processing, and improves reporting.

Director Vergara asked if any of the neighboring agencies are using this system. Mr. Grandy replied yes, staff visited the City of Laguna Beach and reviewed their utilization of the system. He further stated that CUSI can accommodate our billing system with Tiered Rates and drought factor component.

Director Kahn asked if the new system would cause the credit card processing fee to go away. Mr. Grandy replied no, it will be reduced but will not go away entirely.

Director Kahn asked how much of a difference would it be. Mr. Grandy replied that currently when paying with a credit card is a \$3.95 processing fee, which will be reduced to \$2.78 based on an average bill, which also has a \$250 limit per transaction.

Chairman Werner asked when staff expects to sign a contract. Mr. Grandy replied that after Board approval, staff anticipates signing a contract before the end of the month and implement the on-line bill pay first, then between January 1<sup>st</sup> and March 31<sup>st</sup>, we would implement the Utility Billing.

Chairman Werner asked for a Motion.

Motion: Director Vergara made a Motion, seconded by Director Kahn and unanimously carried across the Board to place this item on the Consent Calendar for approval at the September 25, 2014 Board meeting.

Roll Call Vote:

Director Vergara:	yes
Director Kahn:	yes
President Martin:	yes
Director Werner:	yes

ETWD Investment Policy Statement 1983-3 (IV)

Mr. Grandy stated that staff has reviewed the District's Investment Policy and recommends no changes at this time.

Chairman Werner asked about clarification on the Safekeeping and



Custody language, as to who is the third-party bank trust department. Mr. Grandy replied that New York Bank & Trust is the third-party acting as agent for ETWD under the terms of a custody agreement executed by the bank and ETWD.

Chairman Werner asked for a Motion.

Motion: Director Kahn made a Motion, seconded by President Martin and unanimously carried across the Board to place this item on the Consent Calendar for approval at the September 25, 2014 Board meeting, with staff's recommendation of no changes at this time.

Roll Call Vote:

Director Vergara:	yes
Director Kahn:	yes
President Martin:	yes
Director Werner:	yes

Capital Facility Fee Reserve Reconciliation in Accordance with SB 1760

(Government Code Section 66013)

Ms. Shahbakhti stated that under the State Regulations of SB 1760, the money that the District collects from Developers over the fiscal year has been segregated into a Reserve account. She further stated that at the end of each fiscal year the funds are reconciled and dispersed to the correct expense accounts.

Ms. Shahbakhti stated that \$16,000 was collected from Developers for water, and \$69,000 for sewer. She further stated that the water project was the Chlorination Station Generator replacement.

President Martin asked if we have to report these fees to the State. Mr. Grandy replied no, there are no additional reporting requirements.

Chairman Werner asked for a Motion.

Motion: Director Vergara made a Motion, seconded by Director Kahn and unanimously carried across the Board to place this item on the Consent Calendar for the September 25, 2014 Board meeting.

Roll Call Vote:

Director Vergara:	yes
Director Kahn:	yes
President Martin:	yes
Director Werner:	yes

Resolution No. 14-9-1 – Adoption of the El Toro Water District's (ETWD)

Appropriations Limit for Fiscal Year 2014/15

Mr. Grandy stated that this item is reviewed annually which provides based on State requirements the amount that we are able to establish debt service for general obligation and bonds. He further stated that the likelihood of having a general obligation bond is very remote as it would require a vote of the rate payers.

Chairman Werner asked for a Motion.

Motion: Director Vergara made a Motion, seconded by Director Kahn and unanimously carried across the Board to place this item on the Consent Calendar for the September 25, 2014 Board meeting.

Roll Call Vote:

Director Vergara:	yes
Director Kahn:	yes

President Martin:           yes  
Director Werner:           yes

### GASB 45 Report

Mr. Grandy stated that the Accounting Standards Board established the Plan that governmental liabilities reflect their Pension liability on their Financial statement. He further stated that as they continued their evaluation of Transparency Governmental Accounting Statements, they determined that there are other non-Pension post-retirement benefits that entities were promising their employees, but were accounting for them on a pay-as-you-go basis.

Mr. Grandy stated that as the District pays benefits for post-retirement medical insurance, we expense the item. He further stated that during the course of the employee's time at ETWD, they are earning the benefit but the cost is not being recognized for the service being provided, so these earnings will need to be accrued for post-retirement benefits.

Mr. Grandy stated that in order to determine this amount, we need the assistance of actuaries. He further stated that we require an actuarial report to determine ETWD's obligations every three years.

Mr. Grandy stated that this process has just been completed for the second time. He further stated that the Accounting Standards Board recognizes this change, recognizing expenses in the period in which they are earned versus when they are paid could amount to a huge jolt on the financial report so they have allowed us over time to build up this liability recognition on the books.

Mr. Grandy stated that ETWD's obligation for unfunded post-retirement benefits is approximately \$9 million. He further stated that the Board has been evaluating this benefit.

Mr. Grandy stated that most of the accrued money is for longtime employees that are under the old program. He further stated that as new employees are hired, the liability will go down.

Mr. Grandy stated that \$3.3 million of the \$9 million obligation is currently on ETWD's books and each year we will increase that liability until the full liability is reflected on the books. He further stated that there is an opportunity for ETWD to fund some or all of this obligation, which could come from Reserves and/or current rates.

Mr. Grandy stated that staff could create a separate Reserve for this liability with the help of our actuaries.

Director Kahn asked how we are budgeting this. Mr. Grandy replied that we are budgeting on a pay-as-you-go basis.

Mr. Grandy stated that there is no action being taken today; this item is informational only and will be brought back to the Board in the next month or two for further evaluation.

#### Water Budget Based Tiered Conservation Rate Structure & Usage Activity Report

Mr. Grandy stated that water usage was down, and staff has been reporting to the State on the 15<sup>th</sup> of each month. He further stated that per capita information will be included starting in October.

Director Kahn asked if staff is studying whether Tiered Rates and Drought Factor configuration. Mr. Grandy replied that Tiered Rates have been effective, and most customers are within Tier 1 and Tier 2.

Mr. Grandy stated that staff has met with big irrigators and discussed with them the goals of the State and Conservation and Drought education.

Ms. Moore offered some suggestions on how to better educate customers and HOA's on the Drought and Conservation efforts.

#### Comments Regarding Non-Agenda FIC Items

There were no comments.

#### Close Finance and Insurance Committee Meeting

At approximately 9:19 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 the regular session continued.

#### Adjournment

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

Motion: Director Vergara made a motion, seconded by Director Werner and unanimously carried that today's meeting be adjourned at 9:19 o'clock a.m. to Tuesday, October 21, 2014 at 7:30 o'clock a.m. at the District's Administrative Offices at 24251 Los Alisos Blvd, Lake Forest, CA. 92630.

#### Roll Call Vote:

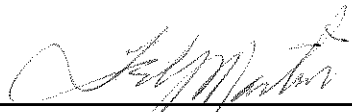
Director Vergara:	yes
Director Kahn:	yes


President Martin:           yes  
Director Werner:           yes

Respectfully submitted,

  
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POLLY WELSCH  
Recording Secretary

APPROVED:

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

  
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MICHAEL P. GRANDY, Assistant Secretary  
of the El Toro Water District and the  
Board of Committee Members thereof