

MINUTES OF THE SPECIAL MEETING
OF THE
BOARD OF DIRECTORS
OF THE
EL TORO WATER DISTRICT
April 21, 2014

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 21, 2014 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, JUDY CIMORELL, Human Resources Manager, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, and SUDHIR PARDIWALA, Raftelis Representative.

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 public.

Consider Approving the Minutes of the Budget Committee #2 Meeting

The Budget Committee members approved the minutes of the April 1, 2014 Budget Committee #2 meeting.

Motion: Vice President Goldman made a Motion, seconded by President Martin to approve the April 1, 2014 Budget Committee #2 meeting minutes.

Roll Call Vote:

Vice President Goldman: yes
President Martin: yes

Director Vergara asked if the Budget Committee is an Ad-Hoc Committee. Mr. Hill replied no, it is a Standing Committee consisting of two Board members.

Director Vergara asked if there are agendas and minutes of these meetings. Mr. Hill replied yes, the Special Board Budget Workshop agendas and minutes are posted to the website.

ETWD Draft 2014/15 Budget

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

- 1) 2014/15 Draft Budget
- 2) Water Purchase Analysis and MWDOC Choice Service Program
- 3) Labor: 2014/15 Organization Chart, Medical Premium Analysis & Labor Cost Analysis
- 4) O&M Cost Center Analysis
- 5) 10-Year Cash Flow
- 6) Draft Cost of Service Report
- 7) Draft Proposition 218 Notice

Mr. Grandy stated that what drives the budget are water purchases and labor. He further stated that staff reviews rate changes, how it impacts our customers, the Prop 218 Notice, COS study, timeline, and a recommendation.

Mr. Grandy stated that drought, water supply, economy, and the succession plan is tracked. He further stated that MWDOC is also reviewed.

Mr. Grandy stated that the Revenue Assumption will provide a pass through of MWDOC's charges.

President Martin asked if MWDOC adopted their budget. Mr. Grandy replied no.

Mr. Grandy stated that staff will strive to keep rate increases to 5% and maintains reserves at or above \$8.5 million. He further stated that property taxes have been increased slightly, while interest income is calculated at a consistent 1/2 %.

President Martin asked where the \$300,000 for the new study is. Mr. Hill replied it is in the Capital Reserves.

2014/15 Proposed Revenues

Mr. Grandy presented a slide on 2014/15 Proposed Revenues, comparing income from 2012/13, 2013/14, 2014/15, and the change and percentages.

President Martin asked where the first level of recycled water will go. Mr. Grandy replied that the first customer to be converted will be the golf course. Mr. Cafferty stated that for budgeting purposes we assume six months of disinfected secondary and six months of tertiary.

Mr. Grandy stated that the Commodity Charge is a result of an anticipated pass through of increased purchased water costs. He further stated that Other Income changes slightly due to increase in site leases and a decrease in refunds from SOCWA and JPIA.

Mr. Grandy stated that budgeted Interest Income is down slightly and the budget contemplates increases in Property Taxes. He further stated that between the rate increases for fixed meter and commodity along with small changes in other Revenues, we anticipate picking up \$1.4 million in additional Revenue.

2014/15 Proposed Expenses

Mr. Grandy stated that staff has no control over Purchased Water, and has elected to pass through the increase in our Commodity Rate. He further stated that Depreciation isn't changing, and Other Operating expenses have decreased.

Director Vergara asked about the Organization Chart showing three new positions in Engineering, and a part-time Accountant. Mr. Cafferty replied that these positions were budgeted in the current fiscal year and are being carried over into the 2014/15 budget.

MWDOC Annual Costs

Mr. Grandy stated that MWDOC's Choice Services are decreasing slightly. Mr. Hill stated that the Second Lower Cross Feeder project is currently off the books. He further stated that Poseidon could be either a Choice or Core project.

Director Kahn stated that at the MWDOC meeting, they stated that the funding portion is Core, and his concern is if they are making the funding Core, does it encumber all the Districts for the funding. Mr. Hill stated that for the 2014/15 fiscal year, the funding is a staff effort to pursue the LRP program and to administer the MET foundational action program for the WUE.

Mr. Hill stated that the Desal is a Choice program for South County agencies.

Director Kahn stated that he is concerned that they are calling the funding Core and not Choice.

Director Werner asked when the decision is made to change from Choice to Core. Mr. Hill replied that it would be considered on a case by case basis inclusive of consensus that the project or program benefits the whole county.

Mr. Grandy stated that this year we will continue the School program and WUE. He further stated that within the WUE budgeted amount is the Value of Water program which is a communication piece from MWDOC which will come out of Core and go into Choice. Mr. Grandy stated that we will have the opportunity to buy into this program as we have approximately \$7,000 in this budget.

Director Kahn asked about the School Programs if we have any way of tracking the effectiveness of the training that we are giving these children. Mr. Hill stated that staff will follow up with MWDOC and get the information to the Board members.

Mr. Grandy stated that labor is broken into three components; salaries, benefits net of employee contributions, and workers compensation. He further stated that the salary and benefit amounts reflect the full impact of the succession planning bringing on 3 new employees is carried over to the 2014/15 budget.

Mr. Grandy stated that in the 2013/14 fiscal year budget, we included several months of salaries for the additional employees while for the 2014/15 fiscal year we have the full salaries for the entire year. He further stated that the other component is the merit pool which includes a CPI component which was .08% and a merit component of 3%. The total performance based merit pool is therefore 3.8%, and its distribution is based on individual performance.

Director Werner asked how much each employee receives. Mr. Cafferty replied that there is no guarantee what percentage any employee receives, and some may not get an increase.

Mr. Grandy stated that salary ranges/evaluations are separate from merit. Director Vergara asked if it includes the 401(k) contributions. Mr. Grandy replied that any non-salary is included as benefits.

Director Vergara asked if we compare salaries with other Districts. Mr. Grandy stated that staff reviews each position with surrounding agencies and some private industry.

2014/15 Organization Chart

Mr. Grandy stated that the Organization Chart in the package is the same as last year. He further stated that we are not contemplating any changes.

Mr. Grandy stated that we expect some retirements in the future fiscal years. Mr. Hill stated that this is part of the Succession Planning process.

2014/15 Proposed Capital Replacement & Refurbishment Program

Mr. Grandy stated that the capital expenditure slide reflects the pay as you go assumption, and this is funded by the \$2.5 million that is collected each year

as the Capital R&R charge. He further stated that the total for 2014/15 is \$4 million which includes carry over projects from last year.

Director Werner asked when the principal on the Baker project would be considered debt service or interest cost. Mr. Grandy replied when the project is complete.

2014/15 Proposed Reserves Five Year Cash Flow

Mr. Grandy stated that sources of cash are:

- Water & Sewer Rates
- Other Op Revenue
- Capital R&R
- Grant Proceeds
- Loan Proceeds
- Restricted Reserves

Mr. Grandy stated that uses of cash include:

- O&M Costs
- Debt Services
- Capital Program

Mr. Grandy stated that the ending Reserve balance for each of the five years is comfortably over the \$8.5 million minimum reserves. He further stated that debt coverage requirements are also reviewed.

Director Werner asked if staff starts with June 30, 2014 budgeted numbers. Mr. Grandy replied no, projected actuals.

Director Vergara stated that in the 5-year Capital replacement and refurbishment program we show a 5-year projected plan for SOCWA of \$406,500 and in 2018/19 it will jump to \$946,000. Director Vergara asked why the increase is so much. Mr. Cafferty replied that in the 2014/15 fiscal year is what SOCWA actually anticipates spending, and SOCWA uses a long-term capital plan for budgeting. Mr. Cafferty stated that they are more budgeted numbers than actual numbers, and he will review SOCWA's 10-year plan to see what they anticipate to justify the increased numbers in 2018/19.

2014/15 Proposed Revenue Rate Adjustments

Mr. Grandy stated that an increase in our tiered rates is contemplated in order to pass through the increased cost from MET and MWDOC.

Mr. Grandy stated that based on the additional guidance provided by the court cases, staff and Raftelis refined the cost allocation methodology. Details of the methodology were provided during the February 5, 2014 Board Rate Workshop and included the allocation of cost between customer classes. Cost categories have been defined as water supply cost, delivery costs, conservation costs, and Recycled Water costs. Mr. Grandy further summarized how each cost was assigned to the various tiers.

Mr. Grandy stated that ETWD's General Counsel has participated in the rate design discussions.

President Martin asked how staff arrived at \$100,000 for conservation. Mr. Grandy replied that staff reviewed the District's expenditures and broke it down and it consists of our commitment to rebates, various conservation

programs that we participate in, and an amount committed to outreach. Mr. Hill stated that originally the amount was \$200,000.

Director Kahn asked if we are concerned about any penalties from MET or MWDOC. Mr. Grandy replied that MET and MWDOC have not declared a water shortage which would require penalties. Mr. Hill stated that Orange County as a whole are nowhere near the MET Tier 2, and they have added about 38,000 acre feet to MWDOC's Tier 1 budget. Mr. Hill stated that if we have another dry year we could be into rationing and that could trigger a penalty structure, which we are currently discussing with Raftelis.

Mr. Granito reported that staff's worksheet has tabulated the conservation budget at \$100,000, considering rebates, conservation efforts, and outreach is all part of the administrative records support. Mr. Granito further reported that all components including peaking will be justified by staff's worksheet.

Mr. Hill stated that out of the \$100,000 conservation budget, \$48,000 is rebates, with the balance being outreach communication, newsletters, and education.

Mr. Grandy stated that the final component is a Revenue offset that we have identified as non-rate revenue, specifically site lease income and a portion of property taxes, and have determined by policy that we want to provide that benefit for the highest use of water which is defined as indoor domestic use, used for health and safety. He further stated that any customer class that uses indoor water should benefit from this offset.

Mr. Grandy stated that staff will be asking the Board to approve the rate structure as presented at today's meeting.

Mr. Grandy stated that our major focus has been on the commodity charge and tiered rates. He further stated that fixed meter rate methodology is pretty standard.

Mr. Grandy stated that when looking at allocating costs for various meter sizes, one method of allocating costs is based on how much water the pipe can produce (flow). He further stated that another way of allocating costs is that we know how much water is pushed through the different meter sizes, which is not based on their capabilities.

Mr. Grandy stated that when the report first came out, the COS is showing the maximum amount of flow from the meter as the method for allocating costs. He further stated that this is not the method we used in the past, and staff is not recommending using this method for allocating costs.

Mr. Grandy stated that the report will be changed to reflect these costs as the method we have been using in the past and anticipate using in the future. He further stated that these are the rates that will be reflected on the Prop 218 Notice which staff will be asking the Board for approval at today's meeting.

Mr. Grandy stated that on the sewer side, the impact was about 8%. He further stated that on the commercial sewer side we had rates based on industry classifications, so restaurants pay more than office buildings.

Director Kahn asked if the numbers in the presentation are monthly charges. Mr. Grandy replied yes. Director Kahn asked why commercial is so

much less. Mr. Grandy replied that commercial is on a per unit of water delivered and is not a flat charge. He further stated that per ETWD's Rules and Regulations, no one in the commercial field pays less than the single family residential rate.

Director Kahn asked if this rate includes the cost of processing of sewage. Mr. Grandy stated that everything associated with the collection and processing of sewage.

Mr. Grandy stated that the current water charge for a residential customer using 20 ccf within budget is \$64.88 and the proposed water charge using the new rates would be \$68.17, for a 5.1% increase. He further stated that staff is not suggesting any change to the Capital R&R costs this year. Mr. Grandy stated that the single family residential sewer charge will increase from \$18.99 to \$20.50. He further stated that the overall increase to the monthly water and sewer bill would be approximately \$4.80/month.

President Martin asked what MET settled on. Mr. Hill replied that MET's percentage increase is around 5-5.5% for ETWD all in, fixed charges and commodity charges.

Mr. Hill stated that in his cover memo he referenced a 12 cent increase, but it is actually 13 cents, which will be corrected in the Prop 218 Notices.

Mr. Grandy stated that the Prop 218 Notice is a legal requirement that we must notify at least 45 days prior to the Public Hearing. He further stated that the conclusion now is that the Prop 218 Notice should be mailed to all parcel owners.

Director Kahn asked if law requires that an owner of a parcel must distribute any information to tenants. Mr. Granito reported no.

Ongoing Timeline

Mr. Grandy stated that the ongoing timeline is reflected below:

- Adopt Budget June
- Approve Prop 218 Notice April
- Authorize Public Hearing April
- Notices Mailed May
- Hearing Noticed in Newspaper May
- Public Hearing June
- Effective Date of Adjustment July 1, 2014

Mr. Grandy stated that the Budget Committee and staff recommend that the Board direct the General Manager to:

- Finalize the draft 2014/15 Budget
- Schedule a Public Hearing for June 26, 2014, and
- Publish/distribute the required legal notices

Vice President Goldman asked if a bill stuffer announcing the upcoming Public Hearing and rate increases could be sent to customers prior to the June meeting. Mr. Grandy replied yes a condensed version of the Prop 218 Notice could be sent to customers.

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 staff is recommending that the Board authorize the General Manager to: (1) finalize the draft 2014/15 budget as referenced in today's Board package, (2) schedule a Public Hearing for June 26, 2014 for the purpose of amending the District's Rules and Regulations to increase certain rates, fees, and charges, effective July 1, 2014, (3) distribute the corrected Prop 218 Notice to all parcel owners, (4) finalize the Cost of Service Study with today's recommended modifications addressing the components and methodology that went into the Study as well as normalizing the policy that went into the Revenue, and (5) authorize the District's General Manager and General Counsel to publish/distribute the required legal notices concerning the proposed amendments to the District's Rules and Regulations.

President Martin asked for a Motion.

Motion: Vice President Goldman made a Motion to adopt the Budget subject to the amended Rate Study, authorizing a Public Hearing for June 26, 2014, finalizing and distributing the amended Prop 218 Notice, seconded by Director Vergara and unanimously carried across the Board.

President Martin called for a Roll Call Vote.

Roll Call Vote:

Director Vergara	yes
Director Kahn	yes
President Martin	yes
Vice President Goldman	yes
Director Werner	yes

Director Kahn asked if there was a budget to actuals page anywhere in the Board package. Mr. Grandy replied that the budget to actuals is in the Cost Center Summary sheets included in today's Board package.

Attorney Report

Mr. Granito reported that there is no need to have a Closed Session at today's meeting, therefore regular session continued.

ADJOURNMENT

There being no further business to come before the Board, President Martin asked for a Motion to adjourn today's meeting at 9:00 o'clock a.m.

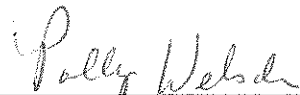
Motion: Director Kahn made a Motion, seconded by Director Vergara and unanimously carried across the Board to adjourn today's meeting at 9:00 o'clock a.m.

President Martin asked for a Roll Call Vote.

Roll Call Vote:

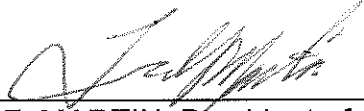
Director Vergara	yes
Director Kahn	yes
President Martin	yes
Vice President Goldman	yes
Director Werner	yes

Respectfully submitted,

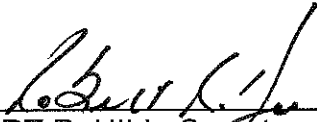


POLLY WELSCH
Recording Secretary

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