

MINUTES OF THE SPECIAL BOARD MEETING
OF THE
BOARD OF DIRECTORS
OF THE
EL TORO WATER DISTRICT
May 3, 2023

President Havens called the Special meeting of the Board of Directors of the ELTORO WATER DISTRICT to order at 1:30 p.m.

Director Gaskins led in the Pledge of Allegiance.

Directors KAY HAVENS, JOSE VERGARA (zoom), KATHRYN FRESHLEY, MIKE GASKINS, and MARK MONIN participated.

Also present were DENNIS P. CAFFERTY, General Manager, JUDY CIMORELL, Human Resources Manager, JASON HAYDEN, CFO, SCOTT HOPKINS, Operations Superintendent (Zoom), MIKE MIAZGA, IT Manager (Zoom), GILBERT J. GRANITO, General Counsel, and POLLY WELSCH, Recording Secretary.

Determination of a Quorum

President Havens asked for a Roll Call to determine a quorum.

Roll Call:

Director Monin	present
Director Gaskins	present
Director Freshley	present
Vice President Vergara	present (Zoom)
President Havens	present

Oral Communications/Public Comments

There were no comments.

Review the Minutes of the April 25, 2023 Budget Committee Meeting

President Havens asked for a Motion.

Motion: Director Gaskins made a Motion, seconded by President Havens and unanimously carried across the Board to approve the April 25, 2023 Budget Committee meeting minutes.

Roll Call:

Director Monin	aye
Director Gaskins	aye
Director Freshley	aye
Vice President Vergara	aye (Zoom)
President Havens	aye

ETWD Draft 2023/24 Budget

Mr. Cafferty provided a presentation on the district's 2023/24 budget. He further stated that staff and the Budget Committee held two meetings to prepare the Budget for consideration of adoption by the full Board at today's meeting.

Mr. Cafferty discussed what Revenues will be necessary to meet expenses, capital requirements, and to ensure the District has adequate cash flow. He further stated that the goal has been to implement reliable, stable, and predictable rate increases in an even fashion.

Mr. Cafferty stated that cost containment strategies are a continuous ongoing practice. He further stated that strategic financial planning principles include a pass thru of the MWDOC/MET rate increases to customers, along with costs associated with the Baker Treatment Plant.

Mr. Cafferty stated that there is also an annual Cost of Service evaluation performed by Raftelis, and a comprehensive review of budgeted expenditures.

Mr. Cafferty stated that Debt Coverage Ratios are non-negotiable.

Mr. Hayden stated that the Revenue Plan shows what is projected into the Budget; potable water sales, tertiary recycled water sales, potable water use charges, tertiary recycled water use charges, capital charge revenue, and cost of service revenue increases. He further stated that some of the other revenues are property tax revenue, restricted reserve revenue, interest income, rate stabilization replenishment, capital reserves replenishment, net fixed meter revenue increases, and wastewater revenue increases.

Mr. Hayden reviewed the 2023/24 proposed revenue and expenses. He further commented on purchased water, labor, operating activities, restricted reserve 5-year cash flow, capital improvement program, cost of service rate adjustments, commodity rate adjustments, rate components, recycled water capital charges, wastewater capital charges, and single family residential and commercial sensitivity.

Mr. Cafferty stated that Director Vergara asked about legal expenses, to which he commented that last year we incurred significant cost from Special Counsel, Labor Attorney, and 401(k) Plan Representatives.

Mr. Cafferty stated that for the Board's budget we are budgeting for each of the 5 Board members which includes the rate of \$219 per meeting and 10 meetings per month, so the total budgeted is \$131,400.

Mr. Hayden stated that our costs for Purchased Water reflect the purchased water volume, MWD's costs, MWDOC and Baker costs, and pipeline charges.

Director Freshley asked if we use water from the Baker pipeline. Mr. Cafferty replied that we own 5 cfs capacity and we use the full 5 cfs.

Mr. Hayden stated that labor is broken into 4 categories; salaries, health insurance premiums, 401k/457b contributions, and all other benefits.

Mr. Cafferty stated that the merit increase, which will be implemented in July, is based on the 12-month average of the CPI component which was 7.1% and the typical merit increase component at 3%, for a total of 10.1%.

Mr. Hayden reviewed the Operating Activities 5-year Cash Flow, the Restricted Reserve 5-year Cash Flow, and the Capital Improvement 5-year Cash Flow and Program.

Mr. Cafferty stated that the recycled water commodity rate is 90% of the Tier 2 (outdoor use) potable rate. Director Freshley stated she feels the recycled water should be the same cost. After discussion, President Havens suggested the Board consider the question in the next budget year.

Mr. Cafferty stated that we have a Fixed Meter Charge for all 276 meters in the new Recycled Water Distribution System. He further stated that the Laguna Woods Golf Course is served through a 10-inch meter at the Plant that has no Fixed Meter Charge and no Capital Charge.

Mr. Cafferty recommended considering adding the Fixed Meter Charge and the Capital Charge for the use of Recycled Water on the Laguna Woods Golf

Course. The Board concurred that it was appropriate to charge a fixed meter charge and capital charge for the 10" golf course meter to treat that meter in a matter consistent with all the other recycled meters.

Mr. Hayden stated that the Proposed Cost of Service Rate Adjustments were proposed by Raftelis, along with the Proposed Revenue Commodity Rate adjustments.

Mr. Cafferty explained the use of non-rate revenue to fund the Tier 1 offset. Staff and the Board discussed the merits of the Tier 1 Offset concept. Mr. Hayden stated that the calculation of the Tier 1 offset in the rate study is less in this budget than the previous year. Mr. Cafferty recommended deferring consideration of any further change to the Tier 1 offset to the 2024-25 budget process. The Board concurred.

Mr. Cafferty stated that based on the need to fund the capital projects the District is facing the proposed Capital Charges are increasing 25%. Mr. Cafferty further stated that staff has proposed increasing these rates 25% per year for the next several years to double the capital revenue in order to fund the capital improvement program.

Mr. Hayden stated that Single Family Residential rates will increase 9.39%, with HOA's and Cities increasing between 7.1% - 9.8%. Mr. Cafferty stated that the District's proposed rate increases are consistent in magnitude with what many other local water and wastewater agencies are considering. Mr. Cafferty further stated that an analysis of rates amongst Orange County agencies indicates that the District's rates remain relatively competitive.

Mr. Cafferty shared the Proposed Schedule. He further stated that the Prop 218 Notice has been redesigned to consider a 3-year schedule, and after the 3-years, we could consider a 5-year schedule. Mr. Cafferty stated that the 218 Notice incorporates a CPI based inflation index for purposes of the increase in the fixed meter, private fire and wastewater charges in the second two years.

Mr. Cafferty stated that the current Prop 218 Notice will need some language changes, and messaging before it is finalized. Mr. Cafferty stated that the District has previously send the 218 Notice to property owners in the District service area. He further stated that renters that pay the water bill would not receive the 218 Notice based on the distribution to property owners only. Mr. Cafferty stated that using the customer database for the distribution of the Proposition 218 notice might leave out some property owners that don't live at the property. Mr. Cafferty stated that properties for which the owner did not receive a 218 Notice cannot be liened in the event of non-payment. Mr. Cafferty further stated the District typically shuts off service in the event of non-payment and has never had cause to lien a property.

Mr. Cafferty recommended sending the Prop 218 Notices to the customer database. Mr. Granito concurred with the recommendation to send the Notice to customers. The Board concurred with the recommendation. Mr. Cafferty stated that the District Newsletter will identify the location of the 218 Notice on the District's website so it is available to all residents.

Mr. Cafferty stated that we are proposing 2 Community Informational meetings giving customers an opportunity to communicate with staff and the

Board on the rate study and proposed rate increases on July 12, 2023 at 5:30 p.m. and on July 19, 2023 at 7:00 p.m. He further stated that the July 27, 2023 Public Hearing will be at 7:00 p.m.

President Havens asked for a Motion.

Motion: Director Monin made a Motion, seconded by Director Gaskins and unanimously carried across the Board to approve 1) the 2023/24 Operating & Capital Budget, and 2) authorize noticing of a Rate Public Hearing to be scheduled for July 27, 2023.

The Board deferred taking action on 1) 2023/24 Water, Recycled Water and Wastewater Rate Study, and 2) 2023/24 Prop 218 Notice and authorization of distribution of same in accordance with applicable public notice requirements until the May 22, 2023 Finance meeting.

Roll Call Vote:

Director Monin	aye
Director Gaskins	aye
Director Freshley	aye
Vice President Vergara	aye (Zoom)
President Havens	aye

Adjournment

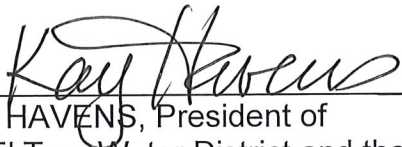
There being no further business to come before the Board, the meeting was adjourned at 4:22 p.m.

Respectfully submitted,




POLLY WELSCH
Recording Secretary

APPROVED:

A handwritten signature in black ink, appearing to read "Kay Havens", written over a horizontal line.

KAY HAVENS, President of
the El Toro Water District and the
Board of Directors thereof

A handwritten signature in blue ink, appearing to read "D. P. Cafferty", written over a horizontal line.

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