

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

MAY 18, 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, May 18, 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
NANCY DESAI	MNWD
LESLIE GRAY	Board Secretary
KARREN MADDOX	MNWD
EVA PLAJSER	MNWD
FRANI BAILEY	MNWD

Absent was:

There were no absences.

Vice President Don Froelich called the meeting to order and Frani Bailey recorded the minutes thereof.

APPROVAL OF MINUTES OF APRIL 20, 2011 FINANCE & INFORMATION

TECHNOLOGY BOARD OF DIRECTORS MEETING

Vice President Froelich requested approval of the minutes of the April 20, 2011 Finance & Information Technology Board of Directors meeting.

THEREAFTER, UPON A MOTION DULY MADE BY DIRECTOR KURTZ AND SECONDED BY DIRECTOR COLTON, THE MINUTES OF THE APRIL 20, 2011 FINANCE & INFORMATION TECHNOLOGY BOARD OF DIRECTORS MEETING WERE UNANIMOUSLY APPROVED AS PRESENTED.

PUBLIC COMMENTS

Vice President Froelich opened the Public Comments portion of the meeting. Hearing no public comments he closed the Public Comments portion of the meeting.

PRESENTATION ITEMS

Review Proposed Operating Budget for FY 2011/2012 and Capital Budget for FY 2011/2012

Mr. David Cain reported that staff has been working on the Operating Budget for the last several months and Ms. Desai would present an overview of the Budget. He explained that staff decided to do a one-year budget rather than the typical two-year budget because the new finance system will be implemented next year. Mr. Cain reported that once the new system is implemented staff will go back to preparing a two-year budget. He invited Ms. Desai to review the Budget with the Board.

Chairman Probolsky arrived at 9:05 a.m.

Ms. Desai reported that the Directors received a draft copy of the Budget in their financial packets. She reported that she would review with the Board the proposed O&M Budget, the Revenue Budget, and the Capital Improvements Budget. Ms. Desai reported that staff is projecting that revenues will increase by 1.8% from the budgeted amount and that O&M expenses will come in approximately 6.8% below budget; however, she believes it will be closer to 3% or 4% below budget based on the trend staff has seen over the last three years.

Ms. Desai reviewed the proposed O&M Budget and the Revenue Budget and outlined some of the major changes in the expense budget. She answered the Board's questions. A

discussion ensued regarding the increase in health insurance and Dr. Gumerman reported that the proposal the District received from Wells Fargo, the District's insurance broker, is a 22% increase for the same health insurance coverage. He explained that if the District were to change insurance coverage it would be a meet-and-confer issue with the MNWDEA, and the Closed Session item today will be to discuss the increased costs.

A discussion ensued regarding the O&M Budget and Dr. Gumerman commented that two years ago the Board asked staff to cut 10% from the O&M Budget, which meant that a lot of things that needed to be done were deferred and now need to be done. Director Lizotte commented that the Board asked for a 10% cut but did not get it and Dr. Gumerman commented that staff did make some cuts and now needs to pick up the things that were deferred.

Ms. Desai reported that staff projects that Operating Revenues will decrease by 11.0% due primarily to a decline in meter fees, bond fees, and plan check and inspection fees. She commented that staff expects a 32.5% decrease in investment income primarily because the securities that are coming due will be reinvested at lower rates.

Ms. Desai and Mr. Matt Collings reviewed the Capital Improvements Budget, highlighted some of the major projects, and answered the Board's questions. Mr. Collings reported that the projects in the Capital Improvements Budget are not projects he can just take off the list; it is work that needs to be done. He commented that he is hopeful that with the additional engineering staff and potentially some additional resources using contract engineering the District can accomplish the work. Mr. Collings commented that he is getting pricing for a contract engineer to assist with execution of the CIP because it is in the District's best interests to look at how these projects can be accomplished now rather than to continue to reduce how much is spent, push the projects farther down the line, and not meet the expectation of doing the projects staff budgeted to accomplish.

President McKenney commented that he does not want Mr. Collings to automatically cut projects that need to be done because he does not have the staff to do it. Mr. Collings commented that his estimates are based on the assumption that he can bring on some contract engineering staff to support the current staff to execute the projects in the budget. He commented that if he does not get the help he does not anticipate that he would spend \$12 million next year. Further discussion ensued.

Ms. Desai continued with her review of the Capital Improvements Budget and reported that SOCWA will not have an amount for its Capital Improvements Budget until next week so she projected \$6.9 million, and once she gets the final numbers she will adjust accordingly. Mr. Collings commented that part of the \$6.9 million is the JRWSS budget, and the JRWSS is proposing two large projects this year in conjunction with The Irvine Company for relocation of the JTM and some valve installations. Ms. Desai reviewed the Water Supply Reliability Projects and answered the Board members' questions.

Ms. Desai reviewed the Planning & Construction Projects and reported that staff expects a budget of \$2.7 million for FY 2011/2012. She reported that seven projects will be carried forward to FY 2011 from this fiscal year. Ms. Desai reviewed the major new proposed projects and answered the Board members' questions. She reviewed the Budget Summary and reported that staff expects to receive \$1.6 million in other funding sources, primarily comprised of the \$250,000 RPOI payment the District received for the Allen-McColloch Pipeline and the \$1.4 million in Federal subsidy received from the 2009 COPS. Ms. Desai reported that if all of the expenses are spent staff estimates that \$32 million will be expended from District reserves and bond proceeds in addition to all revenue sources. A discussion ensued regarding specific items in the Budget Summary and Ms. Desai, Mr. Cain, Ms. Nguyen, and Ms. King answered the Board's questions.

Ms. Desai reported that staff will bring back a final Budget that includes the General Manager's Letter and additional information for discussion at the Finance & IT Board meeting in June and approval at the June Board meeting.

DISCUSSION ITEMS

Review Financial Statements for the Period Ended April 30, 2011

Ms. Desai reviewed the Investment Activity Summary for the month of April 2011. She reported that there is currently \$10.3 million in LAIF, some of which is for the debt service payments due in September. Ms. Desai reported that there are no major changes to report on the Investment Activity Summary.

Ms. Desai reviewed the Budget Comparison for the ten months ending April 30, 2011. She reported that the District is under budget by 12%; however, there are still some major line items that will probably be fully expended by the end of the fiscal year, such as

Salaries, SOCWA O&M, Water Purchases, and Utilities. She reported that the District will probably be under budget by 4% or 6%. Ms. Desai called the Board's attention to Footnote 6, regarding an increase in the County charges for property tax administration. She explained that the District budgeted \$102,000 for FY 2011 and the actual expense is \$127,000.

Ms. Desai reviewed the Comparative Income Statement for the year-to-date ending March 31, 2011. She reported that there is nothing out of the ordinary to report and offered to answer the Board's questions. There were none.

Ms. Desai reviewed the Comparative Income Statement for April 30, 2011. She commented that there is nothing significant to report.

Ms. Desai reviewed the Comparative Statement of Net Assets for April 30, 2011 and commented that there are no major changes to report.

Ms. Desai reviewed the Budget vs. Actual Report for the ten-month period ending April 30, 2011. She reported that the District received the April installment of the property tax revenue, and the District is ahead of the FY to date budget and the overall budget.

Ms. Desai reviewed the Summary of Disbursements for the month of April 2011, which staff will ask the Board to receive and file at the Board meeting on Thursday.

Purchasing Policy – Overview of Current Policy

Mr. Cain reported that the Board members received a copy of the District's current Purchasing Policy, and staff would bring a revised Purchasing Policy before the Board in July. He commented that the Purchasing Policy is silent in several areas that he and staff feel need to be addressed in a revised policy as it relates to change orders, contracts, internal processes that need to be documented, etc.

Contracts and Change Orders

Mr. Cain reported that the items outlined in his memorandum regarding new agreements and amendments to existing professional services agreements from various vendors will be on the agenda for Board approval on Thursday. He reported that two of the contracts currently in place for professional services have a change in scope and two are contracts for additional services.

Mr. Cain explained that the first item is a change order related to the Professional Services Agreement with NexLevel for additional ERP services in the amount of \$17,415, which

will increase the original cost to \$101,115. The second item is an amendment to the existing contract with Info Send to provide E-bill services in the amount of approximately \$58,000, which will increase the total approximate agreement amount to \$319,000. Mr. Cain reported that Ms. Debbie King, Billing Supervisor, is in attendance to answer any questions the Board might have regarding Info Send, bill printing, posting, etc.

Chairman Probolsky asked Ms. King to explain the rationale for having Info Send provide E-billing services. Ms. King explained that currently another vendor provides E-billing services for the District and staff would like to use one vendor for all of the billing because it would be more cost effective, save staff time, and be a better fit with the ERP. A discussion ensued and Ms. King answered the Board members' questions.

Mr. Cain reported that the next item is the approval of a contract for professional services with RedOak in the amount of \$28,198 for services related to updating the Ten-Year Cash Flow Model. He reported that RedOak would be building off of the current rate model and the Model would flow into the financial model in terms of the Ten-Year Cash Flow and give staff the ability to run various financial scenarios and produce graphical interfaces. Mr. Cain reported that in August he will bring back to the Board a recommendation for a financial analyst to help staff with contract-related issues and help with the financial aspects to redistribute some of the existing workload.

Mr. Cain reported that the final item is the approval of a contract for professional services with NexLevel in the amount of \$10,690 to provide an update to the 2008/09 IT Strategic Plan. He reported that he also received a price from Weston, and NexLevel's price was \$9,000 less than Weston's price.

INFORMATION ITEMS

Updated ERP 2012 Risk Tracking Log

Mr. Cain reported that pursuant to the Board's request in May he distributed an updated ERP 2012 Project Risk Tracking Log. President McKenney asked if Item 6, District resources, is an ongoing issue. Mr. Cain explained that the lack of resources creates a potential for delays and staff and NexLevel will identify where resources will be needed, how many hours the selected vendor would be putting into the implementation of the ERP, and where backfilling will be necessary.

CalPERS Local Elected Official Toolkit – Pension Funds and Retiree Health Benefits Funding
(March 2011)

Mr. Cain reported that he provided the CalPERS Local Elected Official Toolkit to the Board for informational purposes.

Closed Session

Chairman Probolsky reported that in accordance with Government Code Section 54957.6 a Closed Session would be held to confer with labor negotiators regarding the Moulton Niguel Water District Employees Association.

The Board adjourned to Closed Session at 10:40 a.m.

The Closed Session was adjourned at 11:14 a.m. and the open session was reconvened. Chairman Probolsky reported that there was no reportable action from the Closed Session.

ADJOURNMENT

THEREAFTER, UPON A MOTION DULY MADE AND SECONDED, THE MEETING WAS ADJOURNED AT 11:15 A.M.

Respectfully submitted,

Frani Bailey
Recording Secretary