

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

November 23, 2015

Chairman Vergara called the Meeting of the Engineering Committee and Finance/Insurance Committee to order at 7:30 o'clock a.m. on November 23, 2015.

Director Adjarian 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, Assistant General Manager/District Engineer, NEELY SHAHBAKHTI, Finance Manager/Controller, GILBERT J. GRANITO, General Counsel, JUDY CIMORELL, Human Resources Manager, POLLY WELSCH, Recording Secretary, SHERRI SEITZ Public Relations/Emergency Preparedness Administrator (joined the meeting at 8:00 a.m.), ROBERT ADAMS, HighMark Representative, PAUL KAYMARK, PUN Group Representative, MELISSA OCHOA, PUN Group Representative, CAROL MOORE, Customer, and KATHRYN FRESHLEY, Customer.

Oral Communication/Public Comment

Ms. Moore commented that the Building Alert cards that the District sent to the residents at LWW were causing frustration and confusion for the individual homeowners.

Items Received too Late to be Agendized

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

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.

Chairman Vergara asked for a Roll Call Vote.

Roll Call Vote:

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

PLAN ADMINISTRATOR MEETING

At approximately 7:31 o'clock a.m. Chairman Vergara 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 7:47 o'clock a.m. the Plan Administrator meeting was closed and regular session resumed. Also at this time, Mr. Adams left the

meeting.

### Regular Session

#### Annual Audit

Ms. Shahbakhti stated that Paul Kaymark of PUN Group is here to review the Audit report.

Mr. Kaymark stated that the Auditors reviewed the District's financials, and there were no exceptions to report. He further stated that page 11 reflects a Statement of Revenues, Expenses, and Changes in Net Position for fiscal years ended June 2015 and June 2014.

Director Monin asked if there are other areas we need to review and monitor. Mr. Kaymark stated that the Auditors review many water districts, and ETWD's core operations show a good balance.

Director Monin asked if cyber security is reviewed by the Auditors. Mr. Kaymark replied yes, they review the District's security levels and feel comfortable the District's preventative measures are already in place.

Chairman Vergara stated that he read in the report a couple incidences where the Auditors could not provide a response, and asked if it was due to staff not supplying the necessary information to the Auditors. Mr. Kaymark replied no, it was due to some details that are not applicable to the Audit.

At approximately 8:00 o'clock a.m., Mr. Kaymark and Ms. Ochoa left the meeting.

### Engineering Committee

#### Engineering Action Items

Recycled Water Retrofit Change Order

Mr. Cafferty stated that the proposed \$400,000 change order with Trautwein is expected to carry us through the remainder of the project.

Vice President Kahn asked if the \$400,000 was budgeted. Mr. Cafferty replied yes, the project should be completed under budget.

Vice President Kahn asked if there are requests for changes in equipment, does Mr. Cafferty verify that there is a valid need. Mr. Cafferty indicated there have been no significant equipment changes on the project. Mr. Cafferty noted that the District is purchasing most of the equipment and material for the retrofit project.

Chairman Vergara asked for a Motion.

Motion: Vice President Kahn made a Motion, seconded by Director Monin, and unanimously carried across the Board to authorize the District's General Manager to enter into a construction contract with Trautwein Construction in the amount of \$400,000 for construction of recycled water retrofits at identified recycled water use sites.

Chairman Vergara asked for a Roll Call Vote.

Roll Call Vote:

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

Engineering General Information Items

El Toro Water District Capital Project Status Report

Mr. Cafferty stated that he has changed the appearance of the Capital Project Status report, which now includes pictures of the items he will be discussing.

#### R-1 & R-2 Reservoir Management System

Mr. Cafferty stated that the project should be on line in January.

#### Phase II Recycled Water Distribution System Expansion Project

Mr. Cafferty stated that the Phase II project is moving through funding options. Mr. Cafferty stated that the West Side System will be extended, and the East Side System will also be expanded. He further stated that design is approximately 90% complete. Mr. Cafferty stated that total project cost is estimated at \$12 million, based on construction estimates. He further stated that the SRF application is being submitted.

Director Monin stated that he is in favor of a 15 year fixed loan with 1% interest. Mr. Cafferty displayed several payment options over the course of the loan, showing 15, 17, and 20 year loans.

Director Monin asked if there is a prepayment penalty. Mr. Cafferty replied no.

Mr. Cafferty stated that staff is recommending that we apply for the LRP and a 15 year loan with 1% interest. Mr. Hill stated that we will be adding more debt but it will not create a problem for ETWD's debt coverage ratio.

Ms. Moore asked what percentage of the District's water will be recycled water at the end of Phase II. Mr. Cafferty replied that after the end of Phase II we will have 1700 acre feet of recycled water out of 9,000 acre feet, so

approximately 19%.

Mr. Cafferty stated that the project is designed to accommodate Laguna Beach's possible needs.

Mr. Cafferty stated that staff is assuming the funding will be in place by the middle of next year, adopt the CEQA in March, with construction anticipated to begin mid 2016.

#### Five Lagunas Project

Mr. Cafferty stated that Capital Facilities fees will generate revenue from the Laguna Hills project.

Mr. Cafferty stated that staff anticipates presenting the WSA report to the Board in December.

Mr. Cafferty stated that staff is reviewing the concept of dual plumbing, which is a huge additional cost for a small amount of water, and may not be a feasible project.

Mr. Hill stated that staff is working with General Counsel on a Development Agreement which is more complex than our typical Will Serve Notice.

President Goldman stated that he feels staff should be checking into the dual plumbing. Director Vergara asked if staff is considering individual meters for the apartments. Mr. Hill replied no, we have not approached sub metering.

Mr. Hill stated that staff will be presenting to the Board next month the WSA report.

#### Engineering Items Discussed at Various Conferences and Meetings

There were no comments.

Comments Regarding Non-Agenda Engineering Committee Items

Close Engineering Committee Meeting

At approximately 9:17 o'clock a.m. the Engineering meeting was closed, and the Board took a short recess. Also at this time, President Goldman left the meeting.

FINANCE/INSURANCE COMMITTEE

At approximately 9:24 o'clock a.m. Chairman Vergara called the Finance Committee meeting to order.

Financial Action Items

Financial Package – Authorization to Approve Bills for Consideration dated November 23, 2015 and Receive and File Financial Statements as of October 31, 2015

Ms. Shahbakhti stated that we closed the month of October and finished the first quarter audit. She further stated that on page 160, Restricted Reserves, we have received the final payment schedule from the State on the annual SRF loan payment of \$1.6 million.

Ms. Shahbakhti stated that on page 163, the market was down and has come back in October. She further stated that Expenses and Revenues are tracking with the budget.

There being no further comments or questions the Committee approved placing this item on the Consent Calendar for the regular scheduled meeting of the Board of Directors.

Chairman Vergara asked for a Roll Call Vote.

Roll Call Vote:

Director Kahn	aye
Director Monin	aye
Director Adjarian	aye
Chairman Vergara	aye

Operations Department Staffing Adjustment

Mr. Cafferty stated that in years past there were 9 staff on the Transmission Distribution Crew. He further stated that new additional requirements for the Recycled Water project contribute to the need for an additional staff member.

Director Monin asked how many employees will ETWD how have. Mr. Cafferty replied that by adding this employee, the District will have 58 employees.

Chairman Vergara asked for a Motion.

Motion: Director Adjarian made a Motion, seconded by Director Kahn to approve increasing the Transmission and Distribution crew by one full time position, effective January 1, 2016.

Director Kahn asked what staff is doing to plan for El Nino. Mr. Cafferty replied that staff has a Storm Preparation Plan.

Financial Information Items

Tiered Water Usage and Revenue Tracking

Ms. Shahbakhti stated that the water usage to date charts are included in the Board package.

Commercial, Institutional and Industrial (CII) Rate Structure Modifications



Mr. Hill stated that staff reviewed Commercial usage, and could not determine an equitable fair base to convert to Water Budget Based Tiered Rates. He further stated that staff retained Raftelis and evaluated and interviewed IRWD and MNWD agencies which have Commercial budgets, and determined that there is no real equitable basis for preparing Commercial budgets so the benchmark for efficiency could be arbitrary and produce questionable benefits.

Mr. Hill stated that Commercial Revenue accounts for 7% of total Revenue and 34% of the 7% comes from fixed charges. Mr. Hill recommended that Commercial rates remain uniform and that the Ordinance be the tool used to assess an Administrative Penalty. The Board concurred with Mr. Hill's recommendation.

Director Kahn suggested that staff could also offer water reduction guidelines to Commercial customers on ways they could conserve water.

#### Comments Regarding Non-Agenda FIC Items

There were no comments.

#### Close Finance and Insurance Committee Meeting

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

#### Attorney Report

Mr. Granito reported that he would like to defer item #1 of today's Closed Session agenda (Government Code Section 54956.9 (a) – Pending Litigation) to the Thursday Board meeting.

#### General Manager Compensation

Mr. Granito reported that he understands that this item #2 of today's Closed Session agenda (Government Code Section 54957 (b) (1) – General Managers Performance evaluation) would also be deferred to Thursday's Board meeting.

Adjournment

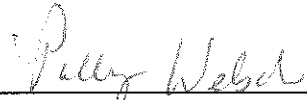
There being no further business to come before the Board, the following motion was duly made and passed.

Motion: Director Adjarian made a motion, seconded by Director Kahn and unanimously carried that today's meeting be adjourned at 9:48 o'clock a.m. to Tuesday, December 15, 2015 at 7:30 o'clock a.m. at the District's Administrative Offices at 24251 Los Alisos Blvd, Lake Forest, CA. 92630.

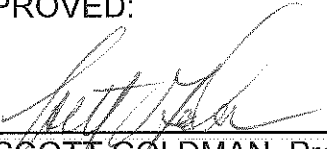
Roll Call:

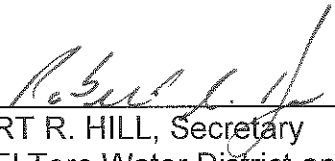
Vice President Kahn:	aye
Director Monin:	aye
Director Adjarian:	aye
Chairman Vergara:	aye

Respectfully submitted,

  
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POLLY WELSCH  
Recording Secretary

APPROVED:

  
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M. SCOTT GOLDMAN, President  
of the El Toro Water District and the  
Board of Directors thereof



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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

November 23, 2015

Director Vergara called the meeting of the Plan Administrator of the El Toro Water District's Retirement Plan and Trust Agreement to order at 7:31 o'clock a.m. on November 23, 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, Assistant General Manager/District Engineer, NEELY SHAHBAKHTI, Finance Manager/Controller, GILBERT J. GRANITO, General Counsel, JUDY CIMORELL, Human Resources Manager, POLLY WELSCH, Recording Secretary, SHERRI SEITZ Public Relations/Emergency Preparedness Administrator (joined the meeting at 8:00 a.m.), ROBERT ADAMS, HighMark Representative, PAUL KAYMARK, PUN Group Representative, MELISSA OCHOA, PUN Group Representative, CAROL MOORE, Customer, and KATHRYN FRESHLEY, Customer.

Quarterly Review of Pension Plan Performance

Mr. Adams stated that September was a terrible month for the market. He further stated that the quarter and year to date are all negatives from the benchmark.

Mr. Adams stated that October almost erased all of the negatives, so it was a good bounce back. He further stated that portfolios are performing as expected.

Director Monin stated that the Capital Preservation Portfolio, HighMark's performance is considerably below the benchmark. Mr. Adams stated that they are down, but they don't focus on the short term performance.

Director Monin stated that he would like to see a report on what the plan is to stay above the index. Director Kahn stated that he would like to see the cause and mitigation as to why the portfolio is performing below the benchmark for the past 9-10 months.

Mr. Adams stated that one of the Hedge funds was replaced. He further stated that they are constantly reviewing the portfolio.

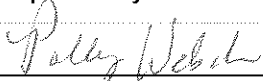
Director Monin asked how many Manager changes were made within the last quarter. Mr. Adams replied 4 changes were made.

Director Monin stated that he would like to see a Lipper report and a Morningstar report showing ratings of large cap funds, number over totals of how each fund is performing.

#### ADJOURNMENT

Director Vergara asked if there were any questions, comments or business to come before the Board (Plan Administrator). There being none, the meeting adjourned at approximately 7:47 o'clock a.m.

Respectfully submitted,

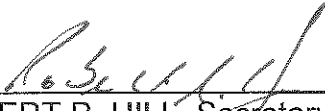
  
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POLLY WELSCH  
Recording Secretary

APPROVED:



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M. SCOTT GOLDMAN, President  
of the El Toro Water District and  
the Board of Directors thereof



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ROBERT R. HILL, Secretary  
of the El Toro Water District and  
the Board of Directors thereof