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

June 9, 2020

President Monin called the meeting of the Board of Directors of the ELTORO WATER DISTRICT to order via Zoom at 7:30 o'clock a.m. on June 9, 2020 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

President Monin led the Pledge of Allegiance to the flag.

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

Also present were DENNIS P. CAFFERTY, General Manager, JUDY CIMORELL, Human Resources Manager, NEELY SHAHBAKHTI, Finance Manager/Controller, BOBBY YOUNG, Principal Engineer, GIL GRANITO, General Counsel, and POLLY WELSCH, Recording Secretary.

ORAL COMMUNICATIONS - PUBLIC COMMENT

President Monin 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 May 11, 2020 Budget Committee #2 meeting.

President Monin asked for a Motion.

Motion: Director Freshley made a Motion, seconded by President Monin and unanimously carried across the Board Budget Committee to approve the May 11, 2020 Budget Committee #2 meeting minutes.

ETWD's Draft 2020/21 Budget

Mr. Cafferty stated that the cover memo is a detailed summary of the draft Budget package. He further stated that staff is requesting direction from the Board on the expense portion of the Budget which the Budget Committee was supportive of, but we need more discussion on the Revenue portion, and on the potential for a rate increase and when.

Mr. Cafferty stated that staff prepared the Budget numbers based on a September 1st rate increase, with alternatives showing a January 1st rate increase and no increase at all. He further stated that if we implement a rate increase on September 1st, we will be issuing a Prop 218 Notice in approximately 3 weeks.

Mr. Cafferty stated that we will need to discuss what to do about the OPEB issue so we can prepare a final Budget to bring to the Board in June for adoption.

Director Vergara asked why the report stated that the Budget Committee did not reach consensus on a recommendation for the 2020/21 Revenue Budget and associated rate increase, choosing instead to defer discussion to the Board Budget Workshop. Director Freshley replied that she didn't feel that delaying a rate increase is appropriate because the longer the delay the more difficult it becomes to balance the books long-term.

President Monin replied that we are in a tough economy right now and a lot of people are unemployed and he feels it is not appropriate to raise rates at this time especially when other agencies are not raising rates.

Purchased Water Cost Analysis

Mr. Cafferty stated that the purchased water costs analysis is included in the package and assumes that we will buy 7,000 acre feet and sell 6,700 acre feet based on what purchase and sales have been most recently. Mr. Cafferty also stated the purchased water cost analysist incorporates the MWDOC Meter fee based on their adopted Budget and the MET rates based on their adopted Budget including the approximate 3% rate increase they indicated will happen in January.

Mr. Cafferty stated that when these costs are added up, the Revenue necessary to support our Purchased Water expense, would require a commodity rate increase of 7 cents per billing unit. He further stated that the 7 cents increase comes from the MET rate increase.

Mr. Cafferty stated that the Capital Charge Revenue Funding line item shows that $500,000 is from the Capital Charge Revenue and in the 2020/21 fiscal year $150,000 will come from Reserves to offset a portion of the required Commodity Rate.

Director Havens stated that due to COVID-19, we have decreased significantly in the amount of water we sold. Mr. Cafferty stated that our year to date consumption for 2019/20 is slightly less than 2018/19.

Labor Cost Analysis

Mr. Cafferty stated that the spreadsheets show the comparison of budget to budget which reflects a small impact of $43,000 or ½% which is the product of some pluses and minuses. He further stated that we reduced our typical starting point on a merit program which the original number was 6.2% and we cut that to 5.2% in an effort to reduce cost as we viewed more recent data.

Mr. Cafferty stated that we have some offsetting costs and personnel changes. He further stated that to try and control labor costs we have an open position which has been put on hold due to the pandemic and will consider again in January.

Mr. Cafferty stated that also included in the package are the Organization Charts.

Director Vergara stated that budget to budget is $43,000, but the increased labor cost is larger when compared to the projected 2019/20 total labor costs. .

Vice President Gaskins stated that in looking at the April CPI, it is minus 0.8 and he feels we should reduce the CPI component of the increase at least another percent or two. He further asked if we surveyed neighboring agencies to see if they plan on an increase. Mr. Cafferty replied that SOCWA just adopted their budget with a CPI component at 2% along with their typical merit, and MWDOC was in a similar range when they adopted their budget.

Vice President Gaskins stated that there is no Cost of Living Index and the closest thing to it is the CPI (Consumer Price Index) of which there are several versions based on the buying power of a 1982 dollar and adjusted since then. He further stated that usually a contract identifies a particular CPI and compares a month such as from April to April because bargaining or adjustments usually come in June or January 1st.

Director Freshley stated that in previous years we have used the CPI as reported for the Southern California counties. She further stated that the numbers are driven by food, fuel, and some degree of housing costs.

Mr. Cafferty stated that staff previously called the company that publishes the numbers for the CPI and asked them to explain how they arrive at the number. He further stated that in March the number was 2.2% and in April it's . 6%.

President Monin stated that the CPI changes month to month seasonally so we can't use just one month; we have to use an average of a year for the local area, and continue to use a consistent formula each year.

Director Vergara stated that when he worked at MET, cost of living increases were independent of merit increases and were negotiated by the Union as a percentage of the CPI, typically 80%. Director Vergara further stated that merit increase steps were guaranteed amounts, based on performance, with employees that did a good job typically getting a set amount in a one-step increase.

Mr. Cafferty stated that he only referenced that SOCWA and MWDOC had recently adopted their budgets inclusive of their standard Merit increase program, but we don't use either of their approaches to do our Performance Review program or our Merit Increase program, as we have a very detailed process that we follow that we developed years ago in-house. Mr. Cafferty stated that we used to provide a Merit increase and the Cost of Living, but we did away with the Cost of Living increase, so we incorporated a CPI component into the Merit Budget.

Director Vergara stated that the Board has not challenged how the evaluations were done. He further stated that what affects the Budget is the Merit Pool. Mr.

Cafferty replied that the Merit Pool has been 3% plus the CPI number approved during the Budget process.

Director Vergara stated that he would like to see a spreadsheet showing each of the employees' salaries over the past 10 years and the percentage of increase for all employees.

Medical Premium Analysis & Budget Impact Breakdown

Mr. Cafferty stated that the insurance components of the labor budget are included in the package and shows the anticipated rates and structure of the program. He further stated that the employees pay 10% of the premium and those in Kaiser pay 5%. Mr. Cafferty further noted that the budget escalation factors are HMO at 7%, PPO at 6%, and Kaiser at 5%.

Mr. Cafferty stated that we have had offsets in medical insurance due to personnel and plan changes.

O&M Cost Center Budget Comparison & Analysis

Mr. Cafferty stated that there are some big cost drivers such as purchased water, power, fuel, SOCWA, Admin costs, indirect costs, interest, other O&M costs, labor, and depreciation and amortization.

Mr. Cafferty stated that the Public Relations and IT budgets were reduced, along with maintenance of fire hydrant replacements, and sewer collection system repair programs.

Mr. Cafferty stated that it is a relatively flat budget, with a 2% budget to budget impact.

Mr. Cafferty stated that the Public Relations budget includes an update to our website.

Multi-Year P/L Budget to Actual Comparison

Mr. Cafferty stated that these numbers don't reflect the budget in cash because there are non-cash items such as depreciation, but it is the first place you see Revenue which is relatively flat even though it assumes a rate increase and that assumes less potable water sales.

Ten-Year Cash Flow

Director Vergara stated that he read about the replacement of the R-6 Reservoir cover and asked if it is included in this budget. Mr. Cafferty replied no, we have several big ticket capital items including the R-6 cover, the South County pipeline turnout, a pump station project on the west side of the system, and the filter plant project. He further stated that these big ticket items are not in the current budget or cash flow because the assumption is that we will be looking at funding mechanisms or some type of loan for these projects. He further stated that in the 10-year plan is indicative of some increases in Capital revenue which would come from an increase in our Capital charge which would start to provide a revenue towards debt for the big projects.

Director Vergara asked if we have an R-2 Reservoir. Mr. Cafferty replied yes it is in the budget for recoating.

Mr. Cafferty stated that we will start design on the R-6 cover, but the bigger portion of this cost will come later.

Mr. Cafferty stated that the Cash Flow determines whether we are taking from Reserves or putting into Reserves.

Mr. Cafferty stated that lines 8 through 13 are projected rate increases for each fiscal year for the MET pass-thru. He further stated that the recycled water rate increase is tied to our potable water rate, the COS rate is the combination of the fixed meter water and sewer revenue where we fund the majority of our O&M costs.

Mr. Cafferty stated that the original budget showed an increase in the Capital charge and a smaller increase in the Fixed. He further stated that in an effort to reduce the impact to the customers, we eliminated the Capital charge sewer rate increases this year.

Mr. Cafferty stated that lines 39-52 are non-rate revenue which includes the use of Restricted Reserves. He further stated that our Tiered Rates 3 & 4 portion goes into Restricted Reserves and is used to fund the deficit on recycled water and to pay the SRF loans, and $100,000 each year is taken from this fund to offset the cost of our Conservation and Water Use Efficiency program.

Mr. Cafferty stated that line 54 is our expense budget, and line 55 is OPEB. He further stated that we currently budget every year for the OPEB and pay as we go.

Mr. Cafferty stated that line 62 is expense cost relative to revenues, and even a September rate increase sacrifices revenue. He further stated that he does not recommend starting the OPEB trust this year.

Mr. Cafferty stated that the debt services don't change. He further stated that he is not comfortable with large draw downs in Reserves.

Mr. Cafferty stated that we are preparing to do an Asset Management Study that will help to define the Capital Program in more detail and show what capital costs we need to be preparing for.

Mr. Cafferty stated that we use the Net Revenue Impact as a guiding tool to remain below 5%. He further stated that we are required to maintain a Debt Coverage Ratio of a minimum of 120% to keep faith with the contract we have on the SRF loans.

Mr. Cafferty stated that line 74 is a number that appears on the Finance report each month that shows our Reserve balance and the equivalent of 6-months of our Operating expense. He further stated that if we don't have at least 6-months Reserves, we are required to report it to the Board.

Fixed/Variable Cost and Revenue Analysis

Mr. Cafferty stated that the section shows a comparison of fixed and variable revenue and expenses. Mr. Cafferty further stated that staff is working to closed the gap between fixed costs and revenue.

Proposed Water, Sewer and Recycled Water Rates & Charges

Mr. Cafferty stated that the proposed commodity rates are mathematically necessary to support the Purchased Water expense budget which is taking the MET increase and calculating the impact on our expenses. He further stated the commodity rate increase amounts to 7 cents per billing unit.

Mr. Cafferty stated that the Fixed Meter rate increase ranges from 6.5% to 7.3% and in the last few years the rate increase for this charge has been close to 10%.

Mr. Cafferty stated that normally we would have the Cost of Service study in the Board Budget workshop package, but we weren't sure where we were going with a rate increase. He further stated that the proposed rates were calculated by Raftelis, the District's financial consultant, but the effort to produce a report was put on hold until a decision was reached about a rate increase.

Mr. Cafferty stated that the sewer rates are not being increased during this fiscal year.

Director Freshley asked how we are allocating costs between potable water and sewer water increases. Mr. Cafferty replied that we separate our expenses for all 3 different enterprises; water, wastewater, and recycled water. He further stated that common costs are allocated at 40% water, 52% sewer and 8% recycled water, which are budgeted individually and then compiled into the Cash Flow.

Mr. Cafferty stated that we do have individual Capital accounts and account numbers that feed our asset inventory. He further stated that we have a water Capital charge, a sewer Capital charge, and a recycled water Capital charge.

Mr. Cafferty stated that we are tracking our Capital charges in a more detailed fashion, and its impact on Reserves on a monthly basis.

Customer Sensitivity Analysis

Mr. Cafferty stated that the monthly impact of increasing rates is shown in these tables in the package. He further stated that for Single Family Residents the increase would amount to $2.39 or 2.6%.

Mr. Cafferty stated that the next table shows the impact to Laguna Woods Village which varies from 1.4% at Towers to 2.5% at GRF. He further stated that the reason for the difference is the dependent on what level of the services each Mutual is using.

Mr. Cafferty stated that the next table provides an impact to cities at nearly 3% depending on which cities are more tied to Commodity compared to Fixed charges. He further stated that the cities that have more meters and less water use will see a higher impact.

Five-Year Capital Project and Equipment Program Budget

Mr. Cafferty stated that these charts reflect the 5-year Plan and the last section shows the 2020/21 fiscal year budget. He further stated that blue is water and green is sewer, and the costs are separated, and purple is common to water and sewer.

Mr. Cafferty stated that on page 49 are the Fleet items that add up over a 5-year period to nearly $2 million. He further stated that in the 2020/21 fiscal year we are not proposing any vehicle replacements, and overall what is driving the costs are large items such as the Hydro excavator and the Vactor.

Director Vergara stated that on the R-6 Chlorine and Ammonia Chemical Feed Pump Replacement, is this the extent of water quality that we do. Mr. Cafferty replied that each of the 5 tank type Reservoirs have a reservoir management system which provides chemical treatment to maintain a chlorine residual and mixing in the reservoirs.

Mr. Cafferty stated that on page 50 we see the total Capital budget. He further noted that in the 5th year there is nothing invested in our system as the majority is in SOCWA with some funds budgeted for capital in Baker and the Joint Regional Water Supply system.

Mr. Cafferty stated that page 51 shows just the 2020/21 fiscal year at the Capital budget of $2.4 million of which nearly half is SOCWA. He further stated that some of the big ticket items include a Reservoir coating project, air conditioning projects, diffusers in the aeration basins, and some sewer projects.

Alternative 10-Year Cash Flows

Mr. Cafferty stated that the first alternative cash flow addresses the deficits for the next 5 years resulting from the contributions to an OPEB Trust. He further stated that if we remove all of the OPEB in any place that it contributes to the deficit, the deficits are significantly reduced.

Mr. Cafferty stated that staff will review this item each fiscal year and take specific direction from the Board.

Director Vergara stated that is an important decision to make because the OPEB item will allow us to save some money in the long run. He then asked what is the amount of the investment. Mr. Cafferty replied that whatever we choose to put into this fund generates returns. He further stated that the other potential benefit is the actual calculation of long-term liability that shows on the balance sheet.

Director Freshley stated that she doesn't feel this is the year to pre-fund anything, and how much does the OPEB cost. Mr. Cafferty replied that the budgeted amount for retiree medical expense is $295,000 for this fiscal year, and what will drive it to increase is more staff retiring and medical premium increases.

Director Freshley stated that if all of our employees have social security benefits, why would we continue to provide medical insurance. Mr. Cafferty replied that our employees do not pay into social security, so only those who paid into it in a previous job will be eligible to collect social security.

Director Freshley asked why our employees don't pay into social security. Mr. Cafferty replied that our 401(k) Plan is in lieu of social security, although Medicare is available to employees. He further stated that our retirement medical benefit supplements Medicare when an employee reaches Medicare eligible age.

Vice President Gaskins stated that on the OPEB we have two components; one for our retirees and one for a portion of SOCWA's, which is much higher than ours.

Director Freshley suggested that we have a discussion on the OPEB benefits at an upcoming Board meeting.

Mr. Cafferty stated that the next alternative cash flow in the package shows the impact of deferring a rate increase from September to January, sacrificing 4 months of revenue. He further stated that it shows $150,000 revenue reduction by deferring a rate increase to January.

Mr. Cafferty stated that in order to make a September rate increase, the Prop 218 Notices would need to be mailed within the next 3 weeks. He further stated that adoption of the budget itself does not approve a rate increase as any rate increase requires specific approval by the Board of a 218 Notice, the Cost of Service Study and authorization to schedule a public hearing. Mr. Cafferty noted issuing a 218 Notice in this current situation might not be well received and that deferral of a rate increase until January would provide additional time for the Board to assess financial conditions associated with the pandemic prior to implementation of a rate increase.

Director Freshley stated that if we delay we could have a higher increase the next fiscal year to make up for the Cash Flow balance. Mr. Cafferty stated that line 72 is a bit misleading because it's a revenue impact. He further stated that the rate increase in 21/22 would be the same regardless of whether the 20/21 rate increase is implemented in September or January. Mr. Cafferty added that a larger rate increase would be required in 21/22 if the 20/21 rate increase is completely eliminated.

Director Vergara stated that it would be good to say no rate increase, but we have to consider the business of the District. Director Vergara further stated that eliminating a rate increase might appear self-serving in an election year. He further stated that although many people lost their jobs, the federal government assisted people with stimulus money and unemployment assistance.

President Monin stated that he does not feel we should increase rates.

Director Havens stated that we are sitting on top of a 60-year old infrastructure and we are going to have a lot of capital projects that must get done, so she feels we should continue with this small rate increase.

Vice President Gaskins stated that he is in support of the rate increase in September to maintain strong reserves.

Director Vergara stated that MET raised their rates which caused MWDOC to increase their rates, and if MWDOC passed-thru the MET increase and did not raise their rate, would it be possible we could do the same. Mr. Cafferty replied that MWDOC reduced their rate which is charged on a per-retail meter basis and is completely separate from water sales so MWDOC's rates have nothing to do with MET's rates, whatever MET's rates are is what MWDOC charges us. He further stated that MWDOC's budget is funding their salaries, hydraulic models, and participation in organization events.

Mr. Cafferty stated that the total MWDOC cost component of the District's purchased water budget is $117,000 or 1.5% of our total purchased water budget. He further stated that MET's rate increased by 3% which is passed through by MWDOC to us.

Mr. Cafferty stated that there is a line item in the draft budget for increasing the investment revenue from reserves but it is only declining due to decreasing interest rates. He further stated that Reserves are going down once we begin the Oso Lift Station project by $2 to $2.5 million.

President Monin asked how much we have in Reserves today. Mr. Cafferty replied $20 million of which $8.5 million is Board mandated Reserves, $4.1 million is Restricted Reserves, and of the rest of the Reserves, the vast majority is Capital Reserves that have been collected from our Capital charge and used to invest in Capital.

Mr. Cafferty stated that staff is seeking direction today from the Board on the OPEB, today's budget as laid out today, and does the budget include a rate increase and if so when.

OPEB

Vice President Gaskins	no OPEB the 2020/21 fiscal year
Director Freshley	no OPEB the 2020/21 fiscal year
Director Vergara	no OPEB the 2020/21 fiscal year
Director Havens	no OPEB the 2020/21 fiscal year
President Monin	no OPEB the 2020/21 fiscal year

Draft Budget

Director Vergara	yes on draft expense budget with CPI discussion
Director Freshley	yes on draft expense budget
Vice President Gaskins	yes on draft expense budget
Director Havens	yes on draft expense budget
President Monin	no on draft expense budget

Rate Increase/When

President Monin	no rate increase for the 2020/21 fiscal year
Director Vergara	yes rate increase in September 2020
Director Freshley	yes rate increase in September 2020
Vice President Gaskins	yes rate increase in September 2020
Director Havens	yes rate increase in September 2020

ADJOURNMENT

There being no further business to come before the Board the meeting was adjourned at 11:00 a.m.

Respectfully submitted,

Polly Welsch

Polly Welsch
Recording Secretary

APPROVED:

MARK MONIN, President of
the El Toro Water District and
the Board of Directors thereof

DENNIS P. CAFFERTY, Secretary
of the El Toro Water District and
the Board of Directors thereof