

MINUTES OF THE SPECIAL BOARD BUDGET WORKSHOP MEETING  
OF THE  
EL TORO WATER DISTRICT

April 11, 2019

President Vergara called the meeting of the Board Budget Committee of the Board of Directors of the ELTORO WATER DISTRICT to order at 7:30 o'clock a.m. on April 11, 2019 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

President Vergara led the Pledge of Allegiance to the flag.

Directors JOSE F. VERGARA, MARK MONIN, KATHRYN FRESHLEY, and MIKE GASKINS were present.

NEELY SHAHBAKHTI, Finance Manager/Controller, was absent.

Also present were ROBERT R. HILL, General Manager, DENNIS P. CAFFERTY, Assistant General Manager/District Engineer, JUDY CIMORELL, Human Resources Manager, GIL GRANITO, General Counsel, and POLLY WELSCH, Recording Secretary.

ORAL COMMUNICATIONS - PUBLIC COMMENT

President Vergara 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.

APPROVAL OF MINUTES

The Committee reviewed and approved the minutes of the April 1, 2019 Budget Committee #2 meeting.

President Vergara asked for a Motion.

Motion: Director Freshley made a Motion, seconded by Vice President Monin and unanimously carried across the Board to approve the Budget Committee #2 meeting minutes.

Roll Call Vote

President Vergara	aye
Director Freshley	aye
Vice President Monin	aye
Director Gaskins	aye

ETWD's Draft 2019/20 Budget, Water, Sewer & Recycled Water Cost of Service (COS) and Prop 218 Notice

Staff and the Committee reviewed and discussed the draft 2019/20 Budget assumptions and associated fiscal implications, the draft COS, the draft Prop 218 Notice, and the schedule to distribute and conduct a Public Hearing.

Mr. Hill stated that the budget review process started in December, and the Budget Committee had 2 previous meetings to review the draft budget. He further stated that staff and the Budget Committee have reached consensus on the analysis included in today's Board package.

Mr. Cafferty stated that Raftelis prepared the Cost of Service Study (COS).

Director Freshley stated that staff did a good job preparing the budget and following the guidelines. Vice President Monin concurred and felt that staff did a well done job. President Vergara stated that he was also impressed by the good job that staff did in preparing the budget.

Mr. Hill stated that Mr. Cafferty will provide a power point presentation and if more clarification is needed on a particular slide, we will refer to the worksheets in the binders.

Mr. Cafferty stated that the process included two in-depth Meetings with the Board Designated Budget Committee.

Mr. Cafferty stated that the Financial Objectives include:

- Establishing a Revenue Cash Flow plan sufficient to fund the Operating Budget inclusive of the Capital R&R Program
- Establishing a Reliable, Stable, and Predictable rate adjustment strategy that minimizes impacts to customers
- Maintaining minimum Reserve levels sufficient to fund legally restricted, board restricted, and board designated requirements
- Employing cost containment and reduction strategies and practices as appropriate to cost effectively maintain reliable service levels

Mr. Cafferty stated that the Financial Principles include:

- Annual MWDOC/MET pass-thru as necessary
- Annual Cost of Service evaluation and adjustments as necessary
- An overall annual revenue increase for the three enterprises (Water, Sewer, and Recycled Water) capped at 5%
- Individual enterprise rate or charge increases capped at 10%
- Maintenance of a minimum Board designated Reserve level of \$8.5 million

- Prudent use of Reserves to minimize customer impact while maintaining required minimum debt coverage ratios

Mr. Cafferty showed slides on the 2019/20 Proposed Revenues and Proposed Expenses.

Mr. Cafferty stated that there are no proposed changes to Water, Recycled Water, or Sewer Capital Charges.

Mr. Cafferty stated that Purchased Water expense increases will increase the Commodity Rate by 6 cents across every Tier.

Mr. Cafferty stated that the tertiary water use charge is tied to the potable water use, which is 90% of the Tier II rate, resulting in a 5 cent increase in the recycled water rate.

Mr. Cafferty stated that the cost of service line item indicates the total amount of increased revenue associated with the increase in our fixed meter water revenues.

Mr. Cafferty stated that we are not proposing to increase sewer rates.

Mr. Cafferty stated that the Capital Charge of \$3 million is generating money toward Capital as a line item on the bill and we are not proposing any change.

Mr. Cafferty stated that our 10-year plan keeps faith with the COS approach and is not designed to generate additional Reserves. He further stated that this keeps large rate increases down.

Mr. Cafferty stated that property tax revenue is taken into account, and the restricted reserves come from Tier III and IV revenue. He further stated that restricted reserves can only be used for water supply projects.

Mr. Cafferty stated that we are proposing a draw down of Reserves of approximately \$450,000 in order to minimize the required rate increase.

Mr. Cafferty stated the net overall increase in Revenue is approximately 2.4%.

President Vergara asked what the Outside Treatment Sewer line item is. Mr. Cafferty replied that is primarily SOCWA.

Mr. Cafferty stated that the major expense drivers are Purchased Water, Labor and Benefits, Depreciation, Interest Expense, and Other Operating Expenses.

Mr. Cafferty stated that Tab 2 details Purchased Water, showing the MET costs increase due to purchasing less water, and Baker O&M will adequately cover costs.

Mr. Cafferty stated that the Labor Budget has been reviewed by the HR and Budget Committees and is described under Tab 3. He further stated that Salaries are driven by the merit pool which is based on the Consumer Pricing Index at 3.9% and a merit component at 3% resulting in a total Labor Pool of 6.9%. Mr. Cafferty stated that staff surveyed neighboring agencies and the average Merit Pool is around 7%.

President Vergara asked if there are staff who do not receive increases. Mr. Cafferty replied that the increases are based on the employee's performance and on occasion there are staff who do not receive increases.

President Vergara asked if this is legal. Director Gaskins replied yes, it is within the management staff's authority.

Director Freshley asked how someone who is top of range receives an increase. Mr. Cafferty replied that when someone tops out in their range, they can get a salary increase up to the amount of their new top of range, and if their increase is higher than that, they would receive a check for the remaining value of their increase.

Mr. Cafferty stated that under Tab 4 is the Medical Analysis and Breakdown. He further stated that medical costs came in lower than anticipated, so there are no big changes.

Mr. Cafferty stated that Tab 6 of the package is the 10-year Cash Flow. He further stated that non-rate Revenues include cell site leases, property taxes, interest income, and LRP rebates.

Mr. Cafferty stated that the net is a draw down on Reserves, allowing a less than 10% increase in the Fixed Meter charge.

Mr. Cafferty stated that the debt coverage ratio required on the SRF loan is 120%, and the Texas Capital loan is 110%. He further stated that revenue increases do not exceed 5% of the Capital.

Mr. Cafferty stated that the details of the Capital Improvement Plan are under Tab 8 that presents a 5-year Capital plan.

### Rate Adjustments

Mr. Cafferty stated that on the water and recycled water fixed meters are ranging in increased percentages of just under 10%. He further stated that there is no increase in sewer rates.

Mr. Cafferty stated that potable water, tiered rates, and commercial, institutional, and industrial rates are increasing slightly. He further stated that the water supply charge went up by 6 cents.

Mr. Cafferty stated that Capital Charges are not increasing at this time. He further stated that water charges are based on meter size, calculated by Raffetis' Cost of Service Study.

Mr. Cafferty stated that Single Family Residents will increase slightly less than 3%. He further stated that HOA's and cities are also increasing slightly.

Proposed Schedule

Mr. Cafferty stated that the Proposed Schedule identifies distribution of the Prop 218 at the upcoming CAG meeting, the May Board meeting dates, and publication of the Public Hearing Notice in the OC Register, and approval of the 2019/20 budget and rate implementation.

President Vergara asked how many protest letters does it take the District to receive in order for the rate increase not to go through. Mr. Cafferty replied that it takes 51% of the parcel owners to protest the rate increase in writing in order for the rates not to be increased.

President Vergara asked to consider approving all 4 action items at today's meeting in one Motion.

Motion: Director Freshley made a Motion, seconded by Vice President Monin, and unanimously carried across the Board to: 1) approve the 2019/20 Operating Budget, 2) approve the 2019/20 Water, Sewer and Recycled Water Cost of Service Study Report, 3) approve the 2019/20 Proposition 218 Notice, and 4) authorize staff and Counsel to distribute the Proposition 218 Notice in accordance with applicable noticing requirements.

Roll Call Vote:

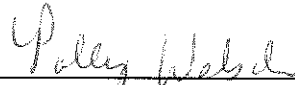
Director Freshley	aye
Vice President Monin	aye
President Vergara	aye
Director Gaskins	aye

ADJOURNMENT

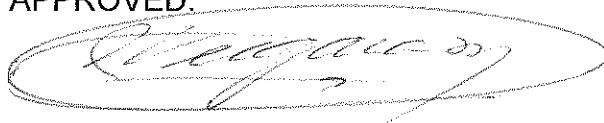
There being no further business to come before the Board the following motion was duly made and passed:

MOTION: Vice President Monin moved, seconded by Director Freshley, and unanimously carried across the Board that today's meeting be hereby adjourned at 9:58 o'clock a.m.


Respectfully submitted,

  
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Polly Welsch  
Recording Secretary

APPROVED:



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JOSE VERGARA, 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