

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

April 9, 2026

President Freshley called the meeting of the Board Budget Workshop of the Board of Directors of the ELTORO WATER DISTRICT to order at 1:00 p.m.

Director McClean led the Pledge of Allegiance to the flag.

Directors MARK MONIN, MIKE GASKINS, KATHRYN FRESHLEY, KAY HAVENS, and WYATT MCCLEAN were present.

Also present were DENNIS P. CAFFERTY, General Manager, GILBERT J. GRANITO, General Counsel, VISHAV SHARMA, CFO, JUDY CIMORELL, Director of Human Resources, SHERRI SEITZ, Public Affairs Manager (Zoom), VU CHU, Water Resources Supervisor (Zoom), Water and MARISOL MELENDEZ, Recording Secretary.

Determination of a Quorum

Roll Call:

Director McClean	Present
Director Monin	Present
Director Gaskins	Present
Vice President Havens	Present
President Freshley	Present

Five Board members are present at the meeting and therefore a quorum has been determined.

ORAL COMMUNICATIONS - PUBLIC COMMENT

There was no public.

Minutes of the March 24, 2026 Budget Committee #3 Meeting

President Freshley asked for a Motion.

Motion: Director Gaskins made a Motion, seconded by Vice President Havens to approve the minutes of the March 24, 2026 Budget Committee #3 Meeting.

Roll Call Vote

Vice President Havens	aye
Director Gaskins	aye

El Toro Water District 2026-2027 Budget and Proposed Rate Increases

Mr. Cafferty reported that Metropolitan Water District (MET) has not yet posted the materials for its upcoming meeting, which includes different budget scenarios. Staff will incorporate MET's final budget data into the District's budget and bring the proposed budget back for final approval at the next Finance Committee meeting. Similarly, the cost of service study that normally gets approved at this meeting is under review by Special Counsel. The report will be posted to the District's website prior to the mailing of the Proposition 218 Notice to ensure public access.

Mr. Cafferty reviewed the District's strategic financial planning principles for budget preparation and long-term financial goals. Key planning considerations include the annual MWDOC/MET/Baker pass-through commodity rates and the proposed 5-year Proposition 218 Notice while keeping in mind the importance of managing expenditures to ensure reliable and safe operations with a focus on efficiency.

Mr. Cafferty also reviewed the revenue plan, outlining proposed increases and projected revenues. The District is budgeting for purchased water sales, with recycled water sales projected at 1,300 AF. The potable water supply charge is anticipated to increase by \$0.34 based on MET's preliminary budget. The tertiary recycled water use

charge is projected to increase by \$0.28. In addition, the plan includes a total capital revenue of \$7.46 million, an operations and maintenance (O&M) revenue increase of \$0.789 million, property tax revenue \$1.4 million, \$939,000 in restricted reserve revenue, and \$400,000 investment income. Overall, the revenue plan reflects an approximate 9.1% increase in fixed meter revenue, a 2.5% increase in wastewater revenue, and a 25% increase in capital charges.

Mr. Cafferty reviewed O&M expenses exceeding \$200,000 some of which are personnel, purchased water, and electrical power. He noted that staff aimed to budget toward a net zero position and indicated that efforts in the coming years will focus on building reserves.

Mr. Cafferty explained that attachment 5 is the overview of budgeted purchased water. The MWD treated water cost assumed that MET will be doing a 9.5% rate increase in 2027 and a 9.5% rate increase in 2028.

Mr. Cafferty stated that the overall labor budget reflects an approximate 4% increase, which includes salaries, 401k/457(b) contributions, health insurance, other benefits, and workers' compensation insurance. He also stated that state law requires reporting on vacancies, recruitment, and retention to the Board. Ms. Cimorell explained that AB 2561 promotes transparency and accountability by ensuring an adequate workforce is in place. She reported that during the recent period, there were two retirements, one transfer, and one new hire resulting in a 96% retention rate and low turnover.

Mr. Cafferty stated that Attachment 7 provides a summary of medical insurance costs, which are under budget and reflect a modest increase of 1.27% helping to limit the overall rise in labor costs. He further explained that Attachment 8 outlines the ratio

of fixed to variable costs and revenues at 52.11% and 50.69% respectively, which demonstrates stable financial standing.

Mr. Cafferty reviewed the proposed Capital Improvement Plan, which includes approximately \$12.4 million in capital investments, largely informed by the District's asset management plan. He also reviewed the ten-year revenue plan and O&M cash flow analysis, noting that reserves are projected to begin accumulating in FY 2027-28. This projection is based on a 7.5% overall O&M expense target and reflects assumptions regarding rising costs, corresponding rate adjustments, and the need to meet reserve funding requirements.

Mr. Cafferty further reviewed the ten-year cash flow capital plan, explaining that it outlines funding sources for capital projects based on total water and sewer capital revenues, excluding recycled water. He noted that average annual spending over the ten-year period is approximately \$11.5 million.

Mr. Cafferty also presented the ten-year reserve projections, including the repayment of the reverse cyclic program. He stated that committed reserves remain consistent with the District's cash reserve policy and support the 7.5% requirement.

Mr. Cafferty reported that recycled water sales declined significantly in FY 2022-23 and 2023-24 due to increased rainfall. Sales then increased in FY 2024-25 and are currently trending slightly lower at approximately 1,300 AF, consistent with the proposed budget. He explained that higher recycled water sales improve operational efficiency and generate additional revenue, including payments from the MET Local Resource Program, while reducing the net impact on the tiered conservation fund as a source of supplemental revenue.

For FY 2026-27, Mr. Cafferty noted that the revenue generated from tiered rates is projected to fully meet supplemental revenue needs, with approximately \$19,000 returned to reserves, as opposed to prior years. He also highlighted changes in debt service for recycled water. In FY 2030-31, the phase II recycled water loan will be paid off and reserves are expected to begin increasing.

Mr. Cafferty reviewed the proposed FY 2026-27 commodity rate adjustments for tiered and recycled water, which range from 7.8% to 12.4% compared to current rates per CCF. He explained that the water supply components include supply, peak delivery, recycled water, conservation, and the tier 1 offset. Proposed O&M rate adjustments are approximately 10%.

Mr. Cafferty stated that commercial O&M rates are based on flow and sewage strength. Proposed capital charges for water and recycled water reflect an average increase of 25%. Similarly, proposed wastewater capital charges for residential customers are approximately 25%, while commercial wastewater charges are calculated based on flow and strength.

Mr. Cafferty noted that the five-year commodity rate projections will be updated following final budget adoption by MET. The five-year O&M rate adjustments are based on projected expense factors and the level of revenue required after accounting for non-rate revenues. He added that five-year capital rate adjustments for water, recycled water, and wastewater are driven by system needs, rate impacts, and prioritization of projects to maintain system reliability.

Mr. Cafferty also reviewed the proposed single-family residential and Laguna Woods Village sensitivity analysis, which reflects overall increases of 10.5% and 10.0%, respectively, subject to change based on MET's final budget. He further reviewed the ten-year sensitivity analysis, noting that it is tied to the cash flow projections.

Mr. Cafferty explained that the Proposition 218 Notice will cover a five-year period and include community information meeting dates, times, and rate information for all customer classes. He stated that the District is not proposing to reduce the indoor water budget from 55 to 47 gallons per person per day at this time, as overall compliance targets are expected to be met. However, the Notice includes language allowing for that change if compliance becomes a concern.

He further noted that the Proposition 218 Notice outlines procedures for challenging District's rates, fees, and charges. Mr. Cafferty emphasized that any final changes to the Notice will depend on MET's adopted budget.

Finally, Mr. Cafferty reviewed the timeline for final approval of the FY 2026-2027 Operating and Capital Budget and the 2026-27 Water, Recycled Water, and Wastewater Rate Study Report, which is scheduled for consideration at the District's Finance Committee meeting later this month.

President Freshley asked for Motion.

Motion: Director Monin made a Motion, seconded by Director Gaskins to 1) approve and authorize the distribution of the Proposition 218 Notice authorizing the General Manager the discretion to adjust certain rates following the adoption of Metropolitan Water District's budget 2) authorize noticing of a Public Hearing to be scheduled for June 11, 2026 to consider taking action on the proposed rate increases.

Roll Call Vote:

Director McClean	aye
Director Monin	aye
Director Gaskins	aye
Vice President Havens	aye
President Freshley	aye

ADJOURNMENT

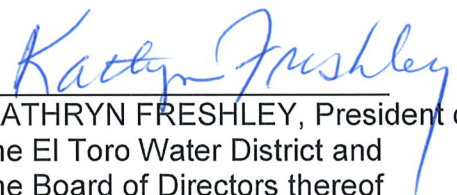
There being no further business to come before the Board the meeting was adjourned at 3:39 p.m.

Respectfully submitted,




Marisol Melendez
Recording Secretary

APPROVED:



KATHRYN FRESHLEY, 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