

**MINUTES OF THE
MOULTON NIGUEL WATER DISTRICT
JOINT INVESTMENT/SPECIAL PERSONNEL & SALARY
BOARD OF DIRECTORS MEETINGS**

APRIL 13, 2011

A Special Meeting of the Personnel & Salary Board was held jointly with the Quarterly Meeting of the Investment Board of Directors of the Moulton Niguel Water District at the District's office, 27500 La Paz Road, Laguna Niguel, California, at 9:00 a.m. on Monday, April 13, 2011. There were present and participating:

DIRECTORS

LARRY R. LIZOTTE	Chairman
SCOTT COLTON	Director
RICHARD S. FIORE	Director
DON FROELICH	Vice President
GARY R. KURTZ	Director
LARRY MCKENNEY	President
BRIAN PROBOLSKY	Vice 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
LESLIE GRAY	Board Secretary
NANCY DESAI	MNWD
KARREN MADDOX	MNWD
KELLY WINSOR	MNWD
AMBER CUTLER	MNWD
FRANI BAILEY	Recording Secretary

DISTRICT CONSULTANTS

TED PIROKOWSKI	Chandler Asset Management
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Absent were:

There were no absences.

INVESTMENT MATTERS

Chairman Larry Lizotte presided at the meeting and Frani Bailey recorded the minutes thereof.

ACTION ITEMS

Review and Discussion of District Investment Report for Quarter Ended March 31, 2011 by Chandler Asset Management

- **Chairman Lizotte directed Dr. Gumerman to provide to the Board at the Finance & IT Board meeting next week a sample calculation of how the rate for deferred compensation is calculated and the date on which the Board made its decision on how it would be calculated.**

Approval of Minutes of Investment Board of Directors Meeting of January 17, 2011

Chairman Lizotte reported that he would entertain a motion to approve the minutes of the Investment Board of Directors meeting of January 17, 2011.

THEREAFTER, UPON A MOTION DULY MADE BY DIRECTOR KURTZ AND SECONDED BY DIRECTOR FROELICH, THE BOARD OF DIRECTORS OF MOULTON NIGUEL WATER DISTRICT APPROVED THE MINUTES OF THE JANUARY 17, 2011 INVESTMENT BOARD MEETING AS PRESENTED BY THE FOLLOWING VOTE: AYES: DIRECTORS KURTZ, FROELICH, LIZOTTE, COLTON, FIORE; NOES: NONE; ABSTAIN: DIRECTORS MCKENNEY AND PROBOLSKY.

Public Comments

Chairman Lizotte inquired if there were any public comments to come before the Committee meeting. Hearing none, he closed the public comments portion of the meeting.

Discussion of Proposed Water Budget Based Rate Structure (WBBRS)

Dr. Gumerman commented that staff does not have a presentation on the WBBRS, and it is on the agenda because the Board requested that it be put on the agendas for all of the meetings this month leading up to the April 21, 2011 Board meeting when the Board would consider adopting the WBBRS, in case any members of the public wished to comment on it.

Director Fiore asked Mr. Charles Roy what type of communications he has received since the WBBRS was last discussed. Mr. Roy reported that Director Colton arranged for a small group of customers to come to the District to see a presentation on the WBBRS. He reported that those invited were provided with information prior to the meeting, and only one customer attended the presentation. He reported that the customer discovered that his bill would be decreasing and was very happy with the staff's explanation. Mr. Roy reported that the Customer Service staff has received a minimum number of phone calls and has received positive feedback. Director Fiore asked if staff has any data on the use of the revised rate calculator on the website and Mr. Roy reported that the hits to the website have increased, which would indicate that customers are using the web calculator.

Dr. Gumerman asked Director Colton if he received any comments from the customers he invited who did not attend the meeting. Director Colton reported that he indicated to the customers that they could contact him or Mr. Roy but none of them did. He commented that the information Mr. Roy sent them was very educational and apparently answered their questions.

Review and Discussion of District Investment Report for Quarter Ended March 31, 2011 by Chandler Asset Management Inc.

Mr. Cain reported that Mr. Ted Pirokowski of Chandler Asset Management would review the investment report for the quarter ended March 31, 2011.

Investment Objectives

Mr. Pirokowski briefly reviewed the District's investment objectives and reported that the investment goals of the Liquid Fund are to provide liquidity for operating expenses and current capital requirements, to preserve principal, and to earn a total rate of return commensurate with the first two goals.

Mr. Pirokowski reported the investment goals of the Operating Reserve Fund are to preserve real capital and provide growth over the long term by earning the rate of return available from longer-term investments permitted under the California Government Code.

Mr. Pirokowski reported the performance objective for the Liquid Fund is to earn a return in excess of the return on 90-day Treasury bills. He reported the investment performance objectives of the Operating Reserve Fund are (1) to earn a total rate of return over a market cycle which exceeds the return on a market index of government securities with maturities of one to ten years (the Bank of America-Merrill-Lynch 1-10 Year Government Index); and (2) to avoid a negative total rate of return over any one-year period in an environment where there is up to a 200 basis point parallel shift in the yield curve. He reported that he would be discussing the negative total rate of return clause in the Investment Policy when the Investment Policy is reviewed later in the meeting.

Mr. Pirokowski reported in order to meet the performance objective the Liquid Fund is invested in short-term securities and LAIF. The average maturity of the Liquid Fund may not exceed 90 days, and the maximum maturity of individual securities in the fund shall be one year.

Mr. Pirokowski reported that in order to meet the performance objectives of the Operating Reserve Fund, it is invested in a diversified portfolio of high quality, fixed income securities with a maximum maturity of ten years. No more than 40% of the fund may be invested in securities with maturities in excess of five years.

Compliance with Investment Policy

Mr. Pirokowski indicated that the District's portfolio complies fully with state law and the District's Investment Policy.

Director Probolsky arrived at 9:10 a.m.

Portfolio Characteristics

Mr. Pirokowski reviewed the portfolio characteristics and transactions for the quarter for the Liquid Fund and the Operating Reserve Fund.

Liquid Fund

	Benchmark 3/31/11	Portfolio 3/31/11	Portfolio 12/31/10
Portfolio Book Value	--	\$5,225,167	\$11,821,516
Market Value	--	\$5,235,452	\$11,825,207
Average Book Yield	--	0.44%	0.55%
Average Maturity (yrs)	0.15	0.00	0.00
Modified Duration	0.15	0.00	0.00
\$ Change in value for 1% change in rates	--	\$0	\$0
% Maturing within 1 year	100%	100%	100%
Average Credit Quality	AAA	Not Rated	Not Rated

Mr. Pirokowski reported the total market value of the Liquid Fund decreased to \$5.2million. In addition, because this fund has instant liquidity, there will be no change in the market value as interest rates fluctuate, and the entire fund matures within one year. He reported LAIF is a very attractive vehicle for this type of money, because the liquidity is there and the yield is higher than other comparable money market alternatives.

Mr. Pirokowski commented that although the yield in LAIF is high, it is a short-term fund. He commented the money in LAIF is not available for investment in the long-term program, which has a higher return in the long run.

Mr. Pirokowski reviewed the Operating Reserve Fund, as follows:

Operating Reserve Fund

	Benchmark 3/31/11	Portfolio 3/31/11	Portfolio 12/31/10
Portfolio Book Value	--	\$107,060,814	\$102,009,812
Market Value		\$111,394,736	\$107,023,124
Average Book Yield	--	2.88%	3.11%
Average Maturity (yrs)	3.99	3.68	3.86
Modified Duration	3.60	3.30	3.43
\$ Change in value for 1% change in rates	--	\$3,676,028	\$3,670,893
% Maturing within 2 Years	26.5%	20.3%	25.2%
Average Credit Quality	AAA	AAA	AAA

Mr. Pirokowski reported the total market value of the Operating Reserve Fund increased from \$107 million to \$111 million, which is in response to interest rates rising significantly during the quarter. He reported the Average Book Yield of the fund is

2.88%. Mr. Pirokowski reported the yield to maturity is essentially what the District will get on the fund over time if securities are not sold.

Mr. Pirokowski reported the average maturity of the portfolio is 3.68 years, slightly lower than the benchmark. He reported the modified duration of the fund is 3.30, slightly lower than the benchmark.

Mr. Pirokowski reviewed the portfolio activity during the quarter. He reported that during the quarter portfolio activity included a series of rebalancing transactions in order to maintain the portfolio's structure and duration target. In addition, the portfolio received an additional \$4 million on March 30, 2011. Newly purchased securities included Treasury, Agency, and Corporates with maturities ranging from October 2012 through December 2017. He reported that Chandler continues to invest in Corporate and Agency holdings to take advantage of favorable relative valuations in these sectors.

Mr. Pirokowski reported that the transactions made in January adjusted the portfolio duration to shorter than the benchmark index duration. Chandler shortened the portfolio duration with Agency security transactions. For the month, the cumulative sale transactions realized gains of \$97,340.

Mr. Pirokowski reported that February's transactions adjusted the portfolio duration to slightly shorter than the benchmark index duration. Chandler again increased the Corporate and Agency sector exposures, and the sale transactions primarily included FDIC Insured Corporates. For the month, the cumulative sale transactions realized gains of \$178,947.

Mr. Pirokowski reported that March's transactions maintained the portfolio duration at slightly shorter than the benchmark index duration. Chandler also added John Deere Capital to the Corporate sector in March. The sale transactions again focused on FDIC Insured Corporates, and for the month the cumulative sale transactions realized gains of \$198,821.

Mr. Pirokowski reviewed two graphs comparing the allocation of the District's Operating Reserve in different areas of the market on March 31, 2011 and on December 31, 2010. He reported that the portfolio sector allocation changed modestly as Chandler increased the portfolio's holdings in Agencies and the Money fund by 3.6% and April 13, 2011

3.0% respectively. Chandler also decreased the holdings in FDIC Insured Corporates by 7.3%.

Mr. Pirokowski reviewed the graph of the portfolio duration compared to the duration of the benchmark index and reported the duration of the District's portfolio closely matches the 1-10 year Government Index benchmark. He reported that the portfolio duration has been slightly shorter than the benchmark index and has started to re-approach the Index. He reported that the current portfolio positioning is approximately 94% of the benchmark.

Mr. Pirokowski reviewed the maturity distribution of the portfolio on March 31, 2011 vs. December 31, 2010. He reported that given the risk-reward profile of the fixed income markets, Chandler expects to position the portfolio duration to be slightly shorter than that of the District's 1-10 Year Government benchmark.

Investment Performance

Mr. Pirokowski reviewed the investment performance of the portfolio from its inception to the period ending March 31, 2011. He reported the total rate of return for the latest three months is 0.35%, compared to the benchmark of 0.03%. He commented the rate of return is not comparable to the yield, but is an absolute change in value for the three-month period. Mr. Pirokowski reported the return reflects the shorter duration positioning and the contribution of the Corporates. He commented that the economy continues to move along in a positive manner and moderate growth is the theme.

Mr. Pirokowski reported the total rate of return of 4.57% for the latest 12 months is significantly higher than the benchmark of 3.83%. He reported that since inception, the total return on the portfolio on a before-fees basis is 5.85%, as compared to the return of 5.48% on the 1-10 Year Government Index benchmark.

Operating Reserve Fund Growth of \$1 Million

Mr. Pirokowski reviewed a graph depicting the historical return of the portfolio on \$1 million invested in September 1995, as follows:

Historical Return on \$1 Million Invested in September 1995

<u>Fund</u>	<u>3/31/2011</u>	<u>Return</u>
Operating Reserve Fund	\$2,414,140	5.85%
1-10 Government Index	\$2,287,179	5.48%
LAIF	\$1,773,720	3.77%

Portfolio Holdings

Mr. Pirokowski reviewed the District's portfolio holdings as of March 31, 2011 and the summary of the issuers, the type of investment, and the percentage of each investment in the portfolio, sorted by the percent in the portfolio and answered the Board's questions. He reported that in February the Treasury and Administration reported definitively that the U.S. Government will continue to provide the backstop to the housing agencies until long term resolution.

Economic Update

Mr. Pirokowski reported that the economic update is contained in Section 3 of the investment report.

President McKenney asked if the District's policy is to invest in only U.S. Corporates and Mr. Pirokowski reported that State Code and the District's policy both mandate that the District invest only in U.S. Corporates.

Director Probolsky asked if the rate of return for 3 months on Page 12 is cumulative and Mr. Pirokowski reported that it is. Director Probolsky commented that this would average out to about 1.5% for the year and asked why the rate for the deferred compensation program for the same quarter is more than double this return. Mr. Pirokowski explained that the rate on Page 12 is the total rate of return, which includes the income component and the price movement. He explained that if prices remained the same, the portfolio would realize a 2.28% return over the year, and a quarter of this would be 70 basis points without price movement.

Ms. Karren Maddox reported that in calculating the deferred compensation rate the realized gains are added to the actual return and Dr. Gumerman reported that the Board devised the method it wanted staff to use to calculate the deferred compensation

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rate. Further discussion ensued and Director Froelich suggested that staff provide the Board with a sample calculation. Chairman Lizotte concurred and directed Dr. Gumerman to provide to the Board at the Finance & IT Board meeting next week a sample calculation of how the rate for deferred compensation is calculated and the date on which the Board made its decision on how it would be calculated. Mr. David Cain reported that Nationwide, one of the deferred compensation providers, has indicated that it is no longer interested in handling the District's deferred compensation program. Further discussion ensued regarding the deferred compensation providers.

Discussion of Date for ERP/IT Workshop

Dr. Gumerman reported that he and President McKenney have discussed the possibility of the Board having a special workshop to address the progress of the ERP project and the IT component. He reported that he would like to set a date for sometime in May for the workshop, and suggested the week after Board week. The Board discussed various dates for the workshop and agreed to have it at 9:00 a.m. on Wednesday, May 4, 2011.

Next Quarterly Investment Subcommittee Meeting

Chairman Lizotte reported that the next Investment Subcommittee meeting is Monday, July 13, 2011 at 9:00 a.m., at which time the investments for the quarter ending June 30, 2011 would be reviewed.

Chairman Lizotte asked if there were any late items. Hearing none, he turned the meeting over to President McKenney for the Personnel & Salary Board matters.

PERSONNEL & SALARY MATTERS

Public Comments

President McKenney asked if there were any public comments and invited Director Lizotte to make his comments. Director Lizotte reported that he would defer his comments until after the discussion on the Side Letter Agreement. Hearing no comments, President McKenney closed the Public Comments portion of the meeting.

Side Letter Agreement #1 to Memorandum of Understanding Between MNWD & MNWDEA Regarding Salary Survey Implementation

President McKenney directed the Board's attention to the Side Letter Agreement #1 (Agreement) the Board members received in their Agenda packets. He reported that on March 11, 2011 the labor negotiating team met with the MNWDEA and provided them with a Side Letter Agreement to the MOU regarding the salary survey reopener. The Agreement outlines the implementation of the salary survey, increases the top of the salary ranges as indicated by the survey results, and increases all employees in their designated classification salaries by the same percentage. He explained that the Agreement also addresses an across-the-board salary increase of 0.66% to all bargaining unit employees. The changes would be effective on July 1, 2011.

President McKenney reported that the MNWDEA voted to approve the Agreement and signed it, and the action today is for the Board to ratify it. He commented that if the Board wants to discuss the matter Mr. Brad Neufeld is available by phone; however, he would expect that this is relatively noncontroversial.

President McKenney reported that since the Agreement was distributed, staff realized that there was a minor arithmetic mistake in one of the calculations. He explained that some of the classification titles on the Agreement the Board received is black and some are blue. The black names are the classifications that were actually surveyed and the blue names are the ones that were benchmarked by calculation. He reported that an arithmetic error was made in the Increase to Top of Range for the Senior Accountant position, and the correct percentage is 4.7%.

President McKenney reported that the across-the-board percentage increase in salary referenced in paragraph 3 should be 0.69% and the amount of the remaining funds from the 3.5% pool following the adjustments should be approximately \$33,000. He reported that the MNWDEA is aware of this adjustment and recommended that the Board approve the Agreement in substance and direct the General Manager to execute the corrected Agreement.

Director Lizotte asked if the Agreement was only for the non-exempt employees and President McKenney reported that it is. Director Lizotte asked what happens to the

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exempt employees and President McKenney reported that the Board previously gave the General Manager direction about how to address using the pool for the exempt employees. Director Lizotte commented that he has a problem with any wage increases during a time when the District is raising water rates and that there might be other ways to recognize the economic times. He encouraged the Board to think out of the box to help the people who need help.

Director Fiore commented that the Board would probably agree with Director Lizotte in concept; however, the Agreement is consistent with what the Board agreed to do in the MOU and the Board should honor its agreement.

THEREAFTER, UPON A MOTION DULY MADE BY DIRECTOR FROELICH AND SECONDED BY DIRECTOR KURTZ, THE BOARD OF DIRECTORS OF MOULTON NIGUEL WATER DISTRICT APPROVED THE SIDE LETTER AGREEMENT #1 TO MEMORANDUM OF UNDERSTANDING BETWEEN MNWD & MNWDEA REGARDING SALARY SURVEY IMPLEMENTATION AND DIRECTED THE GENERAL MANAGER TO EXECUTE THE CORRECTED SIDE LETTER AGREEMENT BY THE FOLLOWING VOTE: AYES: DIRECTORS KURTZ, FROELICH, MCKENNEY, COLTON, FIORE, AND PROBOLSKY; NOES: DIRECTOR LIZOTTE; ABSTAIN: NONE.

Public Comments

Director Lizotte commented that there is an issue regarding an employee that involves the District's Grievance Procedure. He asked that a special meeting be agendized to allow the employee to address the Board. President McKenney reported that he is aware of the issue Director Lizotte is raising and would work on agendizing the matter.

Adjournment

There was no further business to come before the Investment Board and the meeting was adjourned at 9:55 a.m.

Respectfully submitted,

Frani Bailey
Recording Secretary