

MINUTES OF THE SPECIAL MEETING
OF THE
BOARD OF DIRECTORS
OF THE
EL TORO WATER DISTRICT
August 15, 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 August 15, 2013 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

Director Werner 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 was no public and there were no comments.

Baker Water Treatment Plant Status Report

Mr. Hill stated that a Water Supply System Reliability Workshop was held last May where we discussed existing and projected water demands, local and regional scenarios, reliability of the MET system, state water project, Colorado River, potential vulnerabilities, and additional base loading at Poseidon. He further stated that today's focus will be on the Baker project update.

Mr. Cafferty stated that the Baker Water Treatment plant will reduce our dependency on Diemer and the Allen-McColloch Pipeline. He further stated that capacity will be 43.5 cfs, and the source of the water will come from the Colorado River, the State Water Project, and a connection to Irvine Lake.

Director Kahn asked where the water will be coming from, if it is not going through Diemer. Mr. Cafferty replied that Lake Mathews will be the primary source which comes through the Santiago Lateral and then through the Baker Pipeline. He further stated that the State Water Project would probably not supply water to the Baker Pipeline, and primarily the Colorado River will be the main source.

Director Kahn asked if there is a shutdown at Diemer, where will the State Water Project water be routed to. Mr. Cafferty replied that if Diemer was out, the water would come from the Colorado River, but would not be from the State Water Project.

Director Vergara asked Mr. Cafferty to remind us why putting Baker water directly into the AMP will not work. Mr. Cafferty stated that it was the original idea, but the big issue was getting it through MET. He further stated that they

were going to assess a wheeling charge between \$10-\$20 an acre foot, and also severe restrictions as to the water quality responsibility regardless of the source. Mr. Cafferty stated that the complications went away if the water is put in the South County Pipeline. He further stated that SMWD, MNWD, and TCWD have existing connections to the South County Pipeline; however it is not the best point for ETWD.

President Martin asked what percentage of water we would be using from the State versus the Colorado River. Mr. Cafferty replied that on the assumption that the blend at Diemer is 50/50, we would be getting 1/3 of our water from Baker, resulting in a split equivalent to 2/3 from Colorado River and 1/3 from Northern California.

President Martin asked if that would raise our TDS. Mr. Cafferty replied that it could raise our TDS slightly.

Mr. Cafferty stated that the anticipated costs are Engineering at \$17.0 million, Construction at \$71.3 million, and miscellaneous at \$2.1 million, for an estimated total project cost of \$90.4 million.

Mr. Cafferty stated that IRWD is planning to attend our September Engineering meeting to provide an update on the Baker Project, and cost evolution.

Mr. Cafferty stated that the project stakeholders are ETWD, IRWD, MNWD, SMWD, and TCWD and everyone is in at different shares. He further stated that the Baker WTP water will be discharged to the South County Pipeline

and taken by ETWD at an IRWD Interconnection with a MNWD Interconnection as a backup.

Mr. Cafferty stated that there is an existing pump station at the IRWD Interconnection which ETWD will take ownership and rebuild that will take water and put into the R-6 zone to tie the Baker water into our R-6 transmission system. He further stated that a new interconnection between MNWD and ETWD was being planned near Los Alisos Blvd taking a turn-out from Moulton Niguel and tying it into the transmission line between the R-6 Reservoir and our main pressure reducing station.

President Martin asked if there is a cost for this. Mr. Cafferty replied that the interconnection is being funded by SMWD as part of their Prop 50 grant requirement and R-6 capacity sale. He further stated that we would pay a surcharge for using the South County Pipeline, which is approximately \$9.00 an acre foot and covers SMWD maintenance of the pipeline.

Director Kahn asked if we could use the MNWD interconnection on a more permanent basis and avoid the cost of a pump station. Mr. Cafferty replied that this option of bringing water through the South County Pipeline, on a daily basis was reviewed. However there is a significant operational cost at the Baker site because of pumping required at the Baker plant to put the water in the South County Pipeline. The most cost effective approach is the IRWD Interconnection.

Vice President Goldman asked how long it will take to be notified of a problem, and how long to switch over to the MNWD interconnection. Mr. Cafferty

replied that the agreement with MNWD states that they will make the switchover within 48 hours or sooner.

Vice President Goldman asked if the pressure will drop. Mr. Cafferty replied that we will have a flow meter at the pump station to monitor flow during a switchover. He further stated that there will not be an immediate impact to our supply, as there will still be water in the R-6 Reservoir, and there will be opportunity to switchover as quickly as possible.

Mr. Cafferty stated that when the water level is down in the R-6 Reservoir, the pressure is reduced in the R-6 pressure zone. This project will also help with that problem. He further stated that the connection with IRWD will be at El Toro Road and 2nd Street. Mr. Cafferty stated that the MNWD connection has an existing MET turnout on Los Alisos, and the connection has already been designed and ready to go out to bid.

Mr. Cafferty stated that an amendment is in progress to the Baker Water Treatment Plant Agreement. He further stated that the Baker pipeline capacity transfer agreement is complete.

Mr. Cafferty stated that the MNWD Interconnection Agreement is near completion. He further stated that IRWD is developing language on an Interconnection Agreement.

Mr. Cafferty stated that IRWD is negotiating final terms and concurrent pursuit of financial rating on a Finance Agreement.

Vice President Goldman asked Mr. Cafferty to remind the Board what is the process in the Agreement for future Capital Improvements and cost sharing.

Mr. Cafferty stated that there will be an annual budget which has to be reviewed and approved by each of the 5 participating agencies. He further stated that the agreement does not call for having a set meeting, but does state that there will be a budget review process.

Vice President Goldman asked how far the discussion has gone on setting up a Committee to review proposed future plans and costs. Mr. Cafferty stated that the facilitation of discussion has not been detailed yet, but the concern can be re-visited.

Director Vergara asked if the ownership belongs to IRWD. Mr. Cafferty replied yes, we are buying capacity in the Project. Director Vergara stated that IRWD has already started this project, and if it doesn't happen, what happens to the existing staff. Mr. Cafferty stated that IRWD is tracking their time and billing for their labor by using existing staff.

Director Vergara asked if the cost is going to be a problem. Mr. Cafferty replied that the project is more expensive today than when it originally started. He further stated that IRWD will discuss what has driven the costs when they come to our September Board meeting to discuss this project. Mr. Cafferty stated that this project is a reliability project that will become a financial win in a relatively short time.

Director Kahn asked when it comes to budget and Committee meetings for this project, will decisions be based on the percentage that each agency has in the project. Mr. Cafferty replied that he will review the agreement.

Mr. Cafferty stated that the cost components consist of the Baker WRP, Pipeline Capacity, the 2nd Street Pump Station, and on-going O&M costs.

Mr. Cafferty stated that the Project Capital Cost would include ETWD capacity of 5 cfs, ETWD cost share at 11.949%, so that of the total project cost of \$90,405,804, ETWD's share would be \$11,280,597.

Mr. Cafferty stated that the cost components for 2016 include Baker WTP at \$11,280,597, Baker Pipeline at \$1,309,395, 2nd Street Pump Station at \$1,125,601, for total Capital Costs of \$13,715,592.

Mr. Cafferty stated that Capital Unit Cost is \$220 per acre foot, O&M Baker WRP is \$124 per acre foot, O&M 2nd Street Pump Station is \$29 per acre foot, for total O&M Costs at \$153 per acre foot. He further stated that the Total Unit Cost will be \$373 per acre foot, MWD Raw Water Cost is \$658 per acre foot, and so the Total Baker Produce Water Cost is \$1,031 per acre foot.

Vice President Goldman asked if the Baker Pipeline O&M is included in his costs. Mr. Cafferty replied that the Baker Pipeline O&M is included.

Director Vergara asked if the \$9.00 surcharge on the South County Pipeline includes pumping. Mr. Cafferty replied no, the only pumping to get to the South County Pipeline would happen at Baker.

Director Werner asked if the loan is amortized. Mr. Cafferty replied yes, 20 years at 4.5%.

Director Kahn asked if we are planning to pay IRWD 4.5% interest. Mr. Gandy replied that the interest rate will not be "set" until the first draw is made, and then it will be pegged to an index and locked in through the duration of the

loan. Mr. Cafferty stated that the numbers he used are based on a 4.5% interest rate.

Mr. Cafferty stated that MWD rates per MWD projects are approximately 5%, with 4% inflation on Baker project O&M costs, and include the impact of deferred interest from Reserves utilization.

Mr. Grandy stated that the agreement which has been evolving between staff and Legal Counsel is almost complete. He further stated that one of the components is that this debt would be on a parity with all of our other obligations.

Mr. Grandy stated that a detailed review of the SRF agreements indicated that any other debt of the District, if it were to be on a parity with the SRF loan, we would have to demonstrate at least an "A" rating by two agencies, which is an expensive proposition. He further stated that staff went back to IRWD and asked if they would entertain subordinating to the SRF. Mr. Grandy stated that IRWD staff has indicated that this may be possible; however they would need to clear it through their Finance Committee and Board, which they are in the process of doing.

Mr. Grandy stated that staff has been working with Brian Thomas of PFM, who is the ex-CFO of MET in preparing ourselves to get rated if necessary.

President Martin asked what staff estimates costs to be to obtain a rating. Mr. Grandy replied that the cost for the rating is approximately \$50,000 of which approximately \$30,000 is the costs paid the agencies and the other \$20,000 for the assistance in preparing the package.

Director Werner asked where the cost will be allocated. Mr. Grandy replied that it could be operating costs, or we could capitalize it as part of the project.

President Martin asked Mr. Cafferty if he could distribute the draft agreements to the Board now for review. Mr. Cafferty replied that staff may include some of the agreements in the September Board package, as the Go/No Go Decision will be discussed in October.

President Martin asked if the existing plant will be torn down. Mr. Cafferty stated that there is an existing site, and Reservoirs that may be re-used. He further stated that the original feasibility study assumed that existing structures would be used, but there is not much of the existing structures that can be used.

Mr. Cafferty stated that the financial analysis includes Baker WRP construction with an estimated loan amount of \$8.8 million. He further stated that Reserves would consist of the Baker WRP construction cost of \$2.5 million, Baker Pipeline Capacity of \$1.3 million, and the IRWD Interconnection cost of \$1.1 million, for a Total Reserves cost of \$4.9 million.

Vice President Goldman asked on the Cash Flow/Reserve Balances, what happens in 2014/15 that causes the Debt Coverage Ratio to increase. Mr. Grandy replied that in 2014/15 the Laguna Hills Water and Sanitation debt goes down (paid off), the Revenue doesn't change so the coverage goes up. Mr. Cafferty stated that in 2015/16 we begin the new debt of the SRF loan payment where we have to move the value of one year's payment (approximately \$1.7

million) out of Capital Reserves into a Restricted Reserve, which is part of the SRF loan requirements.

Mr. Cafferty stated that the project is out to bid, with 6 pre-qualified bidders. He further stated that Baker WRP bids are due September 26th, and Raw Water Pump station bids are due October 1st. Vice President Goldman asked if staff could forward the list of bidders to the Directors. Mr. Cafferty concurred.

Mr. Cafferty stated that IRWD plans to present a project presentation to our Board on September 24th. He further stated that a Go/No Go Decision will be made in October or November, with IRWD issuing Notice of Award in December, and the project anticipated to be on-line in 2016.

Mr. Cafferty stated that in 2016 the proposed MWD treated water imported from Diemer will be down from 96% to 53%, the Recycled Water will increase from the current 4% to 14%, and we will receive 33% from the Baker WTP.

Mr. Hill gave a status report on Potential Reliability Projects.

Vice President Goldman asked if staff had an update on the Second Lower Cross Feeder. Mr. Hill replied that unless there is assurance that there will be molecules coming from LA down to Orange County, it could be a \$51 million project. He further stated that without a commitment from MET there is no assurance that there could be any water to go to Orange County in an emergency, and therefore at this time it would appear to not be a feasible project for us and/or South County to consider. MET has agreed to provide in writing clarity regarding emergency supply availability.

Vice President Goldman asked if any of the planning projects could be considered a 50/50 chance besides our own Recycled Water Expansion Project. Mr. Hill replied that the most solid project is the one we have control over, but in terms of supply the Strand Ranch or Cadiz projects could provide opportunities at some point to work with SMWD and IRWD but are not on the near horizon.

Mr. Hill stated that the Second Lower Cross Feeder could slip off the planning project schedule. He further stated that on Poseidon's agenda for today's meeting is the OCWD interest in purchasing 100% of the desal water. Mr. Hill stated that the Poseidon project is not in the near future.

Mr. Hill stated that the BDCP will also impact rate payers. He further stated that as we consider raising rates in the future, we have to consider that the BDCP may become a viability.

Director Kahn asked if the OCWD takes over from MWDOC, do we bank the remaining amount of water we would no longer be taking from MWD, continue to take the same amount, and store it. Mr. Hill replied that the diversification of our import supply is from a treatment standpoint.

Director Kahn stated that MWDOC implied we would get water from the basin in an emergency. Mr. Hill stated that there is an agreement that states that in an emergency, a limited amount of water is available to be conveyed through the IRWD system into South County and the agencies invested in this agreement through a Capital standpoint are SMWD, MNWD, and perhaps SCWD, the ones with the least amount of storage.

Mr. Hill stated that the District's focus is on our Recycled Water project, future recycled water projects, the Baker Treatment Plant, our Water Budget Based Tiered Rate Structure, and Conservation.

Director Kahn stated that if we had an agreement with OCWD, where we have some guarantees of water from the aquifer, would we be able to offset being part of the Baker Treatment Plant for reliability. Mr. Hill replied that the Baker Project and potential access to the basin would be part of our diversification plan.

Vice President Goldman stated that we would be paying wheeling charges if we needed to take the water in an emergency.

At approximately 9:17 o'clock a.m. the Board took a short recess.

At approximately 9:30 o'clock a.m. Regular Session resumed, and President Martin called for a Closed Session. Also at this time, Ms. Shahbakhti and Ms. Welsch left the meeting.

Attorney Report

Closed Session

At approximately 9:45 o'clock a.m. Vice President Goldman left the meeting.

At approximately 9:50 o'clock a.m. Mr. Hill left the meeting.

Open Session

At approximately 9:55 o'clock a.m. Open Session resumed. Also at this time Ms. Welsch returned to the meeting.

Report on Closed Session

Mr. Granito reported that the Board did go into Closed Session as agendized on today's agenda at approximately 9:30 o'clock a.m. to discuss a matter of potential litigation pursuant to subdivision (b) of Government Code Section 54956.9. Mr. Granito reported that during the Closed Session, General Counsel led a discussion on the matter of potential litigation – one matter, and no further reportable action was taken.

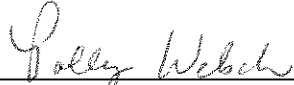
OTHER COMMENTS

Mr. Cafferty stated that he re-ran the numbers at 5% interest rate for the IRWD loan, and the change is \$9.00 per acre foot, and he incorporated the reduction of the assumption of MET from 5% to 4% and we extend out the point where the lines cross by 2 years.

ADJOURNMENT

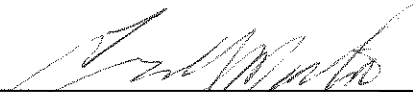
There being no further business to come before the Board, today's meeting was adjourned at 9:56 o'clock a.m.

Respectfully submitted,

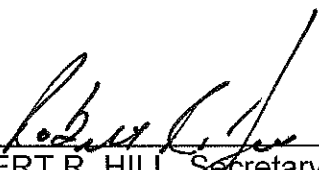


POLLY WELSCH
Recording Secretary

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