

MINUTES OF THE SPECIAL MEETING
OF THE
BOARD OF DIRECTORS
OF THE
EL TORO WATER DISTRICT
April 18, 2013

President Martin called the Special meeting of the Board of Directors of the ELTORO WATER DISTRICT to order at 7:30 o'clock a.m. on April 18, 2013 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

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

Directors TED F. MARTIN, M. SCOTT GOLDMAN, JOSE F. VERGARA, WILLIAM H. KAHN, and JERARD B. WERNER were present.

Also present were ROBERT R. HILL, General Manager/Assistant 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, and POLLY WELSCH, Recording Secretary.

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.

Consider Approving the Minutes of the Budget Committee #2 Meeting

The Committee approved the minutes of the April 9, 2013 Budget Committee #2 meeting.

ETWD Draft 2013/14 Budget

Mr. Hill stated that included in today's Board package is:

- 1) Proposed draft 2013/14 Budget
- 2) Proposed 2012/13 & 2013/14 Organizational Chart w/Assumptions and Fiscal Impact Analysis Tables
- 3) Five-Year Cash Flow and Reserve Analysis
- 4) Cost-of-Service Study
- 5) Draft Prop 218 Notice

Vice President Goldman stated that the Budget Committee had minor suggestions, and complimented staff on doing a good job preparing the draft budget.

Mr. Hill stated that Director Vergara had several questions for staff, which will be addressed as we move forward.

President Martin stated that SOCWA will be presenting changes to their budget, which will impact our budget. Mr. Hill replied that the impact should be positive for the District.

Mr. Cafferty stated that ETWD is involved in PC-17 which involves solids handling at the Regional Plant, PC-21 for the effluent transmission main, and PC-24 for the ocean outfall. He further stated that there is also the general fund, permitting, and pretreatment.

Director Kahn asked how we will determine our budget when we don't know what the numbers will be yet. Mr. Hill stated that prior to finalizing our budget, staff should have the information available to them.

Mr. Grandy stated that staff will be discussing the Revenue Plan, Assumptions, and Challenges. He further stated that Revenue and Expenses, Capital Cash Flow, Labor, Proposed Rates and Prop 218 Notice will be discussed.

Mr. Grandy stated that the economy hasn't changed much and rates from suppliers continue to increase. He further stated that staff is moving forward with securing financing for our major projects.

Mr. Grandy stated that the Revenue Plan calls for passing through the increase from MET and/or MWDOC to the rate payers. He further stated that the Capital R&R charge, although not changing this year, will change as needed.

Mr. Grandy stated that staff is anticipating water sales of 8,500 acre feet and recycled water at 425 acre feet. He further stated that property tax collections are not being adjusted, and interest income will remain the same at ½% with the Capital R&R remaining at \$3 million.

Director Werner asked about the fee for new customers and what happened to that. Mr. Grandy stated that the Board passed the water and sewer capital facility charge last fall for a water and sewer connection fee. Mr. Hill stated that the fee would be for new development which is difficult to predict.

Director Vergara stated that the District purchases 8,800 acre feet of water and anticipates selling 8,500 acre feet, and asked where the remaining 300 acre feet of water goes. Mr. Grandy stated that the difference is due to loss and internal use.

Director Vergara stated that water sales have decreased since 2007, due to the economy. Mr. Grandy replied that the economy and concentrated effort in 2009/10 with the potential for MET penalties for exceeding allocations. He further stated that the budget based tiered rate structure has also caused customers to be more aware of water use.

Mr. Cafferty stated that when staff prepared the 5-year cash flow, they separated operations into three different cost centers: potable water, recycled water, and wastewater.

Mr. Hill stated that on the Capital R&R charge, it had not been increased in two years, and the objective was to generate \$3 million of which approximately \$2.5 million goes to typical capital reinvestment and the other \$500,000 is to service debt on the Baker project.

Mr. Grandy stated that staff recommends increasing the water fixed meter charge to generate an additional \$200,000. He further stated that staff is also recommending increasing the wastewater fixed meter charge by \$400,000.

Mr. Grandy stated that other income is going down. Mr. Hill stated that staff anticipates a smaller SOCWA revenue refund.

Director Vergara asked a question on the recycled water sales. He asked if the expected increase is due to the current project or a previous project. Mr.

Grandy replied that the increase is due to the existing agreement with Golden Rain Foundation (GRF). Mr. Cafferty explained that the District had a contract with GRF which stated that they had to buy 300 acre feet of water which was the basis for the budget. The District was actually selling 425 acre feet, so the budget has increased accordingly.

Mr. Grandy stated that the standby charge was \$26.00 per dwelling unit, which has been assessed on the tax role, and is a restricted reserve which can only be used to reduce the debt on the state revolving loan (plant expansion), and City National Bank. He further stated that the District has collected enough funds to pay the principal and interest on both of these obligations, so this revenue source will drop off the tax role in 2013/14.

Mr. Grandy stated that there are four major categories of expenses that are reviewed internally; purchased water, labor and benefits, depreciation, and other operating expenses. He further stated that purchased water is increasing as a result of the pass through from MET and MWDOC. Depreciation has not changed, and is a non cash accrual based accounting requirement. Other operating costs have increased slightly.

Mr. Grandy stated that within purchased water there is MET and MWDOC, and of the \$8.3 million, approximately \$110,000 is MWDOC costs. He further stated that we are budgeting for choice programs such as the Huntington Beach Desal project, the Second Lower Cross Feeder, the school program with the Discovery Science Center, and the Water Use Efficiency program. Mr. Grandy

stated that these choice programs have been integrated into our O&M and/or water budget.

Vice President Goldman asked on the MWDOC communication plan, does staff have an update. Mr. Hill replied no, there has not been any additional discussion on the communication plan.

Vice President Goldman asked if the number for the Desal is actual or anticipated. Mr. Hill replied that the number is anticipated and the Second Lower Cross Feeder number is also anticipated.

Vice President Goldman stated that for the school program, the Budget Committee discussed setting up a separate school program for South County. Mr. Hill replied that the District is participating in an assembly program and a key pad program.

Vice President Goldman stated that the numbers for the Water Use Efficiency seem high, and asked if staff is anticipating changes. Mr. Hill stated that the number is based on MWDOC's overall budget which reflects more activity in our service area for the overall cost of service in the program. He further stated that the Water Use Efficiency is a choice program and the agencies participate for a 5-year period.

Director Vergara asked how many agencies are participating in the Second Lower Cross Feeder program. Mr. Hill replied that ten agencies from South County are participating.

Mr. Grandy stated that labor is also a major component in our expenses. He further stated that total labor makes up almost 1/3 of our total operating

expenses. Mr. Grandy stated that the budgeted total overall labor expenditure which includes salary compensation, benefits and workers compensation anticipates a budget to budget increase of \$265,290. Of this amount, \$105,041 is attributable to Succession Plan implementation.

Mr. Grandy stated that the organizational chart in the package is color coded to reflect proposed changes as part of the Succession Plan. He further stated that in 2013/14 the Customer Service department will be divided between Field Operations and Administrative.

Vice President Goldman asked if staff is anticipating losing two employees and adding 5 employees. Mr. Cafferty replied that in 2013/14 we are adding 3 full time employees, 1 part-time employee, and losing one full time employee. He further stated that one of the retirees will become part time for the second half of the year.

Mr. Hill stated that the front office staff and Billing Clerk will shift to report to the Controller, and the Field office customer service staff will shift to report to Operations. Mr. Cafferty stated that the Regulatory Analyst position currently consists of three functions, and the Collections department will shift to the Chief Plant Operator.

Mr. Grandy stated that as the Controller assumes the responsibility for some of the activity of the Billing and Accounting departments, a part-time Accounting person will allow reassignment of some responsibilities.

Mr. Grandy stated that Field Service department will have a new position, which will be a Recycled Water Coordinator. Mr. Cafferty stated that this

position will be responsible for recycled water on-site conversions, management of regulatory requirements, and on-going inspections. He further stated that this position will assume the duties of Regulatory Compliance on water and wastewater after the current Regulatory Analyst's retirement.

President Martin asked Mr. Hill if staff has discussed how to present these changes to current employees. Mr. Hill stated that staff will have specific discussions with the departments and individuals impacted by the changes, or having an employee meeting.

Director Werner stated that staff should consider offering current employees the chance to apply for these positions, if interested. Mr. Hill stated that positions are posted internally for staff who may be interested in applying for the openings.

Mr. Grandy stated that additional training is offered to employees on a monetary basis for obtaining certificates and training over and above their job requirements.

Mr. Cafferty stated that the Project Engineer will assist with current and pending projects, coordinate with Operations, and supervise the existing Engineering Associate.

Director Kahn asked if staff anticipates any overlap of responsibilities. Mr. Cafferty replied no.

Mr. Cafferty stated that the Electrical SCADA Supervisor position is a revision to the previously generated budget. He further stated that the current Pump Stations Foreman is going to retire, and previously staff anticipated hiring

an entry level person and promoting from within. Mr. Cafferty stated that all of the District's instrumentation control is managed by Motoronics, which is a one person business. Mr. Cafferty stated that staff plans to hire this person as a staff member rather than a contractor. He further stated that the maintenance and capital costs will then be offset by the labor budget.

Mr. Grandy stated that the draft budget in the Board package does not contain the reduction in savings on labor or O&M capital. He further stated that when today's discussion is finished, staff will be asking the Board to finalize the budget with today's discussed changes.

At approximately 9:03 o'clock a.m. Vice President Goldman left the meeting.

Mr. Grandy stated that the one year and five year Capital Plan is included in the Board package. He further stated that all Capital projects over \$20,000 will be brought before the Board for approval.

Mr. Hill stated that the Baker project is included in the budget.

Mr. Grandy stated that a detailed Cash Flow is included in the Board package. He further stated that cash sources and expenditures focus on the 2013/14 fiscal year and include the increase in commodity charge, increase in sewer and fixed meter charges, and the loss of the standby fee. Grant and loan proceeds are also included for the Recycled Water and Baker projects.

Mr. Grandy stated that the ending Reserve balance fulfills O&M and Capital obligations, staying true to rate adjustments not over 10%, and remain

above \$8.5 million in Reserves. He further stated that the numbers are inflated due to anticipated increases from MET and MWDOC in future years.

President Martin stated that we do not know the cost of wheeling the Baker water. Mr. Cafferty stated that in addition to that, staff is anticipating building a pump station, which is an IRWD pump station that ETWD will take over. He further stated that these costs are included in the 5-Year Capital Plan.

Mr. Grandy stated that included in the Board package is a Cost of Service study. He further stated that rates will increase due to the 12 cent per billing unit pass through. Mr. Grandy stated that staff is not recommending any change to the Capital R&R rates.

Mr. Grandy stated that last year we adjusted supply components, but staff is not recommending an adjustment this year. He further stated that Fixed Meter charges for water and sewer, based on the Cost of Service study, and additional water revenues to various meter sizes are increasing.

President Martin asked how the increases are determined that are used in the Cost of service study. Mr. Grandy replied that Raftelis takes our total budgeted expenditures for the 2013/14 fiscal year, subtract from that non-rate type revenue, and determine a revenue requirement. He further stated that slightly more than half of the increase is a result of the pass through charge, and the remainder is a result of operating charges.

Scheduling of Public Hearing to Consider Amendments to the District's Rules and Regulations which Increase Certain Rates, Fees and Charges

Mr. Grandy stated that included in the Board package is a draft Prop 218 Notice. He further stated that staff plans to distribute the notices to customers May 6th to remain in compliance with the legal requirements.

Directors Vergara and Kahn stated that they will both be on vacation during the June Board meetings. Mr. Grandy stated that as long as there is still a quorum, the Board will continue with the Public Hearing in June.

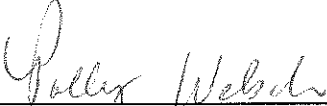
President Martin asked for a motion.

Motion: Director Werner made a motion, seconded by Director Kahn and unanimously carried across the Board to authorize the General Manager to 1) finalize the 2013/14 budget to include the reduction in labor costs, the reduction in O&M and Capital as a result of the revised Succession Plan and potentially SOCWA, 2) schedule a Public Hearing for June 27, 2013 for the purpose of amending the District's Rules and Regulations to increase certain rates, fees, and charges, effective July 1, 2013, and 3) authorize the General Manager and General Counsel to publish/distribute the required legal notices concerning the proposed amendments to the District's Rules and Regulations.

ADJOURNMENT

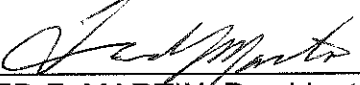
There being no further business to come before the Board, today's meeting was adjourned at 10:00 o'clock a.m.

Respectfully submitted,

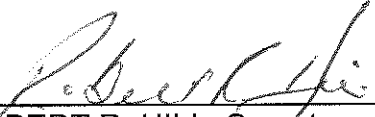


POLLY WELSCH
Recording Secretary

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