

MINUTES OF THE SPECIAL BOARD MEETING  
(BUDGET COMMITTEE MEETING #2)  
OF THE  
BOARD OF DIRECTORS  
OF THE  
EL TORO WATER DISTRICT

April 30, 2014

President Martin called the Special meeting of the Board (Budget Committee Meeting #2) of the Board of Directors of the EL TORO WATER DISTRICT to order at 7:00 o'clock a.m. on April 30, 2014 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

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

Also present were ROBERT R. HILL, General Manager, MICHAEL P. GRANDY, Chief Financial Officer/Assistant Treasurer, DENNIS P. CAFFERTY, Director of Operations and Engineering, and NEELY SHAHBAKHTI, Controller.

ORAL COMMUNICATIONS - PUBLIC COMMENT

President Martin stated that at this time members of the public may address the Board or they may reserve this opportunity with regard to an item on the agenda, until said item is discussed by the Board later in the meeting.

There were no comments received.

2014/15 ETWD BUDGET/COS REPORT/RATES/AND PROP 218 NOTICE

Mr. Hill stated that at the last Budget meeting the Board and staff reached consensus regarding the proposed budget, the Cost of Service Study (COS), and the

Prop 218 Notice, subject to some edits to the COS and Prop 218 Notice. He further stated that staff has made the edits to the COS and Prop 218 Notice.

Mr. Hill stated that while these edits were approved at the meeting, it was not properly agendized for action, so today we are proposing to formalize the consensus reached by the Board. He further stated that at the previous Budget meeting the Board authorized staff to publish notice of a Public Hearing. Mr. Hill stated that today's meeting will be authorizing the edits to the COS and Prop 218 Notice.

Mr. Hill asked Mr. Grandy to explain the tables included in the Cover Memo. He further stated that these tables are the heart of the COS in terms of how we allocate costs between customer classes.

Mr. Hill stated that the recommendation is to approve the draft 2014/15 budget, approve the draft COS as amended, inclusive of the rate methodology and the policy that directs a portion of the District's Cell Site lease and Property Tax Revenue to off-set essential Tier 1 and Commercial indoor rates as the highest and best use, and approve the draft Prop 218 Notice inclusive of the plan for distribution to Property (parcel) owners.

President Martin asked if item #2 is different from what we have done in the past. Mr. Hill replied that it is different in that we want to acknowledge by policy or practice that we are allocating a portion of Cell Site lease and Property Tax Revenue to off-set essential Tier 1 and Commercial indoor rates as the highest and best use.

President Martin asked how much Revenue there is now. Mr. Hill replied that the Cell Site Lease revenue is \$250,000.

Mr. Grandy stated that the purpose of the first table in the Cover Memo is to document the allocation of costs in accordance with Prop 218 equitably between customer classes. He further stated that customer classes are defined as Indoor Use and Outdoor Use.

Mr. Grandy stated that one challenge when dealing with Commercial customers is the fact that some have combination meters. That is, the meter services both indoor and outdoor use.

President Martin asked how Third Mutual will relate to this. Mr. Grandy replied that the impact of our rate adjustment was calculated for all customers types and the impact to Third Mutual fell just below the Single Family impact. He further stated that the impact will be the same to all customers who will receive rate increases.

Director Kahn asked what kind of formula was used for the Commercial Use. Mr. Grandy replied that industry standards were used. He further replied that Residential customers are also combination, and industry standard states that 50% is considered outdoor use. Mr. Grandy stated that we also review the past year's usage.

Director Vergara asked if we have any Commercial Customers that use water as part of their business production. Mr. Grandy replied not as part of their product, but part of their process, such as Redimix Cement, who pays a uniform rate, but when it comes to sewer rates we calculate how much is returned to the sewer (return rate factor) and the customer is charged accordingly.

Mr. Grandy stated that another component of our rates is the Fixed Meter Charge. He further stated that cost has been allocated equally between meter sizes, thus preserving the original allocation methodology.

Mr. Hill stated that the Prop 218 Notice has been amended to reflect the same numbers as the proposed rates.

Director Kahn asked how ETWD's rate methodology compares to other South County agencies. Mr. Hill replied that staff believes is consistent with applicable statutory and constitutional mandates.

President Martin asked Mr. Hill what topics will be discussed at tomorrow's CAG meeting. Mr. Hill stated that the topics on the CAG agenda are: ETWD's draft 2014/15 budget, update on the Recycled Water Expansion project, and a report on Water Supply/Storage Conditions and Projections.

Mr. Hill stated that Mr. Grandy has prepared a detailed presentation for the CAG meeting which covers the allocation methodology, which could be the basis for information given to the HOA Board's at a future date.

Mr. Hill stated that bill inserts will be mailed to all customers notifying them of the Public Hearing regarding the rate increases. He further stated that on the Prop 218 Notice a brief indication was included to explain why parcel owners are receiving the notice. Mr. Hill stated that an article will also be placed in the Laguna Woods Globe.

Director Kahn asked if the state has taken any position of support on Tiered Rates. Mr. Grandy stated that the state gave ETWD a grant to convert to Tiered Rates. Mr. Hill stated that Water Code Sections 370 & 372 are specifically geared towards allocation based rate structures.

President Martin asked for a Motion.

Motion: Director Werner made a Motion, seconded by Director Kahn, and unanimously carried across the Board to 1) approve the draft 2014/15 ETWD Budget, 2) approve the draft Cost of Service report as amended, inclusive of the rate methodology and the policy that directs a portion of the District's Cell Site Lease and Property Tax Revenue to off-set essential Tier 1 and Commercial indoor rates, and 3) approve the draft Prop 218 Notice inclusive of the plan for distribution to Property (Parcel) owners.

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

SOUTH COUNTY MWDOC MET DIRECTOR SELECTION

Mr. Hill stated that at the Engineering/FIC meeting this month, the Board appointed Vice President Goldman to represent ETWD and South County Selection and Nominating Committee for the next MWDOC MET Directors seat.

Mr. Hill stated that today's recommendation is to determine whether the Board wants to formally solicit, review and nominate a candidate or candidates for consideration by the South County Nominating Committee to fill the vacant MWDOC MET Director seat, and 2) to agree on a process by which to carry out the candidate solicitation, review and nomination task.

Director Vergara asked if staff has been asked to support any of the interested parties. Mr. Hill replied no.

President Martin suggested nominating Bert Hack, Mayor of Laguna Woods for the MWDOC MET Director seat. Vice President Goldman stated that President Martin should contact Mr. Hack to see if he would be interested in being a potential candidate.

President Martin asked for a Motion.

Motion: Vice President Goldman made a Motion, seconded by Director Werner and unanimously carried across the Board that President Martin will contact Mr. Bert Hack, Mayor of Laguna Woods, for consideration by the South County Nominating Committee to fill the vacant seat.

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

ATTORNEY REPORT

Mr. Granito gave a brief update on the trial court in San Francisco issuing a final statement decision striking down MET's rate structure. Mr. Granito further reported that the same afternoon the San Diego Water Authority unanimously voted to file a new lawsuit.

Mr. Granito reported that there will be a Closed Session as agendized for today's meeting.

At approximately 7:51 o'clock a.m., Ms. Shahbakhti and Ms. Welsch left the meeting.

CLOSED SESSION

OPEN/REGULAR SESSION

At approximately 8:10 o'clock a.m. regular session resumed, and Ms. Welsch returned to the meeting.

REPORT ON CLOSED SESSION

Mr. Granito reported that the Board did go into Closed Session as agendized to discuss item #1, and during the Closed Session General Counsel led a discussion on a matter of potential litigation, and no further reportable action was taken.

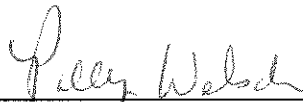
Mr. Granito reported that item #2 of today's Closed Session agenda was not discussed.

ADJOURNMENT

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

MOTION: President Martin moved, seconded by Vice President Goldman that today's meeting be hereby adjourned at 8:10 o'clock a.m.

Respectfully submitted,



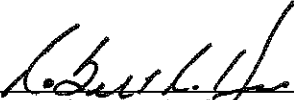
---

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