

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

JULY 20, 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, July 20, 2011. There were present and participating:

DIRECTORS

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|------------------|----------------|
| 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 |
| NANCY DESAI | MNWD |
| LESLIE GRAY | Board Secretary |
| KARREN MADDOX | MNWD |
| FRANI BAILEY | Recording Secretary |

DISTRICT CONSULTANTS

| | |
|-----------------|----------|
| BRUCE ELLIOTT | SIRE |
| RON ENGLISH | Denovo |
| GARY FOX | Oracle |
| TERRY HACKELMAN | NexLevel |
| DAVID GOUGIS | NexLevel |

Absent was:

There were no absences.

Chairman Brian Probolsky called the meeting to order and Frani Bailey recorded the minutes thereof.

APPROVAL OF MINUTES OF JUNE 15, 2011 FINANCE & INFORMATION

TECHNOLOGY BOARD OF DIRECTORS MEETING

Chairman Probolsky requested approval of the minutes of the June 15, 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 JUNE 15, 2011 FINANCE & INFORMATION TECHNOLOGY BOARD OF DIRECTORS MEETING WERE UNANIMOUSLY APPROVED AS PRESENTED.

PUBLIC COMMENTS

Chairman Probolsky opened the Public Comments portion of the meeting. Hearing no public comments he closed the Public Comments portion of the meeting.

PRESENTATION ITEMS

Certificate of Achievement for Excellence in Financial Reporting Awarded by Government Finance Officers Association (GFOA) for the Comprehensive Annual Financial Report (CAFR)

Mr. David Cain reported that the District received the GFOA Award for Excellence in Financial Reporting for last year's CAFR financial statement. He reported that the District is one of only 205 special districts in the United States that received the award. Mr. Cain thanked the staff, the General Manager, and the Board for making this possible and gave special thanks to Ms. Nancy Desai for her hard work and dedication in putting the CAFR together and submitting all of the necessary requirements. The Board congratulated Ms. Desai and staff on her accomplishment and Chairman Probolsky commented that this would be an appropriate item for *WaterLines*.

DISCUSSION ITEMS

Enterprise Resource Planning (ERP) Vendor Selection, Project No. 2010.033

Mr. Cain introduced Mr. Terry Hackelman and Mr. David Gougis from NexLevel, Mr. Ron English, the CEO of Denovo, Mr. Gary fox from Oracle, and Mr. Bruce Elliott from SIRE Technology. He reported that the PowerPoint presentation provided to the Board in the Agenda packet includes a high level overview of the ERP objectives, drivers and selection approach,

timeline, and results. Mr. Cain reported that the current environment includes ten vendors and the ERP will narrow the environment down to four vendors. He reported that the unique District requirements were identified early in the process to make sure the proposed software would provide the required functionality. Mr. Cain reported that staff was very heavily involved in the ERP process at all levels of the organization to ensure staff buy-in early in the process.

Mr. Cain reported that staff developed a timeline, did a needs assessment, the RFP, the evaluation, and the selection. He reported that the selection process took longer than anticipated because the District ended up looking at two vendors during the Proof of Capabilities (POC) portion of the selection process, as opposed to one. Mr. Cain reported that through that process the District and Denovo gained a significant amount of knowledge and information. He turned the presentation over to Mr. Terry Hackelman from NexLevel, who explained the selection process.

Mr. Hackelman reported that the procurement selection approach focused on three key elements: find the best fit and solution, get it at the best price possible, and do it at an acceptable risk. Director Fiore asked Mr. Hackelman to define with the risks are. Mr. Hackelman reported that the most significant risk is the adaptation to change management for staff, because the ERP will change how the employees do their jobs, from time cards to how transactions are processed. He reported that converting the data from the legacy system to the new system and continuing accurate reporting is another significant risk.

Chairman Probolsky asked Mr. Hackelman if he has identified any risk in the process greater than not making the change to the ERP system and Mr. Hackelman reported that he has not. Further discussion ensued and Mr. Hackelman answered the Board members' questions.

Mr. Hackelman reported that the District received eight proposals, and as they came in a very formal process was followed. He described the review and evaluation process used to select the two finalists and answered the Board members' questions regarding the vendors. Mr. Hackelman reported that following the selection process the two finalists, Cogsdale and Denovo each presented a full day demonstration followed by an opportunity for staff to ask questions of the vendor. He reported that following the demonstrations clarification questions were sent to the two vendors and they were asked to submit a best and final offer.

Mr. Hackelman reported that based on Cogsdale's proposal and demonstration, it was identified as the preferred vendor to do a Proof of Capabilities (POC) using District data. While Cogsdale did a good job, the evaluators were concerned that Cogsdale's workflow solution was too complex, that it was not as robust a solution as initially thought for the money, that it required tight integration with Microsoft (Dynamics) and suite products and had less flexibility with future ERP enhancements, and that the vendor implementation resources and support base was in Charlottetown, PE, Canada. He reported that because of these concerns, the evaluators felt it would be prudent to ask Denovo to do a POC.

Mr. Cain reported that after seeing Denovo's POC, staff determined that Denovo would give the District strong, robust workflow capabilities, would provide application support, had the ability to integrate financial, CMMS, and GIS information for asset management, the ability to generate reports on demand, and had a Human Resources module to manage personnel. In addition, Denovo is a local company, and staff liked the JD Edwards Solution proposed by Denovo.

Mr. Cain discussed the additional implementation risks, i.e., the Water Budget Based Rate Structure, payroll-PERS integration, implementation success, MNWD staffing resources, the complexity of the Oracle solution, and Oracle ongoing support of JD Edwards One software solution. He reported that risk mitigation involves:

- staff buy-in to the JD Edwards solution, and active participation and decision-making in the selection and review process
- a time and materials approach to professional services allowing the District to monitor and manage proposed hours and related costs
- implementation support services from Nexlevel
- proven Denovo implementation methodology
- extending the implementation time period from 18 to 21 months and backfilling staff positions
- Oracle support of JD Edwards Enterprise One software.

Mr. Cain reported that AMX agreed to a 100% holdback via Denovo's best, last, and final offer, and agreed to waive the licensing cost for the first year. He reported there is also a 20% holdback on Payroll to address POC concerns, a 10% holdback on Finance and Phase 4, and a

5% overall holdback until the District accepts the total project. Chairman Probolsky asked if any part of the ERP would go live before another part and Mr. Cain reported that as the phases come online they will go live. Further discussion ensued and Mr. Cain answered the Board members' questions.

Mr. Cain reported that the Project Cost for FY 2011-12 is \$1,746,545, the Budget for FY 2011-12 is \$1,746,545, and the Expense Request is \$1,746,545. He reported that the total Project Cost is \$3,375,000, the budgeted amount for FY 2011-12 IS \$3,000,000, and the total Expense Request is \$3,000,000. He explained that the items above the yellow line on the table are the items staff will be asking the Board to approve at the Board meeting on Thursday. A discussion ensued regarding the project cost and Mr. Cain answered the Board members' questions.

Chairman Probolsky commented that according to the sales tax code if maintenance is a required part of purchasing the software it becomes taxable because it is deemed as part of the sale. However, if the agreement is written in such a way that the maintenance is separate and not part of the purchase and the maintenance can be delivered without any physical transfers of CD's, disks, etc., it is wholly un-taxable. Mr. Cain reported that staff and Legal Counsel have addressed this issue in the proposals and the contracts and Denovo has committed to providing the software by electronic means only. Further discussion ensued and Chairman Probolsky asked Mr. English to double check this with his finance staff to make sure the District is billed in such a manner that sales tax is not included.

A discussion ensued regarding the CMMS and GIS components of the ERP and Mr. Hackelman explained what the CMMS and GIS packages contain and how they would be integrated with the ERP. He commented that he is confident that JD Edwards can accomplish the level of integration the District decides on for the CMMS and GIS packages. Mr. Matt Collings commented that he and Ms. Desai are comfortable that they could get the true asset costing and reach into the financial system as it relates to a particular asset and get the information. He reported that staff anticipates integrating between the systems based on asset identification and is comfortable that JD Edwards can provide that integration through the asset identification system.

Mr. Cain reported that the overall project budget is \$3,375,000 and the proposed ERP 2012 budget is \$1,866, 833, which includes the Oracle software license, software implementation and conversion, and travel costs, all on a not-to-exceed basis. The AMX portion for the first year

maintenance fee is \$26,125, and implementation support services are \$566,000 over a 24-month period of time. The implementation support services include project management, change management, process re-engineering, validation and testing, conversion, and reporting by Nexlevel. A discussion ensued and Mr. Cain answered the Board members' questions with regard to the ERP 2010 project budget.

A discussion ensued regarding the implementation of the project and Mr. Cain explained that there are legally required items that must be included in the process, and those will be integrated automatically. He explained that Denovo is not trying to shoehorn how the District does business into the software; rather, it will determine how the District does business and offer suggestions as to the best business practices for more efficiently doing it. This will require changes in how the staff members currently do their jobs; however, Denovo and Nexlevel will work through the changes with the staff to ensure a smooth transition.

Chairman Probolsky asked if there is any reason to add on to Nexlevel's contract now and suggested that the Board review the progress in nine months and proceed from there. Mr. Cain explained that there is a 24-month implementation period and staff is assuming at this time that there will be full time support from Nexlevel; however, if the implementation does not require full time support Nexlevel will not provide it. A discussion ensued and Mr. Cain and Mr. Hackelman answered the Board's questions. Chairman Probolsky commented that he would like to see Mr. Cain come back to the Board in April with a status update and specifically ask for more Nexlevel money and is not comfortable moving on the way the recommendation is written. Further discussion ensued.

Director Lizotte left at 10:45 a.m.

Mr. Cain reported that the remaining ERP items going forward include the Gough contract for legacy conversion services, procurement of ERP hardware and software, upgrade of Microsoft server software and related Microsoft platforms, identifying staff backfill requirements, and establishing a training location and providing required hardware, furniture, etc. He reported that some of the areas in which course adjustments were made because of the POC include looking at document management with SIRE Technology, making sure that workflows are coordinated between JD Edwards and SIRE, and looking at the asset management component of the program.

Mr. Cain reported that the agreements that will need to be executed are a contract with Denovo, a user license and maintenance agreement with Oracle and AMX, and an amendment to the Nexlevel contract. He reported that included in the agenda package are the Professional Services Agreement, the scope and services for the deliverables, and several exhibits to the contract. A discussion ensued and the Directors gave Mr. Cain their comments on the Professional Services Agreement.

District Technology Enhancement – SIRE Technologies Contract Terms, Project Timeline and Deliverables

Mr. Cain commented that last month the Board asked that he bring back the SIRE contract and scope of services, both of which are included in the agenda package. He reported that the Board also asked if he had any discussions with other SIRE customers. Mr. Cain reported that he attended a SIRE training session two weeks ago and had the opportunity to meet with SIRE's staff and implementation team and 60 of SIRE's current clients, including representatives from Elsinore Valley Water District, the cities of Irvine and San Diego, and Sacramento County. He reported that all of the responses he received regarding their experience with SIRE were extremely positive.

Mr. Cain reported that the SIRE solution will improve internal workflow and allow paperless generation of meeting agendas; allow for increased transparency with customer web access to agendas, minutes, and meeting audio; centralize District documents and link to the ERP; improve meeting management; and provide cost savings and improved efficiency.

Mr. Cain reported that part of the funding for SIRE would come from the ERP project and part would come from the District transparency project. He reported that \$50,000 of the budget was included in the ERP budget and the \$151,000 for the implementation is a separate line item. He reviewed the FY2012 Budget/Expense Request and reported that he is requesting \$31,844 out of the ERP Project and \$101,264 from the Board Room enhancement project, for a total of \$133,108. Mr. Cain reported that tomorrow night his recommendation will be that the Board award a contract to SIRE Technology not-to-exceed \$123,108 for licensing, maintenance, implementation, training, and travel and authorize a project expenditure of \$133,108.

Director Froelich asked if hardware costs are included in the budget and Mr. Cain reported they are not. He commented that he has budgeted approximately \$40,000 for hardware,

which would include a dedicated computer for recording, a new microphone system, HP Slates for the Directors and staff, and replacing the current roll-down screen with LCD monitors, and \$20,000 for replacing the lighting in the Board Room. Director Fiore asked what the time frame for completion of the project is and Mr. Cain reported it is 16 weeks, plus lead time for purchasing and receiving the equipment, which would probably be another 30 days. A discussion ensued and the Directors provided Mr. Cain with their comments on the contract.

Review Financial Statements for the Period Ended June 30, 2011

Ms. Desai reviewed the Investment Activity Summary for the month of June 2011. She reported that there is nothing out of the ordinary. She reviewed the Budget Comparison for the 12 months ending June 30, 2011 and reported that the items in bold are significantly below budget and staff has adjusted for those items in the new fiscal year budget. Ms. Desai estimated that the District will be under budget by approximately 9%. A discussion ensued and Ms. Desai answered the Board members' questions.

Ms. Desai reported that the Income Statement and the Balance Sheet will change after the audit has been completed.

Ratification of JPA Budgets (SOCWA, SJBA, JRWSS)

Chairman Probolsky reported that this item would be deferred to the Board meeting on Thursday.

Review of Acreage Assessments (Standby Charges)

Ms. Desai reported that on an annual basis the District collects acreage fees of \$3,000 per acre for undeveloped properties over an acre within the District boundaries. She reported that in reviewing the acreage fees it was determined that many of the properties are either landscaped properties or properties that cannot be developed, such as a slope, and it is not prudent for the District to continue charging an assessment on the properties.

Ms. Desai reported that in June 2003 Mr. David Hawley, the previous Director of Finance, recommended that the District discontinue the assessment of acreage fees for the undeveloped properties in the District; however, his recommendation was never implemented. She explained that the revenue to the District is approximately \$20,000 annually. Dr. Gumerman reported that Mr. Collings did a sample of the properties and found that the majority of the ones on which the District has been collecting fees are actually developed.

Ms. Desai reported that staff recommends that the District discontinue the assessment of acreage fees on undeveloped properties in the District and the Board concurred.

Review Gann Appropriations Limit Resolution

Ms. Desai explained that in November of 1979 the voters of the State of California approved Proposition 4, commonly known as the “Gann Initiative.” The proposition created Article XIII-B of the State Constitution placing limits on the amount of tax revenue which can be received and allocated within a year by public agencies, including many special districts. Division 9 of Title 1, beginning with Section 7900 of the Government Code, was then added to the law to specify the process for calculating state and local government appropriation limits and appropriations subject to limitation under Article XIII-B of the Constitution.

Ms. Desai reported that the District cannot spend more than \$6 million for District expenses, and the money is used primarily for capital projects. Anything above the amount collected must be returned to the taxpayers in some form. She reported that the District collects approximately \$22 million and uses the additional funds to supplement the O&M costs and provide lower rates. A discussion ensued and Mr. Cain and Ms. Desai answered the Board members’ questions. Ms. Desai reported that at the Board meeting tomorrow night staff will request that the Board approve this year’s Gann limit of \$6 million.

Review Conservation Fund (Efficiency Fund) for WBBRS Penalty Revenues

Ms. Desai reported that staff is asking for Board approval to change the name of the Conservation Fund to Water Efficiency Fund and to transfer \$47,600 collected from the Water Conservation Penalties account in the General Fund to the Water Efficiency Fund for uses as stated in the resolution referenced in her staff report. Dr. Gumerman explained that subsequently the Tier 4 and Tier 5 money, minus the Tier 2 costs, will go into the Water Efficiency Fund.

A lengthy discussion ensued and the Board agreed to approve changing the name of the fund to the Water Efficiency Fund and leave the \$47,600 in the General Fund at this time.

Overview of Orange County Teeter Plan – MNWD Option

Dr. Gumerman reported that he asked Mr. Cain to provide an overview of the Teeter Plan for the Board’s information, since the Orange County Register recently had an article on several large agencies that participate in the Teeter Plan. Mr. Cain offered to answer any questions and

reported that the bottom line is that the District is not a Teeter agency and does receive penalties and interest.

INFORMATION ITEMS

Semi-Annual Purchase Order Approvals by General Manager

Dr. Gumerman reported that included in the agenda materials is a summary of the contracts he has authorized within his authorization of \$25,000 to \$45,000 from January 1, 2011 through June 30, 2011, with the exception of two emergency projects which he subsequently brought before the Board. A discussion ensued and Dr. Gumerman answered the Board members' questions.

Ten-Year Cash Flow Presentation (August Meeting)

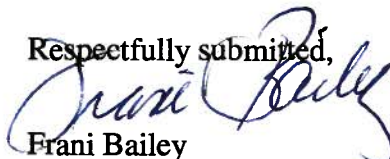
Mr. Cain reported that he would present the Ten-Year Cash Flow at the August Finance & IT Board meeting.

Purchasing Policy Workshop

Mr. Cain reported that the Board members indicated that they would prefer to add the Purchasing Policy Workshop to the agenda for the August Finance & IT Board meeting.

ADJOURNMENT

THEREAFTER, UPON A MOTION DULY MADE AND SECONDED, THE MEETING WAS ADJOURNED AT 12:05 P.M.

Respectfully submitted,

Frani Bailey
Recording Secretary