

MINUTES OF THE SPECIAL MEETING
OF THE
BOARD OF DIRECTORS
OF THE
EL TORO WATER DISTRICT
May 11, 2015

President Goldman called the meeting of the Board of Directors of the ELTORO WATER DISTRICT to order at 7:30 o'clock a.m. on May 11, 2015 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

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

Directors M. SCOTT GOLDMAN, FRED ADJARIAN, MARK MONIN, and JOSE F. VERGARA were present.

Director WILLIAM H. KAHN was absent.

Also present were ROBERT R. HILL, General Manager/Secretary, MICHAEL P. GRANDY, Chief Financial Officer/Assistant Treasurer, DENNIS P. CAFFERTY, Director of Operations and Engineering, JUDY CIMORELL, Human Resources Manager, GILBERT J. GRANITO, General Counsel, and POLLY WELSCH, Recording Secretary.

Oral Communications - Public Comments

President Goldman 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.

2015/16 Cost of Service/Water conservation & Water Supply Shortage

Ordinance/Prop 218

Mr. Hill stated that included in the Board package is a modified timeline ultimately to approve 1) the Cost of Service Study, 2) proposed amendments to the Ordinance, and 3) the Prop 218 Notice. He further stated that the recommended action for today's meeting is to provide staff with clear direction on how to proceed with these items.

Mr. Grandy stated that today's agenda will cover Special Consideration which includes the State Mandate, MET/MWDOC Allocations, and the San Juan Case. He further stated that we will also address the Water Conservation & Shortage Ordinance, Cost of Service Study with the Tiered Rate Structure, the Prop 218 Notice, and the proposed Timeline.

Mr. Hill stated that the informational order from the State indicates they are tracking water district's usage monthly and are asking what we are planning to do to achieve compliance. He further stated that the State will order certain restrictions, and if necessary, a cease and desist order.

Mr. Grandy stated that ETWD's Compliance Resources include Initial and on-going Aggressive and Targeted Outreach, Recycled Water Expansion Project Conversions, Water Budget Based Tiered Conservation Rate Structure, and Water Conservation and Water Supply Shortage Ordinance.

Mr. Grandy stated that we received clear direction from the San Juan case that anything to do with the rate is not an administrative issue, but subject to Prop 218.

Mr. Grandy stated that by shrinking the budget and utilizing the drought factor we can impact the water bill and send a pricing signal. He further stated that in taking the lead from neighboring agencies, staff would like to consider a prohibition in Levels 1, 2, & 3 of any Tier 3 & 4 use, under a Water Shortage Emergency.

Mr. Grandy stated that if customers go into Tiers 3 & 4 in violation of the Ordinance, they would be subject to an administrative penalty. He further stated that while the Ordinance had a component for Commercial customers, since the penalty is a pure "ticket" for exceeding Tier 1 & 2 sales, it would no longer be a component.

Mr. Grandy stated that Commercial customers could be converted to a Tiered Rate system in the future. He further stated that once Commercial customers are converted, all potable water customers would be subject to water budgets.

Director Monin asked how to convey this to Commercial customers. Mr. Grandy replied that staff will be aggressively working with all customers, and for the larger Commercial customers, staff will have face to face outreach.

Mr. Hill handed out a draft State Emergency Drought Regulation Outreach Program that staff is reviewing with Thomas Communications Group. He further stated that SMWD said the new green is brown, but Cities are not accepting the concept of letting their lawns go brown.

Mr. Hill stated that he will be speaking at the Third Board meeting on May 19th, and also at the Kiwanis meeting in June.

Director Vergara asked if we are changing the Drought Factor. Mr. Grandy replied that the Drought Factor is a Prop 218 issue, and the Drought Penalty is a water conservation and water shortage ordinance issue. He further stated that staff plans to use both tools.

Mr. Grandy stated that staff is asking the Board for clear direction on adding a Water Shortage Emergency to the Ordinance, prohibitions on Tiers 3 & 4 usage, and a Drought Penalty.

Mr. Hill stated that a notice will be published in the newspaper on June 1st for the June 9th Public Hearing. He further stated that a redline Ordinance will be available.

Mr. Grandy stated that setting the Drought Factor to meet the June/July/August required cutback would disproportionately reduce the total on an annual basis. He further stated that utilization of a Drought Penalty on Tier 3 & 4 consumption would provide the necessary price signal.

Director Monin asked staff to clarify the meaning of prohibiting Tiers 3 & 4. Mr. Grandy stated that the concept is because of the emergency, we no longer have the luxury of allowing customers to utilize water beyond necessity, and if exceeded, the customer would be violating the Ordinance.

Mr. Hill stated that MNWD is already using this concept.

President Goldman suggested that the Water Shortage and Water Shortage Emergency be the same thing. Mr. Grandy stated that conceptually a Water Shortage is an Emergency and they may be combined.

Mr. Hill stated that staff will bring an amended Redline Ordinance to the Board in May.

Director Monin asked if we could use another word than "prohibit". Mr. Hill stated that MNWD states that any customer using a unit of water above their efficient budget is in "violation".

Director Adjarian stated that ETWD has 4 Tiers, and asked if the customer goes into Tiers 3 & 4, they will pay the extra amount and an additional penalty. Mr. Grandy replied yes, this is correct.

Mr. Grandy stated that based on 2013 June/July/August usage, staff determined a target, then looked at 2014/15 use of a shortfall, and now must cutback during the 9 month period. He further stated that the Recycled Water project will help with our mandatory cutback, as well as the turf removal program.

Mr. Grandy stated that we will have a 22% shortfall in June, a 22% shortfall in July, and a 14% shortfall in August.

President Goldman asked what staff is proposing as the outdoor Drought Factor. Mr. Grandy replied that staff is suggesting the Drought Factor would be 65%. He further stated that it would not get us enough of a cutback which is why we need the additional pricing signal, or penalty.

Director Adjarian suggested changing the word "prohibit", instead saying that if you continue to use water in Tiers 3 & 4, for that privilege you will be charged an additional penalty. Mr. Grandy stated that this penalty will show on the customer bill as a separate line item.

Mr. Grandy stated that the budget calculation will remain the same, indoor budget at 60 gallons per person per day, outdoor budget will utilize the Drought Factor and be part of the Prop 218 Notice. President Goldman suggested that we consider changing the indoor budget to 55 gallons per person per day. Mr. Grandy stated that if we reduce the indoor budget to 55 gallons, we would not use the Drought Factor. Mr. Hill stated that staff will consider lowering the indoor budget.

Mr. Grandy stated that working with Raftelis, as it pertains to the components of our rates, water supply, delivery, recycled water, conservation, and rate offset. He further stated that by using a 65% Drought Factor, the model produces rates.

Mr. Grandy stated that the Tier increases vary. President Goldman asked where the money is from Tiers 3 & 4. Mr. Grandy replied that the money is held in Restricted Reserves. President Goldman asked if we are using the funds for conservation. Mr. Hill replied that the Restricted Reserves are for supplemental water supply development, and we could expand with more outreach.

Director Adjarian asked if there would be a benefit to have separate accounting for the penalty money versus the conservation money. Mr. Hill replied that they will be separate accounts.

Mr. Grandy showed a chart which reflect the proposed new rates, and stated that if we change the indoor budget to 55 gallons per day per person and alter the outdoor Drought Factor, the numbers will change. He further stated that

staff will prepare a comparison for the Board showing 50% outdoor Drought Factor and 55 gallons per day for indoor budgets.

Mr. Hill stated that staff will prepare this item as a carryover to the May Board meetings, and will need to include a rate study by Raffelis. He further stated that we will have a Public Hearing in July to discuss rate increases and the Cost of Service Study.

Mr. Hill stated that a Timeline is included in the package. He further stated that a Notice will be published in the newspaper on June 1st for the June 9th Public Hearing.

Mr. Hill stated that staff proposes adopting the budget in June, with the Drought Penalty effective July 1st, with a Public Hearing on July 30th, and proposed new rates effective August 1st.

Mr. Hill stated that today's recommended action is to a) approve conceptual COS changes by directing the General Manager and General Counsel to finalize, b) approve conceptual Ordinance changes by directing staff and General Counsel to finalize, c) direct staff to finalize the draft Prop 218 Notice, and d) approve the timeline for a, b, and c.

President Goldman asked for a Motion.

Motion: Director Vergara made a Motion, seconded by Director Adjarian, and unanimously carried across the Board to a) approve conceptual COS changes by directing the General Manager and General Counsel to finalize, b) approve conceptual Ordinance changes by directing staff and General Counsel

to finalize, c) direct staff to finalize the draft Prop 218 Notice, and d) approve the timeline for a, b, and c.

Roll Call Vote:

Director Adjarian	aye
Director Monin	aye
Director Vergara	aye
President Goldman	aye

2015/16 Labor Budget

Mr. Hill stated that the outstanding item on the budget is Labor. He further stated that staff prepared a survey of neighboring agencies retirement systems.

Mr. Hill stated that there is a detailed memo included in the Board package with some alternatives.

Ms. Cimorell stated that retirement contributions of surveyed agencies ranged from 16.65% to 28%. She further stated that during recent budget discussion with the Board, staff proposed to change the District mandatory contribution from 9% to 10%.

Mr. Cafferty stated that staff was directed to consider other alternatives including revising the District match rather than the mandatory contribution. He further stated that it was suggested that a revision of the match to as much as 75% would better incentivize employee participation in the retirement program.

Mr. Cafferty included in the Board package comparison charts detailing alternatives along with their impacts and costs. He further stated that staff is recommending Alternative 4 which the matching formula is changed to 75% up to the employee's contribution of 10%.

Mr. Cafferty stated that the proposed change will provide a morale boost to employees and further incentivize employees to invest in the plan and their individual futures. He further stated that the estimated impact to the labor budget is approximately \$71,000.

Mr. Cafferty stated that Table C would leave the District last among the surveyed agencies but only slightly below the most similar comparison to the 401(k) Plan offered by Orange County Water District. He further stated that the proposed adjustment would take effect in July 2015 with adoption of the 2015/16 budget.

President Goldman asked for a Motion.

Motion: Director Vergara made a Motion, seconded by Director Adjarian. The Motion did not carry and thereby failed.

Director Monin asked if educating the employees would encourage them to invest in the retirement plan. Ms. Cimorell replied that staff has Employee meetings with Prudential to educate employees on how to save for retirement.

President Goldman stated that with the drought and conservation efforts strongly underway, he suggested tabling this item until the drought issues are stabilized.

Director Monin stated that he feels the Board should send an appreciation letter to the employees. Director Vergara stated that the District becomes more efficient by promoting employees within the District.

President Goldman asked for a substitute Motion.

Motion: Director Vergara made a substitute Motion, seconded by Director Monin and unanimously carried across the Board to table this item and revisit it again in November 2015 for a possible January 1, 2016 effective date.

Attorney Report

Mr. Granito provided an update on the San Juan case.

Closed Session

At approximately 9:25 o'clock a.m., President Goldman called for a Closed Session as reflected as item #1 of today's Closed Session agenda. Also at this time, Ms. Welsch and Ms. Cimorell left the meeting.

Open Session

Report on Closed Session

At approximately 9:35 o'clock a.m. Regular Session resumed, and Ms. Welsch returned to the meeting.

Mr. Granito reported that the Board did adjourn to Closed Session at approximately 9: 25 o'clock a.m as reflected as item #1 of today's Closed Session agenda, and during the Closed Session General Counsel and the General Manager led a discussion on a matter of potential litigation, and no further reportable action was taken.

Adjournment

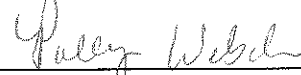
There being no further business to come before the Board, the following motion was duly made and passed.

Motion: Director Adjarian moved, seconded by Director Monin and unanimously carried that today's meeting be hereby adjourned at 9:37 o'clock .

Roll Call Vote:


Director Vergara	aye
President Goldman	aye
Director Monin	aye
Director Adjarian	aye

Respectfully submitted,

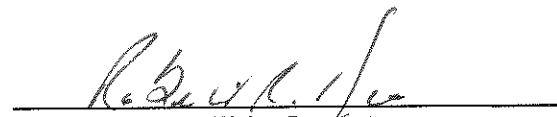


POLLY WELSCH
Recording Secretary

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