MINUTES OF THE REGULAR MEETING
OF THE
BOARD OF DIRECTORS
OF THE
EL TORO WATER DISTRICT
November 26, 2013

President Martin called the meeting of the Board of Directors of the ELTORO WATER DISTRICT to order at 7:30 o'clock a.m. on November 26, 2013 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

Vice President Goldman led in the Pledge of Allegiance to the flag.

Directors TED F. MARTIN, Vice President M. SCOTT GOLDMAN, JOSE F. VERGARA, and JERARD B. WERNER were present.

Director WILLIAM H. KAHN was absent.

Also present were ROBERT R. HILL, General Manager/Secretary, MICHAEL P. GRANDY, Chief Financial Officer/Assistant Treasurer, DENNIS P. CAFFERTY, Director of Operations and Engineering, GILBERT J. GRANITO, General Counsel, NEELY SHAHBAKHTI, Controller, POLLY WELSCH, Recording Secretary, NITAN PATEL, White Nelson Diehl Evans representative, DAPHNE MUNOZ, White Nelson Diehl Evans representative, BOB ADAMS, HighMark representative, FRED ADJARIAN, Golden State Water District, KATHRYN FRESHLEY, Customer, and CAROL MOORE, Customer.

Oral Communications - Public Comments

President Martin stated that at this time members of the public may address the Board or they may reserve this opportunity with regards to an item on the agenda, until the Board discusses said item later in today's meeting.

There were no comments.

Items Received Too Late To Be Agendized

President Martin asked if there are any items received too late to be agendized. Mr. Hill replied no.

Presentation of Awards, Recognitions and Introductions

Service Awards

There were no acknowledgements.

Continuing Education & Training, Degree and Certification Program Acknowledgement

There were no acknowledgements.

Special District/Employee Association/Community Award Acknowledgement and Employee Special Recognition

There were no acknowledgements.

Consent Calendar

Motion: Director Werner made a motion, seconded by Director Vergara and unanimously carried across the Board to approve the Consent Calendar.

Approval of Items Removed from Today's Consent Calendar

There were no items.

PLAN ADMINISTRATOR MEETING

At approximately 7:29 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 7:52 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

ETWD's 2012/13 Annual Audit Report

Mr. Grandy stated that White Nelson Diehl Evans have completed their audit and issued their report. He further stated that final forms of the reports have been received. Mr. Grandy stated that the Audit Committee and staff have reviewed the reports and recommend that the Board approve and file the reports.

Mr. Patel stated that in connection with the audit they issue their opinion of the financial statements. He further stated that a new audit standard requirement mandates subheadings for ease in reading the statements.

Mr. Patel stated that they discussed management's responsibility in design and implementation of internal controls. He further stated the auditors have responsibility of audit standards/requirements that they must follow.

Mr. Patel stated that there is a communication for those in charge of governance. He further stated that funding practices were discussed, estimates

in financial statements were reasonable, there was no difficulty performing the audit, and there were no disagreements with management.

Director Werner asked if the auditors reviewed all credit card statements. Mr. Patel replied that they randomly viewed credit card statements.

Mr. Grandy stated that the new auditors will be reviewing 100% of the credit card statements. Mr. Grandy thanked the auditors on behalf of staff and the Board for the work they have done for the past 5 years in auditing the District's financial statements.

President Martin asked for a motion.

Motion: Director Werner made a motion, seconded by Director Vergara and unanimously carried across the Board to Receive and File the White Nelson Diehl Evans LLP's 2012/13 Annual Audit Report of ETWD's Financial Statements, the Appropriations Limitations, and the SAS 14 Letter to the Board of Directors.

At approximately 8:00 o'clock a.m. Mr. Patel, Ms. Munoz, and Ms. Shahbakhti left the meeting.

Director Reports for Meetings Attended

Director Vergara stated that he attended the WACO meeting, the WACO Planning meeting, and a meeting with Paul Shoenberger of Mesa Water District where he toured their ozone filtration plant.

Vice President Goldman stated that he attended District meetings and SOCWA meetings.

Director Werner stated that he attended the ISDOC Quarterly meeting,

the WACO meeting, the MWDOC Admin/Finance meeting, the OCWA meeting, and the WEROC Open House.

President Martin stated that he attended the WACO meeting, the WEROC Open House, and the OCWA meeting.

General Manager Action Items

Baker Water Treatment Plant Project

Mr. Cafferty stated that staff is seeking approval of the revised agreement for construction, operation and maintenance, approval of the Installment Purchase Agreement, and approval of financial participation in the project.

Mr. Cafferty stated that the project started at nearly $60 million and has increased to $103.6 million. He further stated that ETWD's share of the Baker WTP costs are estimated to be over $12 million with a total cost to ETWD of over $15 million.

Mr. Cafferty stated that the Baker Pipeline Capacity Transfer Agreement, previously approved by ETWD's Board, indicates that ETWD will purchase capacity in the Baker Pipeline from SMWD. He further stated that the estimated Baker WTP O&M cost at the time the plant is in service in 2016 is expected to be approximately $4.3 million per year. Mr. Cafferty stated that the analysis suggests Baker water could be cheaper than MET water within 7 years.

Mr. Cafferty stated that the Interconnection Agreement with IRWD, the Interconnection Agreement with MNWD, and the purchase of capacity in the Baker pipeline have previously been approved by ETWD's Board. He further stated that today's discussion will focus on the Amended and Restated

Agreement for Construction, Operation, and Maintenance of the Baker Water Treatment Plant, and the Installment Sale Agreement between ETWD and IRWD.

Mr. Cafferty stated that staff is seeking approval of the "amended and restated" changes to the original Baker WRP Agreement. He further stated that the changes are not dramatic.

President Martin asked what is the future status of the Santiago Aqueduct Commission (SAC). Mr. Cafferty stated that it is unclear at this time whether or not there is a need for SAC.

Director Vergara stated that he has doubts about the District's involvement in the Baker project and has reliability concerns whether this project is best for ETWD's participation, or if ETWD would benefit more in the Orange County Groundwater Basin project. Mr. Hill replied that the OCWD/MWDOC consolidation is still under consideration and any mutually agreed to conditions for South County to access and store water in the Basin is uncertain and not near term, while the Baker project is going forward. He further stated that staff reviewed a diversified portfolio on reliability, and is confident that this project gets us closer to meeting our near and long term reliability goals.

Director Werner asked if the project will cause ETWD's water rates to increase to customers. Mr. Grandy replied that staff has reviewed cash flow ten years out, contemplating the Baker project and RWEP project, and reviewed a projected MET increase. He further stated that staff believes we can continue with no rate increase higher than 5%, and maintain the $8.5 million in Reserves.

Mr. Cafferty stated that the District has been collecting a Capital Charge of $500,000 for the last several years to fund the Capital portion of the project. Once the project is complete, the Capital Charge will go to servicing the debt.

Vice President Goldman stated that he feels the project is worthwhile for ETWD to be a participant, as south county has no groundwater and a backup plan is needed. He further stated that this plan allows the opportunity to use Irvine Lake water. Vice President Goldman stated that the Delta issues could be on-going for a long time.

Vice President Goldman asked if there are any contingencies built into the numbers. Mr. Cafferty replied yes, there are contingencies built into the construction costs of 3%. Mr. Grandy stated that the IRWD/ETWD Installment Sale Agreement loan amount could be increased if needed.

Director Werner asked where the other agencies stand on approving the project. Mr. Hill replied that SMWD, MNWD, and TCWD have already approved the project. Mr. Cafferty replied that IRWD will be approving by awarding a contract in December.

Mr. Grandy stated that the Installment Sale Agreement between ETWD and IRWD defines the terms of the financing agreement. He further stated that the agreement has been approved by IRWD, and staff is recommending approval of the Agreement. Mr. Grandy stated that Legal Counsel has approved the language in the agreements.

Mr. Granito reported that there were substantive changes to the original agreement which was adopted last November, and clarified that the action for today is to approve the Agreement submitted in today's agenda package.

Director Werner asked when the project is expected to begin. Mr. Cafferty replied early 2014.

President Martin asked for a motion.

Motion: Vice President Goldman made a motion, seconded by Director Werner and unanimously carried across the Board to approve the Amended and Restated Agreement for Construction, Operation and Maintenance of the Baker Water Treatment Plant subject to non-substantive changes approved by Legal Counsel, and to authorize the General Manager and Legal Counsel to execute said Agreement.

President Martin asked for a motion.

Motion: Vice President Goldman made a motion, seconded by Director Werner and unanimously carried across the Board to approve the Installment Sale Agreement between ETWD and IRWD in the form and content presented today and Resolution No. 13-11-1 authorizing the execution and delivery of said Agreement.

President Martin asked for a motion.

Motion: Vice President Goldman made a motion, seconded by Director Werner and unanimously carried across the Board to approve financial participation in the Baker Water Treatment Plant project in accordance with the

terms and conditions of all approved applicable Baker Water Treatment Plant Agreements.

Association of California Water Agencies (ACWA) Officer Elections

Mr. Hill stated that each member agency is entitled to one vote on behalf of the District for the nomination and election of ACWA officers during the ACWA Fall Conference. He further stated that staff recommends that the Board authorize the Board President to cast the District's vote.

Vice President Goldman suggested supporting Peer Swan. Director Vergara also suggested supporting Peer Swan.

President Martin asked for a motion.

Motion: Vice President Goldman made a motion, seconded by Director Vergara and unanimously carried across the Board to authorize the Board President to cast the District's vote regarding the nomination and election of ACWA officers during the ACWA General Session on Wednesday, December 4, 2013, and if necessary on Thursday, December 5, 2013.

Approval of Amended and Restated ISDOC Bylaws

Director Vergara stated that at the ISDOC Executive Committee meeting, there was an issue related to "appointed" officials not being allowed to be on the Executive Committee. Mr. Hill replied that the provision has been removed, and "appointed" and "elected" officials are able to be on the Executive Committee.

President Martin asked for a motion.

Motion: Director Werner made a motion, seconded by Director Vergara and unanimously carried across the Board to approve the Amended and

Restated ISDOC Bylaws as proposed by the ISDOC Executive Committee, and authorize the Board President to complete and submit the Ballot on or before Monday, December 9, 2013.

General Managers Information Items

General Manager's Monthly Report

Mr. Hill stated that he included the ACWA Statewide Water Action Plan for California. He further stated that ACWA is looking for Resolutions of support for the Plan. Mr. Hill stated that 40 agencies out of 450 agencies have provided Resolutions of support for the Plan, and suggests that ETWD consider formally supporting the Plan at some point. He further suggested that this could be a discussion and consideration by the South County Agencies.

Mr. Hill stated that also included in the package is some information on the Bay Delta Conservation Plan.

Mr. Hill stated that he attended the OCWD Producers meeting where they discussed the possible consolidation of OCWA and MWDOC. He further stated that they discussed the number of Board members, the water authority concept, and retirement plan differences.

Mr. Hill stated that he participated in the WEROC/ETWD POD Training exercise.

Scheduling of ETWD's Board of Director's Scheduled Meetings for Calendar Year 2014

Mr. Hill stated that the Recording Secretary has reviewed the dates in 2014 and recommends changes to the November and December Board meeting dates, due to the holidays.

Legislative Reports

There were no comments.

Public Education and Outreach/Water Conservation Report

Mr. Hill stated that the Public Outreach report reflects where State Water Resources Control Board member Dorene D'Adamo attended an informational tour of facilities at MNWD, SMWD, IRWD, TCWD, and ETWD.

At approximately 9:11 o'clock a.m. Mr. Adjarian, Ms. Moore, and Ms. Freshley left the meeting.

SOCWA Reports

President Martin stated that he attended the SOCWA Finance meeting. He asked if the District received a refund check from SOCWA. Mr. Grandy replied yes.

Vice President Goldman stated that he attended the SOCWA Board meeting where they discussed the AWMA Bridge.

Vice President Goldman stated that he attended the SOCWA Executive Committee meeting where they discussed with the Interim General Manager the employee's MOU.

Mr. Cafferty stated that he attended the SOCWA Engineering Committee where they did not discuss Gate 5. He further stated that they discussed the fuel cell proposal by US&R.

MWDOC

Mr. Hill stated that Director Kahn attended the MWDOC/MET Directors meeting where they had a presentation by Dr. David Sunding on the Economic Analyses conducted on the Bay Delta Conservation Plan.

Mr. Hill stated that he attended the MWDOC Elected Officials Forum. He further stated that they discussed the BDCP, drought, consolidation issues, MET issues, and water reliability.

Director Werner stated that he attended the MWDOC Admin/Finance meeting where they approved entering into a contract with Arnerich & Massena to develop a proposal for the District's defined contribution and deferred compensation plans.

LAFCO

Mr. Hill stated that they are planning to hire an Assistant Executive Officer. He further stated that he will be on their interview panel in December.

SOCWMA

Mr. Hill stated that he did not attend the SOCWMA meeting.

ISDOC Meetings

Director Werner stated that he attended the ISDOC Quarterly meeting.

WACO Meetings

Director Vergara stated that he attended the WACO meeting where they discussed upcoming speakers.

City Coordination Efforts

There was no meeting.

Attorneys Report

Mr. Granito reported on an emerging issue for Public Agencies concerning the California Voting Rights Act. Mr. Granito reported that Public Agencies that have elected Governing Boards or Councils at large are potentially at risk in view of the successful challenge to the at large elections for the City of Palmdale. Plaintiff in this case successfully demonstrated that the cities at large elections rationally polarized voting in violation of the Act.

Closed Session

At approximately 9:27 o'clock a.m. President Martin called for a Closed Session. Also at this time, Ms. Welsch, Mr. Hill, Mr. Cafferty, and Mr. Grandy left the meeting.

At approximately 9:50 o'clock a.m. Vice President Goldman left the meeting.

Open Session

At approximately 9:54 o'clock a.m. Regular Session resumed. Also at this time, Ms. Welsch, Mr. Hill, and Mr. Grandy returned to the meeting.

Report on Closed Session

Mr. Granito reported that the Board did adjourn to Closed Session as reflected in item #2 of today's Closed Session agenda to initiate the evaluation of the performance of the General Manager.

Mr. Granito reported that the Directors will resume the evaluation process at the December Board meeting. No further reportable action was taken.

Committee and General Information

Computer Committee Report

There were no comments.

Dates to Remember

There were no comments.

Carry-Over Pending Matters

There were no carry over matters.

Director Comments/Non-Agenda Items

There were no comments.

Adjournment

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

Motion: Director Werner moved, seconded by Director Vergara and unanimously carried that today's meeting be hereby adjourned at 10:00 o'clock a.m. to Thursday, December 19, 2013 at 7:30 o'clock a.m. at the District's Administrative Offices, 24251 Los Alisos Blvd., Lake Forest, California.

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

MINUTES OF THE PLAN ADMINISTRATOR

MEETING OF THE

EL TORO WATER DISTRICT

RETIREMENT PLAN AND TRUST AGREEMENT

November 26, 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 7:29 o'clock a.m. on November 26, 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, JERARD B. WERNER, and JOSE F. VERGARA.

Plan Administrator WILLIAM H. KAHN was absent.

Also present were ROBERT R. HILL, General Manager/Secretary, MICHAEL P. GRANDY, Chief Financial Officer/Assistant Treasurer, DENNIS P. CAFFERTY, Director of Operations and Engineering, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, NITAN PATEL, White Nelson Diehl Evans representative, DAPHNE MUNOZ, White Nelson Diehl Evans representative, BOB ADAMS, HighMark representative, FRED ADJARIAN, Golden State Water District, KATHRYN FRESHLEY, Customer, and CAROL MOORE, Customer.

Quarterly Review of Pension Plan Performance

Mr. Grandy stated that Mr. Adams is here today to review the performance of the 401(k) plan.

Mr. Adams stated that once the Fed slows down and stops buying Government paper, there will be interesting and challenging times for the economy. He further stated that on the equity side, the market is run up more and earnings should start ramping up, but they don't anticipate it to last long.

President Martin asked if HighMark feels there will be any action from the Feds to change the laws governing offshore cash. Mr. Adams replied they have not seen anything regarding tax avoidance, but the Wall Street Journal indicates the EU may consider it.

Mr. Adams stated that the quarterly report indicates that the total investment pool balance distribution is Capital Preservation (26%), Income and Growth (45%), Balanced (25%) and Growth (4%). He further stated that overall performance is doing well.

Mr. Adams stated that one change they made was in Value Growth.

ACTION ITEM

Revised ETWD Investment Policy Statement for the Retirement Savings Plan

Mr. Grandy stated that staff reviewed the IPS with the Board last month and has revised the IPS to allow the investment advisor the ability to use their discretion to invest a portion from the funds in "alternative investments".

Director Werner stated that HighMark uses the S&P benchmarks, and said using Behrens 400 benchmarks may also be appropriate. Mr. Adams replied that they use the benchmarks that staff and the Board mandate, and he will compare them.

Director Werner asked how HighMark plans alternatives. Mr. Adams replied that 85-90% of the alternatives are spread among the pools. He further stated that gold commodities and floating rate notes are withdrawn from the alternatives.

President Martin suggested that staff hold off on this item until more information is available.

Vice President Goldman asked what percentage of the equities would be in the alternatives. Mr. Adams replied that on page 8 of the IPS, the first reference fund components are targets.

Vice President Goldman understood that the alternatives are more volatile. Mr. Adams replied that they lower the volatility of the portfolio.

Director Vergara stated that he understood there were more risks in the alternatives.

Mr. Adams stated that the individual components have more risk, this is why the core is considered for the alternatives in the package.

Mr. Grandy asked Mr. Adams if he could bring his coordinator to a future Board meeting to clarify the alternatives for the Board members. Mr. Adams replied yes.

Mr. Hill stated that there is no urgency to approve the IPS, and staff suggests deferring the action to the next few months. Mr. Grandy stated that staff will withdraw the recommended action for this item.

President Martin asked for a motion.

Motion: Director Werner made a motion, seconded by Director Vergara and unanimously carried across the Board to table this item until a future meeting when the HighMark coordinator and representative could attend and provide further details about the alternatives and amended IPS.

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 7:52 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