

**MINUTES OF THE
MOULTON NIGUEL WATER DISTRICT
FINANCE & INFORMATION TECHNOLOGY
BOARD OF DIRECTORS' MEETING**

FEBRUARY 16, 2011

The regular meeting of the Finance & Information Technology Board of Directors was held at the District office, 27500 La Paz Road, Laguna Niguel, California, at 9:00 a.m. on Wednesday, February 16, 2011. There were present and participating:

DIRECTORS

BRIAN PROBOLSKY	Chairman
SCOTT COLTON	Director
RICHARD S. FIORE	Director
DON FROELICH	Vice President
GARY R. KURTZ	Director
LARRY R. LIZOTTE	Director
LARRY MCKENNEY	President

Also present and participating were:

STAFF MEMBERS

ROBERT C. GUMERMAN	General Manager
DAVID D. CAIN	Director of Finance/Treasurer
MATT COLLINGS	Director of Engineering & Operations
CHARLES J. ROY	Director of Customer Service
JANE NGUYEN	MNWD
LESLIE GRAY	MNWD
KARREN MADDOX	MNWD
ROBYN EPPSTEIN	MNWD
FRANI BAILEY	MNWD

DISTRICT CONSULTANTS

KAY CHANDLER	Chandler Asset Management
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PUBLIC MEMBERS

MR. LASKEY	Resident
TOM ROLLS	Resident

Absent was:

There were no absences.

President Larry McKenney called the meeting to order and Frani Bailey recorded the minutes thereof.

APPROVAL OF MINUTES OF JANUARY 19, 2011 FINANCE & INFORMATION
TECHNOLOGY BOARD OF DIRECTORS MEETING

President McKenney requested approval of the minutes of the January 19, 2011 Finance & Information Technology Board of Directors meeting.

THEREAFTER, UPON A MOTION DULY MADE BY DIRECTOR KURTZ AND SECONDED BY DIRECTOR FROELICH, THE MINUTES OF THE JANUARY 19, 2011 FINANCE & INFORMATION TECHNOLOGY BOARD OF DIRECTORS MEETING WERE UNANIMOUSLY APPROVED AS PRESENTED.

PUBLIC COMMENTS

President McKenney commented that there were two requests from members of the public to address the Board regarding the Water Budget Based Rate Structure (WBBRS). He asked if any members of the public wanted to speak on a topic other than the WBBRS. Hearing none, he closed the public comments portion of the meeting.

PRESENTATION ITEMS

Discussion of Proposed Water Budget Based Rate Structure

President McKenney invited Mr. Laskey to address the Board. Mr. Laskey reported that he has a small dog grooming business in Laguna Niguel and is concerned that a five-time increase in water rates would be a heavy burden on his business. President McKenney explained that bills are not going up by a certain factor across the board; it has to do with how a customer's budget is allocated and whether the customer stays within that budget. He explained that the District is identifying businesses staff thinks would be extraordinarily impacted so staff can contact them and let them know what they can do to prevent that. President McKenney asked Mr. Charles Roy to talk to Mr. Laskey about his situation and Mr. Roy reported that he would. Mr. Roy explained to Mr. Laskey that the rates will not go up by five times, and that the WBBRS actually lowers the commodity rates for commercial customers by \$.75 per billing unit in the lower tiers. He explained that if Mr. Laskey stays within his allocation, which would be based on a three-year rolling average for a commercial account, his water bill could actually be reduced.

Chairman Probolsky arrived at 9:10 a.m. and President McKenney turned the meeting over to him. Chairman Probolsky invited Mr. Tom Rolls to address the Board. Mr. Rolls commented that the District's website provided an opportunity for customers to ask questions, which he did; however, he did not receive a reply. He commented that some of the language in the 218 Notice seems inconsistent, in that it says that the WBBRS is revenue neutral but that everyone should expect an increase. Mr. Rolls also asked what type of survey was conducted, as he was not aware of any survey involving the residents. He commented that if the WBBRS is based on previous usage, the people who conserved water over the last three years would be penalized, which is a dangerous precedent to set.

Chairman Probolsky explained that there are parts of the bill that may increase and there are parts that may decrease, and the goal is to have the WBBRS be revenue neutral and not be a new rate increase. He explained that the survey done was an aerial survey of the irrigatable area of each parcel in the District using satellite and parcel data. Chairman Probolsky explained to Mr. Rolls that if the survey results for his property are not correct staff has a very simple process to correct that. He explained that historical usage does not affect residential customers; therefore, Mr. Rolls would not be penalized for conserving water over the last three years. President McKenney commented that the whole intent of the WBBRS is to avoid penalizing conservation.

Mr. Roy reported that he would follow up with Mr. Rolls regarding his request on the website and see why he did not get a reply. President McKenney thanked Mr. Rolls for addressing the Board and suggested that he might be interested in joining the District's Citizens' Advisory Committee.

DISCUSSION ITEMS

Discuss Investment Policy

Dr. Gumerman introduced Ms. Kay Chandler, President of Chandler Asset Management and invited her to address the Board. Mr. David Cain reported that Mr. Ted Pirokowski of Chandler Asset Management brought this matter to the Board's attention last month and he and staff recommended that the Board change the District's Investment Policy to eliminate Section IV.C and modify Section VI-B-3. He reported the Board adopted a Resolution making the changes recommended by staff, and later some additional questions were raised. Mr. Cain reported that he included materials in the Board packet indicating when Section IV.C was put February 16, 2011

into the Investment Policy and copies of the June 20, 1995 and July 17, 1995 minutes. He reported that Ms. Chandler would explain to the Board why Section IV.C was put into the Investment Policy, how market conditions have changed, and some potential options for the Board to consider. He invited Ms. Chandler to address the Board.

Ms. Chandler explained the thought process the Board went through in 1995 when the Investment Policy and strategy were established, gave the Board an overview of the changes that have occurred since that time, and discussed the options available to the Board at this point. She explained that Section IV.C was put into the Investment Policy because the Board recognized the tradeoff between volatility and yield and had numerous questions about how to balance the two. The Board recognized that the Operating Reserve was established for long-term growth, not liquidity and was concerned about protecting public funds from extreme volatility. Ms. Chandler commented that looking back over time, the Board's strategy of putting part of the portfolio in LAIF or other short-term investments and putting the funds not immediately needed into an Operating Reserve portfolio invested out for a longer period of time was a very successful strategy.

Ms. Chandler discussed the District's choices with regard to Section IV.C. She explained that the Board could reduce the portfolio's exposure to market risk by selecting a lower duration for the portfolio, as the 200 basis point test will not hold in the current environment except for very short-term portfolios. The other option would be to retain the current duration and portfolio structure in accordance with the strategy the Board adopted in 1995, realizing that the magnitude, timing, and direction of interest rate changes is not known, that the District's liquidity needs would be provided for, and that the 200 basis point test must be relaxed for the current strategy to remain in effect. A discussion ensued and Director Fiore asked if eliminating the 200 basis point provision is consistent with the current risk portfolio. Ms. Chandler reported that it is. She explained that the risk profile has not changed but the interest rate environment and the amount of return the portfolio is able to generate from interest rate earnings has changed since 1995. Ms. Chandler commented that leaving this provision in would be inconsistent with the risk profile because it is not possible to respect that boundary. She commented that Chandler is not recommending that the District change the risk profile but that it remove the constraint that

makes it impossible to manage the portfolio. Further discussion ensued and Ms. Chandler answered the Board's questions.

Director Colton expressed concern about taking the 200 basis points provision out of the Investment Policy and asked when it would be effective again. Ms. Chandler commented that Chandler would not recommend putting a constraint like this in the policy again and explained the rationale behind her recommendation. Further discussion ensued and the Board determined to let the Resolution removing Section IV.C adopted by the Board last month stand. Chairman Probolsky thanked Ms. Chandler for her presentation.

Board Room Update

Mr. Cain updated the Board on two things staff is currently working on; the Board Room enhancement update and the ERP process. He reported that Granicus, one of the software vendors, presented a demonstration to the Board at a previous meeting. Since that point in time staff has identified a firm called Sire, another vendor that provides a similar product that has some features and enhancements that staff is interested in. Mr. Cain provided an overview of Sire's customers and reported that staff did a Webinar demonstration with Sire and was impressed with its product. He reported staff received a preliminary bid from Western Audio, one of four firms that provided the District with recommendations regarding audio equipment for the Board Room.

Mr. Cain commented that the issue is determining the Board's comfort level in going to an electronic media set-up. He reported that both vendors can still provide paper for the Board members who want it; however, staff's goal is to get to the electronic component. He outlined the capabilities of Granicus and Sire and what each firm has to offer. Mr. Cain commented that staff's goal is to bring to the Board specific recommendations for Board Room improvements and how the Board conducts its business. A discussion ensued and the Board members gave Mr. Cain their input. Chairman Probolsky commented that this is an important topic and a special meeting should be scheduled to thoroughly discuss it, see demonstrations from proposed vendors, and hear from other cities and districts using the products.

Mr. Cain updated the Board on the ERP. He reported that staff chose one vendor to do a Proof of Capability (POC) demonstration, and the vendor did a three-day POC last week with many of the staff members. The outcome of the POC is that staff is having the vendor address
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four issues of concern and indicate how they would solve those issues, which the vendor will do in an upcoming Webinar with staff. Director Kurtz asked what the timeline for the ERP is and Mr. Cain reported that assuming this vendor successfully addresses the issues raised by staff the goal would be to come back to the Board in March with a contract specifying all of the areas that need to be addressed. He commented that if the vendor cannot produce the desired results staff will go back to the second vendor and do a POC with it. This would put the project behind the timeline; however, the impact to the District would be much less than if staff finds out about the problems after already purchasing the solution and being in the middle of the implementation process.

Financial Policies

Mr. Cain reported that last month he presented to the Board a list of recommended financial policies and received feedback from the Board in terms of specific areas and language. He reported that he made the changes the Board requested and added a couple of sections not in the previous draft. One of the additions he made is under Financial Reporting and relates to the District submitting the Comprehensive Annual Financial Report (CAFR) each year to the GFOA Awards Program, which the District is doing again this year. Mr. Cain reported he also added a section on Procurement stating that the purchasing and procurement system will encourage full and open competition on all purchases and sales to the extent required by law for Special Districts. A discussion ensued and Mr. Cain answered the Board members' questions.

Mr. Cain reported that absent any additional feedback he would bring this back to the Board next month for final approval.

Contract Approval – Red Oak Consulting

Mr. Cain reported that he is requesting that the Board approve an amendment to the Professional Services Agreement with Red Oak Consulting for the Water Budget Rate Design Services in the amount of \$25,786.50, which will increase the total Agreement amount to \$62,264.50, and authorize the General Manager to execute all necessary documents on behalf of the District. He explained that this project went beyond the original anticipated scope because of the number of meetings, the complexity of the project, and the various rate scenarios that Red Oak ran over time.

Mr. Cain reported that Red Oak provided the District with what it agreed to in the original agreement with the understanding that we would need to go beyond that because of the additional meetings, which takes the amount above the \$45,000 for which the General Manager has authority. He reiterated that staff's recommendation is to authorize an amendment to the Agreement for a total of \$62,264.50 and reported that Red Oak has provided all of the services to the District and he is holding the final bill until he receives Board approval. President McKenney asked Mr. Cain if Red Oak has completed the project and Mr. Cain reported that it has.

Director Lizotte asked what the amount of the original agreement was and Mr. Cain reported it was \$36,478 and the original budget was \$40,000. Director Lizotte commented that it would be helpful when a request for additional funds is made if the Board was made aware of the overall picture and how much this particular segment cost. Chairman Probolsky asked Mr. Cain if he thought the WBBRS project would be within the original \$340,000 budget and Mr. Cain reported that it would be close. Dr. Gumerman suggested that staff bring a status update to the Board next month and the Board concurred with Dr. Gumerman's suggestion.

Review Financial Statements for the Period Ended January 31, 2011

Mr. Cain reviewed the Investment Activity Summary for the period of 1/1/11 through 1/31/11. He commented that the District has a \$9 million balance in LAIF because there are debt service payments due next week. Mr. Cain reported that yesterday the District received a credit of \$717,000 on the BABS payment that is coming up.

Mr. Cain directed the Board's attention to the Restricted Trust Accounts and noted that there is \$10 million in the 2003 COPS Trust Reserve, which reflects the two payments that need to be made to defease the bonds. He reported that a \$7.5 million payment will be made in March and the remaining balance of \$1.6 million will be paid off in September.

Mr. Cain reviewed the Budget Comparison for the seven months ending January 31, 2011. He directed the Board's attention to Footnote 2, which is the Worker's Compensation Line Item, and noted that it is currently -\$33,000 because the District received a check for \$83,000 from ACWA/JPIA which offset the cost.

Mr. Cain reviewed the Comparative Income Statement for the year-to-date ending January 31, 2011. He reported that the 15% increase in the Pumping Cost line item reflects work actively being done by the Operations Division relating to maintaining and repairing the various

auxiliary generators at the District's facilities. He explained that Bayshore Electric is being utilized to help the Operations Division with this project. Mr. Cain reported that the OPEB line item has increased because the Board changed the interest rate assumptions. A discussion ensued regarding the District's long term obligations and Mr. Cain answered the Board's questions. Chairman Probolsky suggested that periodically staff add a long term obligation sheet including unfunded liabilities of all of the debt and Director Fiore suggested that Mr. Cain attach the monthly balance sheet to the financial package. Mr. Cain reported he could do this if the Board would like him to.

Chairman Probolsky left at 10:55 a.m.

Mr. Cain reviewed the Budget vs. Actual Report for the seven-month period ending January 31, 2011. He reported that the same items as last month are footnoted at the bottom and nothing has significantly changed since the December report. President McKenney asked why the District is running 34% below budget on the CIP, R&R, and WSR Reserve Funds line item and Mr. Cain explained the discrepancy and the reasons for it. President McKenney asked Mr. Collings if we are catching up on R&R and CIP funds. Mr. Collings reported that we are and he needs to determine what is outstanding and still to be spent and on which of the closed projects the amount originally budgeted was not spent. Further discussion ensued and Mr. Collings commented that his new staff is very expeditiously putting out projects and generating much more work than has been generated over the last six months to a year.

Mr. Cain reviewed the Summary of Disbursements for the month of January 2011, which staff will ask the Board to receive and file at the Board meeting on Thursday.

INFORMATION ITEMS

Tour of Plant 3A Effluent Transmission Main

Dr. Gumerman reported that the tour of the Plant 3A Effluent Transmission Main has been confirmed for 9:00 a.m. on Friday, March 18, 2011. He reported that those going on the tour will meet in the Board Room.

ADJOURNMENT

THEREAFTER, UPON A MOTION DULY MADE AND SECONDED, THE MEETING WAS ADJOURNED AT 11:05 A.M.

Respectfully submitted,

Frani Bailey
Recording Secretary