

MINUTES OF THE REGULAR MEETING
OF THE
ENGINEERING COMMITTEE MEETING
AND
FINANCE/INSURANCE COMMITTEE

March 24, 2015

Director Vergara called the Meeting of the Engineering Committee and Finance/Insurance Committee to order at 7:30 o'clock a.m. on March 24, 2015

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

Present at today's meeting were Committee Members M. SCOTT GOLDMAN, WILLIAM H. KAHN, JOSE F. VERGARA, FRED ADJARIAN, and MARK MONIN.

Also present were ROBERT R. HILL, General Manager/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, POLLY WELSCH, Recording Secretary, MIKE MIAZGA (Joined the meeting at 9:22 a.m.), ROB HUNTER, MWDOC, KARL SECKEL, MWDOC, SAT TAMARIBUCHI, MWDOC Director, MITCH BARKER, PARS Representative, CAROL MOORE, Customer, KATHRYN FRESHLEY, Customer.

Oral Communication/Public Comment

Ms. Moore asked if staff could respond to: 1) what is the acre feet cost for recycled water, 2) how much is left to finish of the original project for Third Mutual, and 3) which parts of the north are yet to be done.

Items Received too Late to be Agendized

Director Vergara asked if there were any items received too late to be agendaized. Mr. Hill replied no.

Orange County Water Reliability Study

Mr. Hill introduced Karl Seckel, Rob Hunter, and Sat Tamaribuchi of MWDOC to the Board.

Mr. Seckel stated that the purpose of the Orange County Water Reliability Study is to inform OC water agencies on water supply and system needs, and summarize potential local agency projects and programs to improve reliability.

Mr. Seckel stated that key attributes are improved methodology for water demands, agreed-upon definition and evaluation of supply and system reliability, summary of local agency supply and system improvement projects, and the decision making remains with local utilities.

Mr. Seckel stated that the Study is based on 3 regions in Orange County; Brea/La Habra, OCWD, and Non-OCWD (South County).

Mr. Seckel stated that there are 2 types of Water Reliability, System and Supply.

Mr. Seckel stated that Study Tasks include the projection of demands and impacts of Water Use Efficiency, existing local supplies, imported supplies under various scenarios, supply GAP, system GAP, options for new supplies, and MET and OC policy issues.

Mr. Seckel stated that the potential for new projects in Orange County include the OCWD Basin Options working with OCWD, Ocean desalination, recycling projects, San Juan Basin supply development, water exchanges and

transfers, a contract for higher reliability from MET, conjunctive use storage of imported water in OCWD Basin for South Orange County emergency supply, expansion of the existing Emergency Services Concept from 2006, and new surface storage facilities for Recycled Water and Imported Water.

Mr. Seckel stated that MET vs local agency projections need to be more closely aligned.

Mr. Seckel stated the definitions of reliability based on definition, factors impacting, and implications to Orange County. He further commented on the duration of supply/system reliability events.

Mr. Seckel commented on local agency data collection to include demand and supply projections through 2035, calendar year and fiscal year 2013/14 water demands by sector, the response to MWDOC survey on generators, fueling and operations during emergency events, and local agency new and potential projects.

Mr. Seckel stated that OC Seismic impacts analysis gains a better understanding of the risks and outages from earthquake events, improved technical basis for GAP analysis, anticipate what will happen to pipelines and wells, the system reliability analysis, and improved water system resiliency and recovery efforts.

Director Monin stated that there are a lot of faults throughout Southern California, and asked where the most vulnerable areas will be. Mr. Seckel replied that the Whittier fault could take out the Diemer plant and northern Orange County water basins.

Director Kahn asked if the wells collapse and we lose access to the wells, is this put into the Plan. Mr. Seckel replied yes.

Director Kahn asked when the wells were drilled, was casing put in for retrofits, anticipating future earthquakes. Mr. Seckel replied not unless they are in a liquefaction zone, and it is not a great process to restore wells once they are already built.

Mr. Seckel stated that they are waiting on the release of DWR's reliability analysis on the state's water project, which is due out anytime.

Director Vergara asked if MWDOC is involved in ocean desalination. Mr. Seckel stated that many agencies will be involved in the integration of ocean desalination and the wheeling process to the agencies, along with cost issues.

Director Vergara asked if MWDOC is working with MET to bring water reliability projections closer than the current gap. Mr. Seckel replied yes.

Director Adjarian asked if they also considered the benefits of South County agencies being part of an ocean desal project. Mr. Seckel replied yes.

President Goldman asked if the funding for the study is from local agencies, or from MWDOC. Mr. Seckel replied that MWDOC did not obtain any outside funding as MWDOC has budgeted this effort last year and again this year.

President Goldman stated that MWDOC did a Reliability Study in the past and asked if they feel we are just as reliable now. Mr. Seckel replied that MWDOC has done reliability work with MET and currently feel they can

accommodate 10-15 days of storage. He further stated that they are trying to keep South County storage at 30-60 days.

Vice President Kahn asked how serious they are considering turning the San Onofre plant into a desal plant. Mr. Seckel replied that MWDOC was involved in discussions with the San Diego County Water Authority in the early 2000's regarding the 10 mile connection to build a plant at the San Onofre site, which is all up hill, and the problems were working under the umbrella of regulatory issues with SCE.

Vice President Kahn asked if it could be a viable part of this plan. Mr. Seckel replied that it could be a contingency plan, as Plan B.

Director Vergara thanked Mr. Seckel, Mr. Hunter, and Mr. Tamaribuchi for attending the Board meeting today, and giving a presentation to our Board.

At approximately 8:20 o'clock a.m. Mr. Seckel, Mr. Hunter, and Mr. Tamaribuchi left the meeting.

Post-Retirement Healthcare Funding Trust Program Alternative

Mr. Grandy introduced Mitch Barker from the Public Agency Retirement Services (PARS) to the Board. He further stated that employees who have 25 years with the District and reach retirement age, are afforded company paid medical premiums.

Mr. Grandy stated that these costs should be reported on the books as a liability. He further stated that we are currently paying the cost on a pay-as-you-go basis, but the accounting profession now requires you to recognize the liability on our books.

Mr. Grandy stated that some agencies have elected to fund the obligation, and the benefit of doing so will be explained by Mr. Barker.

Mr. Barker stated that PARS has developed a strategy for funding. He further stated some misconceptions about Other Post Employment Benefits (OPEB).

Mr. Barker stated that some of the reasons why agencies should prefund OPEB are:

- Greater rate of return which lowers the agency liabilities
- Contributions are into a trust as “assets” that offset liabilities on financial statements
- GASB 68, pension liabilities go on a Balance sheet in 2015; OPEB’s version is coming in approximately 2017
- GFOA recommends prefunding OPEB and considers it “best practice” since January 2012
- Credit rating companies look more favorably on agencies who adopt an Irrevocable Trust and prefund, at least 4 agencies have improved credit rating, and with a higher credit rating means lower borrowing costs
- Lower liabilities gives an agency a chance to keep some form of retiree health benefit, as higher liabilities may cause agency to eliminate post-employment benefits
- OPEB assets are accessible for OPEB expenses at any time
- Pre-funding has no downside other than market volatility

Mr. Barker stated that money can be taken out of the fund at any time; however it can only be used for retiree health care benefits.

Director Monin stated that ETWD is a public agency, and putting agency money in the stock market could be risky. Mr. Barker replied that the PARS fund is a different code section than the District's general fund.

President Goldman asked if HighMark is their investment advisor, and what kind of return they are getting. Mr. Barker replied yes. Mr. Grandy stated that returns run on a 10-year basis, from 4-8%.

Director Monin stated that the past 10-year performance is not what will be on-going in the next 10 years due to high interest rates and market fluctuation.

Mr. Barker stated that the funding scenarios are to 1) put in the full ARC, 2) put in the full ARC and reimburse Pay-as-you-go at the end of the year, 3) put in the difference between ARC and pay-as-you-go, or 4) put in anything.

Director Vergara asked when we pay-as-you-go, we are comparing the discounted rate to the actual rate, and asked how the discounted rate is determined. Mr. Barker replied that the Actuary will match up a discount rate with investment strategy and expected rate of return.

Mr. Barker stated that 2008 was the worst year for the stock market.

Director Monin asked how much the market was down in 2008. Mr. Barker replied that the stock market was 30% down.

Director Monin asked if we were down 28%, how much would it increase our liability. Mr. Barker replied that he is not an Actuary and cannot make this call.

Mr. Grandy stated that today's meeting is informational only.

Director Monin asked what the portfolio will look like. Mr. Barker stated that they have two approaches; an active approach which means using mutual funds to try to beat the market, and a passive approach where exchange funds are used.

Director Monin stated that in the last 7 years, the stock market has risen from 6,000 to 18,000, so in the future when interest rates rise, our General Account should get a better return. He then asked Mr. Grandy what interest rate the District is currently paying on loans. Mr. Grandy replied that the Northline interest rate is 2.7%, the SRF loan is 1.7%, and the Baker is 4.6%.

Director Monin stated that the Board should consider that the District's 401(k) fund is monitored by HighMark, and this fund would also be managed by HighMark, and he feels the District should do better than 4.7%.

Mr. Grandy stated that staff is asking the Board to consider whether or not to have staff further investigate the OPEB funding option.

President Goldman asked if there is a timeframe to make a decision on this, will it be considered in the upcoming fiscal year budget, or not. Mr. Grandy replied that there is no concern in regards to our financial statements. He further stated that when and if the Board decides to fund the OPEB, it would be a reallocation of Reserves.

Mr. Grandy stated that if the Board decides to terminate this fund, staff would liquidate the irrevocable trust by \$220,000 annually to pay future premiums until the money is gone. He further stated if this was considered a bad choice,

we would use it for the next 5 years to pay the actual obligation on our pay-as-you-go basis.

Director Monin asked what is the amount each year that we owe. Mr. Hill replied that approximately \$220,000 is put into the budget each year for the pay-as-you-go expense.

Vice President Kahn asked if the District is currently paying \$220,000 to supplement retiree's medical insurance. Mr. Grandy replied that as a component of the District's group health insurance with ACWA/JPIA, they have a retiree component which coordinates with Medicare. He further stated that Medicare is the primary with ACWA/JPIA being the supplemental.

President Goldman stated that depending on the age of the employees retirement, depends whether or not there is a spouse component. Mr. Grandy stated that the current formula is 25 years of service upon reaching retirement age, but prior to this current formula it was 15 years of service and included spouses in some cases, with 100% paid by the District.

Mr. Grandy stated that if the spouse was under age 65 when the employee retires, the spouse is covered under the normal policy until Medicare kicks in.

Director Monin asked if staff anticipates a particular year when the current retirees will drop from the plan. Mr. Grandy replied that the actuarial report shows data going forward 30 years. President Goldman stated that he would like to see a table showing this information during the Budget Board Workshop. Staff concurred.

Mr. Granito inquired as to whether PARS had secured a legal opinion with regard to it's investment portfolios being in compliance with applicable statutes.

Mr. Barker replied that he did not, but he could secure one.

Director Monin asked who owns HighMark. Mr. Barker replied that Union Bank owns HighMark, which Union Bank is now owned by Bank of Tokyo.

President Goldman thanked Mr. Barker for his presentation.

PLAN ADMINISTRATOR MEETING

At approximately 9:07 o'clock a.m. President Goldman 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 9:16 o'clock a.m. the Plan Administrator meeting was closed and the Board took a short recess.

Regular Session

At approximately 9:22 o'clock a.m. regular session resumed. Also at this time, Mr. Miazga joined the meeting.

Engineering Committee

Approval of Minutes

There being no further comments or questions the Committee approved placing the Engineering/FIC minutes on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Director Vergara asked for a Roll Call Vote.

Roll Call Vote:

Director Vergara	aye
Vice President Kahn	aye
President Goldman	aye
Director Monin	aye
Director Adjarian	aye

Engineering Action Items

ESRI Small Utility Enterprise License Agreement (ELA)

Mr. Miazga stated that ETWD entered into a Small Utility License Agreement with ESRI 3 years ago and it is time to renew. He further stated that there is no increase in price for the 3 year term, which is \$10,000 per year.

Mr. Miazga stated that if the District purchased the license agreement separately, the maintenance would be over \$10,000 a year. He further stated that the price is based on the amount of meters, and SMWD has more meters and therefore is paying \$50,000 a year.

President Goldman asked if this is a budgeted item. Mr. Hill replied yes, it's part of the GIS budget.

There being no further comments or questions the Committee approved placing the Engineering/FIC minutes on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Director Vergara asked for a Roll Call Vote.

Roll Call Vote:

Director Vergara	aye
Vice President Kahn	aye
President Goldman	aye
Director Monin	aye
Director Adjarian	aye

Engineering General Information Items

El Toro Water District Capital Project Status Report

Demonstration Garden

Mr. Hill stated that this topic was discussed last month, and staff is reviewing construction drawings and should be back in April with discussion on awarding a contract.

Recycled Water Expansion Project

Mr. Cafferty stated that the construction associated with the Tertiary Treatment Plant and all of the Distribution System is complete.

Retrofit Implementation

Mr. Cafferty stated that the retrofit project is well underway with several sites completed and receiving recycled water. He further stated that a log summarizing retrofit activity is included in the Capital Projects report.

Mr. Cafferty stated that rebate applications have been submitted for each of the retrofit sites for which work has commenced, and staff is preparing to submit documentation to support the first request for payment of the approved rebates. He further stated that to date, rebate applications amounting to \$238,641 have been approved.

President Goldman asked Mr. Cafferty going forward to include the cost of the retrofits on his retrofit activity log.

Mr. Cafferty stated that the retrofit's should be completed by June 2016, competing 216 meters.

Director Adjarian asked if the inspections are underway. Mr. Cafferty

replied that staff is inspecting the retrofits, whether or not the County shows up.

Mr. Cafferty stated that the balance of the fund money from Prop 84 is approximately \$5 million, and staff is preparing to submit a grant application for \$5 million, although staff does not expect to receive the entire \$5 million.

Baker Water Treatment Plant Project

Mr. Cafferty stated that a detailed project status update provided by IRWD is included in the package. He further stated that there will be a project tour of the construction on June 23rd from 10:00 am – 12 noon.

Poseidon

Mr. Hill stated that OCWD has had discussions with Poseidon, and is preparing to go before their Board on April 30th to get approval to continue negotiations with Poseidon. He further stated that included in the package is a power point presentation with Director Appointments to the Citizens Advisory Committee.

Mr. Hill stated that if OCWD finalizes a water purchase agreement with Poseidon it could be December 2016.

Engineering Items Discussed at Various Conferences and Meetings

Comments Regarding Non-Agenda Engineering Committee Items

There were no comments.

Close Engineering Committee Meeting

At approximately 9:47 o'clock a.m. the Engineering meeting was closed.

Also at this time, Mr. Miazga left the meeting.

FINANCE/INSURANCE COMMITTEE

At approximately 9:47 o'clock a.m. Director Vergara called the Finance Committee meeting to order.

Treasurer Action Items

Financial Package – Authorization to Approve Bills for Consideration dated March 24, 2015 and Receive and File Financial Statements as of February 28, 2015

Ms. Shahbakhti stated that we just closed the 8th month of the fiscal year and we are doing good. She further stated that the Auditors were here to audit the last two quarters of the District's financials, and there were no findings.

There being no further comments or questions the Committee approved placing the Engineering/FIC minutes on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Director Vergara asked for a Roll Call Vote.

Roll Call Vote:

Director Vergara	aye
Vice President Kahn	aye
President Goldman	aye
Director Monin	aye
Director Adjarian	aye

Annual Review of the District's Travel and Expense Reimbursement Policy

Statement

Mr. Hill stated that staff is required to review this policy annually and make any recommended changes to the Board. He further stated that any agreed upon changes to the policy will be brought back to the Board in April 2015.

Mr. Hill stated that this policy applies to employees and Directors. He

further stated that staff recommends one monetary change in Travel related expenses for each Director per fiscal year.

Mr. Grandy stated that staff recommends that the amount be increased from \$3,500 to \$4,000 in anticipation of potential membership in CASA.

There being no further comments or questions the Committee approved placing the Engineering/FIC minutes on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Director Vergara asked for a Roll Call Vote.

Roll Call Vote:

Director Vergara	aye
Vice President Kahn	aye
President Goldman	aye
Director Monin	aye
Director Adjarian	aye

Annual Review of the District's Cash Reserve Policy Statement

Mr. Hill stated that this policy is also reviewed by staff each year.

Mr. Grandy stated that staff recommends changes to the way various reserves are calculated as follows: Rate Stabilization Reserve of 10-15%, Operating Reserves of 5-10%, and Working Capital of 7.5% - 10% of operating expenses .

There being no further comments or questions the Committee approved placing the Engineering/FIC minutes on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Director Vergara asked for a Roll Call Vote.

Roll Call Vote:

Director Vergara	aye
Vice President Kahn	aye
President Goldman	aye
Director Monin	aye
Director Adjarian	aye

Annual Review of the District's Identity Theft prevention Program Policy

Mr. Grandy stated that staff has reviewed this policy and does not recommend any changes.

Director Monin stated that he feels it is an important policy to review annually.

There being no further comments or questions the Committee approved placing the Engineering/FIC minutes on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Director Vergara asked for a Roll Call Vote.

Roll Call Vote:

Director Vergara	aye
Vice President Kahn	aye
President Goldman	aye
Director Monin	aye
Director Adjarian	aye

California Asset Management Trust (CAMP) Notice of Solicitation of Written

Consent of Participants

Mr. Grandy stated that the District has a small investment with CAMP as a part of the District's portfolio of District reserve funds. He further stated that every other year CAMP elects their Trustees, and each investor gets one vote per dollar invested.

Mr. Grandy stated that the District has a small investment in CAMP and our vote is insignificant, and since we are not familiar with the candidates placed on the ballot, so staff is recommending that we abstain from voting. The Board concurred.

There being no further comments or questions the Committee approved placing the Engineering/FIC minutes on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Director Vergara asked for a Roll Call Vote.

Roll Call Vote:

Director Vergara	aye
Vice President Kahn	aye
President Goldman	aye
Director Monin	aye
Director Adjarian	aye

2015/16 Budget Preparation Schedule and Status

Mr. Grandy stated that the timeline reflects the budgeting process.

Water Budget Based Tiered Conservation Rate Structure & Usage Activity and Mandatory Cutback Preparation

Mr. Grandy stated that staff reports monthly on the Tiered Rates and Consumption, which has been reduced.

Mr. Hill stated that staff is anticipating MWDOC's allocations and it's impact on the District. He further stated that with the new State Regulations, they added a regulation that you can't irrigate when it's raining and/or within 48 hours of a substantial precipitation.

Mr. Hill also indicated that they added the restriction to restaurants that

they serve water only on request. He further stated that the State Regulations also include that hotels offer limited laundering of bed sheets and linens.

Mr. Hill stated that when Retail Water Suppliers become aware that a customer has a leak they must report it to them. He further stated that they remind us through the State Regulations we could assess a fine of \$500 and if we don't comply they can issue a Cease and Desist Order and a \$10,000 per day fine.

Vice President Kahn asked if a customer will get a \$500 fine for watering within 48 hours of getting rain. Mr. Hill replied that if a customer violates a prohibition that the State has mandated, the customer could be assessed a fine of \$500.

Comments Regarding Non-Agenda FIC Items

There were no comments.

Close Finance and Insurance Committee Meeting

At approximately 9:58 o'clock a.m. the Finance meeting was closed.

Attorney Report

Mr. Granito reminded the Board members that the Supreme Court of California currently has a matter before it regarding the use of personal computers for public agency business and will soon decide whether any such data in personal computers is subject to disclosure of the Public Records Act. As such, Mr. Granito stated that the discretionary use of personal computers or other instruments of electronic communication should be used with appropriate discretion.

Mr. Granito reported that there is no need for a Closed Session at today's meeting and therefore the regular session continued.

Regular Session

Adjournment

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

Motion: Director Vergara made a motion, seconded by Director Monin and unanimously carried that today's meeting be adjourned at 10:00 o'clock a.m. to Tuesday, April 21, 2015 at 7:30 o'clock a.m. at the District's Administrative Offices at 24251 Los Alisos Blvd, Lake Forest, CA. 92630.

Roll Call:

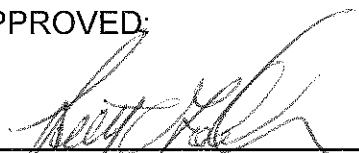
Director Vergara:	aye
Vice President Kahn:	aye
President Goldman:	aye
Director Monin:	aye
Director Adjarian:	aye

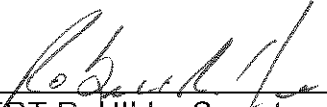
Respectfully submitted,



POLLY WELSCH
Recording Secretary

APPROVED:


M. SCOTT GOLDMAN, 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

March 24, 2015

President Goldman called the meeting of the Plan Administrator of the El Toro Water District's Retirement Plan and Trust Agreement to order at 9:07 o'clock a.m. on March 24, 2015.

The following persons as the Governing Board of the El Toro Water District serving as Plan Administrators were present: M. SCOTT GOLDMAN, WILLIAM H. KAHN, FRED ADJARIAN, MARK MONIN, and JOSE F. VERGARA.

Also present were ROBERT R. HILL, General Manager/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, POLLY WELSCH, Recording Secretary, CAROL MOORE, Customer, KATHRYN FRESHLEY, Customer.

Prudential/HighMark Outstanding Fee Reconciliation Update

Mr. Grandy stated that staff has previously discussed with the Board that HighMark has not been paid by Prudential for over a year. He further stated that staff has had discussions with Prudential and HighMark and determined the amount of money owed by employees who have taken money from the Plan is approximately \$6,800.

Mr. Grandy stated that staff does not feel it appropriate for current staff to pay for past employees fees. He further stated that staff is prepared to instruct Prudential to pay the fee minus the \$6,800 and then file a claim that asserts our intention is that they should pay the \$6,800.

President Goldman stated that the \$6,800 is from retired employees and there is no way to collect the money from them unless we bill them. Mr. Grandy stated that is correct. President Goldman asked for clarification of what the \$6,800 is for. Mr. Grandy replied that it represents fees that would have been paid from participants if the money had been taken out at the appropriate time.

Director Monin stated that this error is Prudential and Highmark's negligence and they should come to some conclusion between them to pay this and ensure that it will not happen again, and not involve the retirees and current employees. The Board concurred.

Director Vergara suggested that the District change either HighMark or Prudential to avoid a reoccurrence. Director Kahn stated that the Board would like to know what corrective action HighMark and Prudential plan to take.

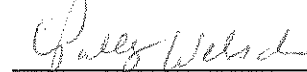
Mr. Grandy stated that the transactions don't go through ETWD, they go straight from Prudential to HighMark, and it is his understanding that the representative handling this account has left Prudential.

Mr. Grandy stated that staff will work with Legal Counsel and prepare a memo to HighMark and Prudential today. He further stated that staff has indicated that we would like to be involved with the quarterly payments ensuring they have been made.

ADJOURNMENT

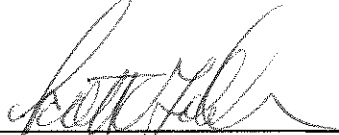
President Goldman asked if there were any questions, comments or business to come before the Board (Plan Administrator). There being none, the meeting adjourned at approximately 9:16 o'clock a.m.

Respectfully submitted,

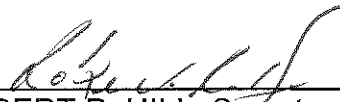


POLLY WELSCH
Recording Secretary

APPROVED:



M. SCOTT GOLDMAN, 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