

MINUTES OF THE SPECIAL MEETING
OF THE
BOARD OF DIRECTORS
OF THE
EL TORO WATER DISTRICT
September 8, 2016

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 September 8, 2016 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

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

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

Also present were ROBERT R. HILL, General Manager/Assistant Secretary, DENNIS P. CAFFERTY, Assistant General Manager/District Engineer, NEELY SHAHBAKHTI, Finance Manager/Controller, GILBERT J. GRANITO, General Counsel, RICHARD BABBE, PFM, 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.

There was no public, and there were no comments.

ETWD Investment Workshop

Mr. Hill stated that the District's policy is to review the policy on an annual basis. He further stated that any changes to the policy will be brought back to the Board next month for approval.

Mr. Hill stated that Mr. Richard Babbe is here today to present to the Board the purpose and objectives of the District's Cash Reserve Investment Policy.

Mr. Babbe stated that when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. He further stated that the District's stated objectives shall be Safety, Liquidity, and Yield.

Mr. Babbe stated that there are certain funds we can invest in with varying percentages allowed, maturity, and credit returns. He further stated that treasuries and agencies are the best investments.

Director Vergara asked if this set of parameters set by the government code is applicable to funds owned by the District, can these same investments be used to manage the 401(k) retirement plan. Mr. Babbe replied no because we would be limited to a smaller set of investments than we currently use in our retirement fund.

Mr. Babbe stated that the Portfolio Investments are the CAMP Pool, U. S. Treasury, Federal Agency, Corporate, and LAIF.

Mr. Babbe stated that in the Portfolio's Maturity Distribution, the duration is over a period of 3 years. He further stated that the District's current benchmark

is the rolling average yield on the 3-year U.S. Treasury, and the managed portfolio continues to track the benchmark.

President Goldman asked what is the difference between the Blended Yield and the Portfolio Yield. Mr. Babbe replied that the Portfolio Yield is specific securities and doesn't include the CAMP Yield or LAIF, where the Blended Yield includes the CAMP Pool and individual securities.

Mr. Babbe stated that key drivers of performance include duration, sector selection, and active management. Director Monin asked why PFM has not been actively managing the portfolio. Mr. Babbe replied that they need consensus of the Board to actively manage the portfolio.

Director Monin asked if there are opportunities in commercial paper having a higher yield. Mr. Babbe replied that there is not as much demand, as commercial paper has to be bought for up to 270 days.

Vice President Kahn asked why it appears that the AA Corporate is paying off less than the A Corporate. Mr. Babbe replied that it's considered by the rating agencies to have more risk. He further stated that the greater the risk, the greater the return should be.

Vice President Kahn asked if PFM's fees change when trading investments. Mr. Babbe replied no.

Mr. Babbe showed slides on Yield Environment, Active Management Strategies, and comparison charts for the CAMP characteristics and LAIF, compared to CalTrust characteristics.

Mr. Babbe stated that possible next steps could consider changes to the District's policy, determine an appropriate benchmark for the portfolio, and consider changing to active management.

Mr. Babbe stated that it is his recommendation that the Board consider using active management, and take full advantage of what is allowed by the Code. Director Adjarian asked to what degree should we consider increasing the risk. Mr. Babbe replied that active management might add an additional .5 or .10 basis points, which would add value.

Mr. Hill stated that staff will bring the District's IPS to the Board at the September Board meeting for consideration of approving the amendments.

At approximately 8:22 o'clock a.m. Mr. Babbe and Ms. Shahbakhti left the meeting.

Director Comments/Non-agenda Items

Director Monin stated that he and Vice President Kahn were at the MWDOC/MET Directors workshop, where they discussed various agencies bringing down their water pressure between noon and 4:00 pm to prevent leaks and stress on the water system.

Vice President Kahn stated that they are feeling that the pressure being maintained 24 hours a day causes damage and leaks.

Mr. Cafferty replied that fluctuating pressure can cause damage as well. He further stated that ETWD has pressure reducing valves and other system operating set points that would be impractical to adjust on a daily basis. Mr. Hill added that the system is designed to meet fire flow requirements.

Director Monin stated that they also discussed that as a meter gets older, it is not as efficient. Mr. Cafferty replied that ETWD did a study and determined that after approximately 15 years, the meter loses revenue, and therefore ETWD has a meter change out program. He further stated that the District will be evaluating using an AMI (Automated Meter Infrastructure) system which provides real time data.

Attorney Report

Mr. Hill stated that staff has been working with the Board members to obtain their bios so we can post them on our website.

Mr. Hill stated that he asked General Counsel to review the FPPC regulations to see if there were any guidelines with regard to what a bio should look like or what it should or should not include.

Mr. Granito reported that FPPC regulations do have mass mailing restrictions, however, web pages are not considered tangible items and therefore are not subject to such restrictions.

Mr. Granito went on to report that other laws outside the FPPC regulations that pertain to the use of public funds could come into play in that web site publications of Director bios run the risk of being viewed as reflecting undue self-promotion and a mis-use of public funds.

As such, Mr. Granito indicated that prudence dictates that any such postings avoid the appearance of undue self-promotion. The evaluation of whether a district web site posting of this nature goes beyond being merely informational is very subjective. As such, Mr. Granito suggested that a vetting or

clearing house process be used to evaluate any such postings or, in the alternative, develop uniform criteria.

Mr. Hill stated that he will forward President Goldman's bio to the Directors to use as a template. The Board concurred.

Pre-Closed Session Statement – General Counsel

Prior to the Closed Session Mr. Granito reported that today's closed session will only concern Item 3 of today's Closed Session agenda. The purpose of which is to receive, discuss, and/or take action concerning information obtained by the District's designated alternate representative (Director Adjarian) in the September 1, 2016 closed session of the South Orange County Wastewater Authority ("SOCWA") a joint power agency of which the District is a member.

Closed Session

At approximately 8:45 o'clock a.m. the Board went into Closed Session. Also at this time, Ms. Welsch left the meeting.

Regular Session

At approximately 9:22 o'clock a.m. Regular Session resumed. Also at this time, Ms. Welsch returned to the meeting.

Closed Session Report

Mr. Granito reported that at approximately 8:45 o'clock a.m. the Board did go into Closed Session to discuss Item 3 of today's Closed Session agenda. Mr. Granito reported that during the Closed Session, Director Adjarian, the District's designated alternate representative to SOCWA, led a discussion concerning

information that was obtained and discussed in the September 1, 2016 Closed Session of SOCWA and that 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 Vergara moved, seconded by Director Adjarian and unanimously carried across the Board that today's meeting be hereby adjourned at 9:23 o'clock a.m.

President Goldman called for a Roll Call vote.

Roll Call Vote

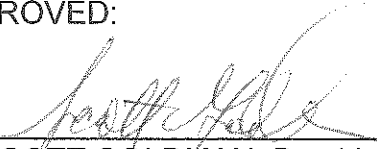
Director Monin	aye
Director Adjarian	aye
President Goldman	aye
Vice President Kahn	aye
Director Vergara	aye

Respectfully submitted,

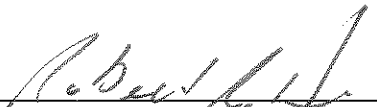


POLLY WELSCH
Recording Secretary

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

