

AGENDA

FINANCE COMMITTEE MEETING

DECEMBER 9, 2011

7:30 A.M., BOARD ROOM, DISTRICT OFFICE

**26111 ANTONIO PARKWAY, RANCHO SANTA MARGARITA,
CALIFORNIA**

**ITEMS DISTRIBUTED TO THE BOARD LESS THAN
72 HOURS PRIOR TO MEETING**

Pursuant to Government Code Section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than seventy-two (72) hours prior to the meeting will be available for public inspection in the lobby of the District’s business office located at 26111 Antonio Parkway, Rancho Santa Margarita, California 92688, during regular business hours. When practical, these public records will also be made available on the District’s Internet Web Site, accessible at <http://www.smwd.com>.

PUBLIC FORUM

Persons wishing to address the Board of Directors on matters not listed on the Agenda may do so at this time. “Request To Be Heard” forms are available at the entrance to the Board Room. Comments are limited to three minutes, unless further time is granted by the Presiding Officer. Please submit the form to the Recording Secretary prior to the beginning of the meeting.

Those wishing to address the Board of Directors on any item listed on the Agenda should submit a “Request To Be Heard” form to the Recording Secretary before the Presiding Officer announces that agenda item. Your name will be called to speak at that time.

CONSENT CALENDAR

1. Consideration and Action on Approval of November 11, 2011, Finance Committee Meeting Minutes **Page 3**

President, Bill Lawson
Vice President, Roger Faubel
Treasurer, Sandra Jacobs
Engineering Chair, Betty Olson
Director, Charley Wilson

CONSENT CALENDAR (Cont'd.)

2. Consideration and Action on Water Quality Analysis **Page 13**

Staff Recommendation: Authorize retention of Trussell Technologies in the total amount of \$15,000.

PRESENTATION AND ACTION ITEMS

1. Presentation on Capital Investment/Amortization Considerations and Related Water Pricing Benchmarks in Connection with Agreement for Lease of Supplemental Water and Provision of Service **Page 14**

Staff Recommendation: Review and consider pricing and terms structure.

2. Consideration and Action on Engagement of Kumar & Gerchick for Risk Management and Insurance Coverage Matters **Page 15**

Staff Recommendation: Authorize engagement with cost of services not to exceed \$65,000.

MINUTES
FINANCE COMMITTEE MEETING
NOVEMBER 11, 2011

ATTENDEES:

Director Roger Faubel
Director Bill Lawson
Director Charley Wilson
Director Sandra F. Jacobs
Director Betty Olson

OTHERS PRESENT:

John Schatz	General Manager/SMWD
Dan Ferons	Chief Engineer/SMWD
Kristin Griffith	Director of Finance/SMWD
Michele Miller	Public Affairs Coordinator/SMWD
Kris Ferguson	Administrative Analyst/SMWD
Eric Robbins	President, Sierra Water Group, Inc.
Shawn Shamlou	Dudek & Associates Inc.
Laura Cooley Eisenberg	Rancho Mission Viejo
Jeff Thompson	Rancho Mission Viejo
Richard Babbe	PFM Asset Management LLC

The Finance Committee meeting for the Santa Margarita Water District was called to order by Director Jacobs at 7:30 am. Director Jacobs said in honor of Veterans Day and to remember those that have served in the Armed Forces she asked Director Wilson to lead the audience with the Pledge of Allegiance.

PUBLIC FORUM

Director Jacobs asked if there was anyone in the audience who would like to address the Board. There were no questions or comments.

PUBLIC HEARING

Public Hearing to Consider Adoption of Supplemental Water Lease Mitigated Negative Declaration (MND).

Mr. Ferons introduced Shawn Shamlou of Dudek & Associates, Laura Eisenberg the Environmental Specialist with Rancho Mission Viejo, Eric Robbins, President of Sierra Water

Group, Inc. (a Consultant with Rancho Mission Viejo) and Jeff Thompson, Rancho Mission Viejo.

Mr. Ferons reported that the District was the lead agency for purposes of preparation of the environmental documentation on the project known as the Supplemental Water Lease with Rancho Mission Viejo. Mr. Ferons said that Rancho Mission Viejo was creating a mutual water company to preserve the riparian water that serve on the lands that are tributary to the San Juan Creek Watershed and with upcoming development; there was an opportunity to preserve that water. Mr. Ferons said the advantage to the District being the District would not have to recycle water and allow for new development to get started without use of imported water and recycled water could be subbed in. Mr. Ferons said an environmental checklist had been prepared and a draft MND had been circulated. Mr. Ferons said the District had received comments from several agencies and had responded to those comments which were included in the final MND. Mr. Ferons said notice of the public hearing had been provided to each of those agencies; and they were also provided with a copy of the response. Mr. Ferons said the District analysis found there would be no significant adverse affects on the environment and that mitigation measures had been provided for any significant effects.

Director Jacobs called the Public Hearing to Order at 7:40 a.m. and invited anyone wishing to speak to come forward; there were no comments presented. Director Jacobs closed the Public Hearing at 7:40 a.m. and Director Faubel moved and Director Wilson seconded to open the discussion with the Board.

Director Faubel suggested Rancho Mission Viejo be on the title to clarify the specific geographic locale. Mr. Schatz said the action was to consider the proposed MND under the California Environmental Quality Act (CEQA). Mr. Schatz asked Mr. Ferons to provide a summary of the comments and provide the District's response.

Mr. Ferons reported comments from regulatory agencies; the Department of Toxic Substance Control and CalTrans were fairly miniscule. Mr. Ferons said if toxic substances were discovered, the District would follow the rules for excavation. Mr. Ferons said the District had heard from the Native American Heritage Commission, supplemental to the previous documentation, which referenced back to the draft EIR's. Mr. Ferons said it was not

anticipated any human remains would be found because there was very minimal construction being done. Mr. Ferons said the wells already existed and the District was merely tying into pipelines along points to expand to the recycled system. Mr. Ferons said the Department of Commerce and Fish and Wildlife's emphasis was on the steelhead trout and their habitat. Mr. Ferons said the District was not changing the use or amount of water being pulled and were not creating new diversions that would have an affect or change the previous mitigation that was put in place under the draft EIR's for the developments themselves. Mr. Ferons said the District tying into an existing well system wasn't going to impact the habitat.

Director Jacobs asked why the District had to pay additional mitigation costs if it was already covered under the EIR's. Mr. Ferons said the District was not paying for additional mitigation; the Ranch would be building the pipeline inter-connects and as part of that, the District would require them to have the paleontologist and others as specified in the documents.

Director Faubel summarized by saying there were no issues discovered from regulatory agencies that had not been discussed previously.

Mr. Shamlou confirmed what Mr. Ferons said regarding mitigation measures and that they were already identified in the previous CEQA documentation and it was merely a restating of the measures already agreed to by the District.

Director Jacobs asked if they had considered any construction access to these points so the District wasn't doing any extra grading not covered in the original environmental documentation. Mr. Thompson said there was very little new construction associated because it was an existing well system, existing pipeline, etc. and the installation of valves to enable them to connect to future District facilities had already environmentally cleared with the existing system. Mr. Thompson said the Ranch was in agreement since Rancho Mission Viejo was doing the construction, they would accept the mitigation measures when and if construction was needed. Director Jacobs asked if there would be any economic impact if the District entered into a lease; and if so, what would be the impact to other customers, District-wide. Mr. Schatz replied that the District was using the water as supplemental water and intended to openly serve the areas that were to be developed within the Ranch with recycled water. Mr. Schatz added the rationale being to reduce the demand for imported water to be

purchased by the District and reduce imported water costs. Mr. Shamlou added CEQA does not require an economic analysis as part of the documentation process.

MOTION: DIRECTOR OLSON MOVED, DIRECTOR FAUBEL SECONDED, AND IT WAS UNANIMOUSLY CARRIED THAT SMWD 1) ADOPT THE MITIGATED NEGATIVE DECLARATION IN ACCORDANCE WITH THE CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) REQUIREMENTS AND AUTHORIZE STAFF TO FILE THE NOTICE OF DETERMINATION WITH THE PROPER AGENCIES FOR THE PROJECT; AND 2) APPROVE THE PROPOSED PROJECT SUBJECT TO CEQA REQUIREMENTS SET FORTH IN THE MITIGATED NEGATIVE DECLARATION.

CONSENT CALENDAR

1. Consideration and Action on Approval of October 21, 2011, Finance Committee Meeting Minutes.
2. Consideration and Action on Replacement of Equipment at the Chiquita Water Reclamation Plant.
3. Consideration and Action for the Funds to Upgrade Vehicle Units 500 & 501 to Compliance with South Coast Air Quality Management District Requirements.

MOTION: DIRECTOR WILSON MOVED, DIRECTOR OLSON SECONDED, AND IT WAS UNANIMOUSLY CARRIED THAT CONSENT CALENDAR ITEM NUMBERS 1 THROUGH 3 BE APPROVED.

CLOSED SESSION

Closed session was moved to follow the general meeting.

PRESENTATION AND ACTION ITEMS

1. Consideration and Action on Resolution No. 2011-11-01; Resolution Of The Board Of Directors Of The Santa Margarita Water District Passing-Through Wholesale Water Rate Increases And Consumer Price Index Increases.

Mr. Schatz reported the resolution was based on authorization from the July, 8, 2009 Public Hearing after which the District sent out a public notice advising customers the District

had not received a majority protest and were authorized to pass through wholesale water rate increases and consumer price index increases for a period of five years. Mr. Schatz said the District began discussions concerning rates last year based on the knowledge that in January of 2011 the Metropolitan Water District (MWD) had approved a rate increase with another increase due January 2012. Mr. Schatz said the resolution covered both of the MWD increases; in addition to the Consumer Price Index increase from September 2009 through June of 2011. Mr. Schatz said District staff and District auditors determined an increase of 3.15% was needed.

Director Lawson inquired as to when the District would revisit water and sewer rates. Mr. Schatz explained the District could have two more pass-through rate increases; however, instead were going to hold a Proposition 218 Hearing within the next year to year and a half.

Director Wilson asked for clarification on the cost of living index and was there a reason for it being included as opposed to just the pass-through. Mr. Schatz replied it was in order to maintain the same purchasing power, and eligibility for the purpose of legislation.

Director Jacobs asked if the District needed a public hearing. Mr. Schatz said the District had already held the necessary hearing on July 8, 2009 and the procedure was to provide thirty-day notice which would go out immediately and notification would be on the water bill with information also available on the web site. Mr. Schatz said the District was meeting all the requirements.

Director Olson inquired whether the customers who paid their bill with auto pay had received the notice. Mr. Schatz said that notification would be provided to all customers; and, numerous notifications have been provided by our Public Affairs Coordinator in the On Tap publications. Director Faubel inquired for clarification purposes whether there was a need to put notice in the newspaper to which Mr. Schatz replied it was not.

MOTION: DIRECTOR LAWSON MOVED, DIRECTOR OLSON SECONDED, AND IT WAS UNANIMOUSLY CARRIED THAT RESOLUTION NO. 2011-11-01 BE ADOPTED.

2. Consideration and Action on Agreement for Lease of Supplemental Water and Provision of Service by and between Rancho Mission Viejo, LLC, Rancho Mission Viejo Water Company and Santa Margarita Water District.

Mr. Schatz reported Rancho Mission Viejo (RMV) was forming the Rancho Mission Viejo Mutual Water Company (MWC) to maintain the ability to utilize riparian water following the subdivision of its riparian lands in the San Juan Watershed. Mr. Schatz explained the riparian water rights were an underflow system or subterranean system that connected with the San Juan Creek and area around it. Mr. Schatz said since the District was not the landowner; the District could not appropriate those rights without going through the State Water Resources Control Board.

Director Faubel asked for clarification on the Mutual Water Company; if it was a Rancho Mission Viejo Water Company and wholly owned by Rancho Mission Viejo LLC. Mr. Ferons replied it was not wholly owned because the Mutual Water Company was made up from the landowners and RMV wasn't the only landowner. Mr. Ferons said there were several entities that own land and RMV was the agent for all of the landowners and SMWD's agreement would be with Rancho Mission Viejo LLC.

Mr. Ferons said the proposed Lease Agreement provided the District the opportunity to contract with MWC to obtain up to 2,500 acre-feet of nondomestic water primarily for irrigation purposes. Mr. Ferons said Planning Areas 1, 2, 3, 4 and 5 were tributaries to the San Juan Creek Watershed and were the irrigation demands. Mr. Ferons said the amount of the annual purchase agreement varied with development, therefore the District was not proposing to buy 2,500 acre-feet as there was no immediate need for the water. Mr. Ferons said the lease of supplemental water was an innovative approach to maximize the local riparian resources that otherwise may be lost through development. Mr. Ferons said it provided the District with an opportunity to insure it minimizes demands for imported water and potentially provided an opportunity for increased regionalization of recycled water.

Mr. Ferons said under the structure of the agreement, there were two water rates, a reliability water rate set up at 110% of the recycled rate to take advantage of the system; and, the base rate was the option of having recycled water available but would still want to have the supplemental water. Director Faubel inquired about the rates in relation to the MWD rate and whether the District would be purchasing the reliability water at a higher rate than MWD water. Mr. Schatz responded yes, for the reliability of the water versus possibly not having the

availability from MWD and possibly not having recycled water available. Director Faubel questioned if this was this in lieu of a take or pay contract and was the District paying 10% premium just to have reliability. Mr. Ferons said a portion was a take or pay, however, the rate was the base MWD rate.

Director Faubel said he believed the rate to be high as there was no transmission; and was very close to District facilities. Director Olson requested a financial breakdown to help the Board understand costs and equitability. Director Olson also questioned the term of the lease. Mr. Ferons said it was a twenty-year term and tied to the District percentage based off the rate. Director Olson requested a recap of the benefits or how much in avoided costs customers would receive. Director Faubel said it would be helpful to look at a base case and another level to come up with the numbers and it would be helpful to review the projections and understand how the rate was derived.

Director Olson asked about the term riparian lands, which were usually not irrigated, and if the plan was for development or irrigation. Mr. Ferons said in this case, riparian lands were those that were tributary to the creek; there were nurseries, orchards, and farm land and it was the use of the water on those lands the District was trying to preserve. Mr. Ferons said the District was still going to use the water along those lands, however, instead of farm land or nurseries, there would be landscaping.

Mr. Ferons said the twenty-year term had a two ten-year extension if mutually agreed upon; both parties had to agree to extend the term. Mr. Ferons said there were other provisions where the District could make trades subject to Board approval as far as the use of the water.

Director Lawson questioned what had changed in the Lease Agreement over the past several months of discussions. Mr. Ferons said the only significant change since past discussions were provisions under the yearly notice (under the original terms the District would take 400 acre feet for Planning Area 1). Mr. Ferons said after extensive analysis of all the Planning Areas and the projected water demand, it was realized that in year one, the District would not need the 400 acre feet. Mr. Ferons said the terms were restricted to the District not having to make a minimum purchase of 400 acre-feet from day one in each of the Planning Areas to give a ramp up as opposed to an immediate change.

After further discussion Director Wilson said the recommendation was to bring the item back to the December Board meeting and no action was taken.

3. Presentation by Richard Babbe, PFM Asset Management LLC, regarding SMWD Investment Portfolio.

Mr. Babbe reported on the District's third quarter portfolio performance. Mr. Babbe said there had been continued slow growth in the United States; uncertainty in Europe, continued low interest rates and in that environment PFM had maintained the portfolio in a safe and prudent manner. Mr. Babbe said that the GDP for the third quarter was 2.5% which was an increase over the 1.3% for the second quarter and 0.4% for the first quarter. Mr. Babbe reported that job growth remained sluggish and in October, the unemployment rate dropped slightly to 9% from 9.1% and housing remained depressed. Mr. Babbe said there had been significant volatility with the Dow Jones Industrial Average which had been driven by European uncertainty; and Treasury yields had fallen to a new historical low.

Mr. Babbe said the District's portfolio was in compliance with the California Government Code and the District's investment policy; PFM continued to focus on safety and diversification of the portfolio and increased the allocation to Agencies and decreased the Treasuries, modestly increased the allocation to negotiable CD's and maintained the allocation to corporate securities and decreased the allocation to money market funds based on anticipated liquidity needs.

Mr. Babbe said the portfolio had a very high credit quality; and seen a significant shift from AAA to a AA category; not because of an overall decrease in quality, but a Standard & Poor's downgrade of longer-term Treasury and Agency debt; Moody's and Fitch still regarded them as AAA. Mr. Babbe said PFM had restructured the bond proceed accounts in July to reduce excess liquidity and increase the District's effective yield while managing market risk in an uncertain market environment. Mr. Babbe said PFM also made selective longer-term investments to pick up some additional yield in a period when interest rates are expected to remain low for an extended period. Mr. Babbe reported that the portfolio continued to provide very good long-term performance and since inception, the pool portfolio had outperformed the benchmark by 0.37%. Mr. Babbe said the Fed's August announcement

to maintain a low target rate through mid-2013 resulted in the revision of economists' forecasts for the two-year Treasury and were likely a reflection of concern over a slowing U.S. recovery as well as lasting effects of the European debt crisis.

Information only; no action was taken.

4. Consideration and Action on Designation of Board Member for Voting Purposes at the ACWA General Session of the Fall Conference.

MOTION: DIRECTOR LAWSON MOVED, DIRECTOR OLSON SECONDED, AND IT WAS UNANIMOUSLY CARRIED TO AUTHORIZE DIRECTOR JACOBS TO EXERCISE DISTRICT VOTE.

Mr. Schatz reported a brief follow up regarding a question raised about automatic debit. Mr. Schatz said customers set up for automatic bill pay, would see the notice regarding the water pass-through water rate increase and consumer price index increase when they clicked on their bill. Mr. Schatz asked Ms. Beth Geldert, Customer Relations Supervisor to step into the meeting and explain the automatic debit. Ms. Geldert explained three different options; one was automatic pay where the customer would be debited from their checking account each month, those customers typically had their bills mailed. Ms. Geldert said there are customers on e-bill who would receive an e-mail advising them their bill was ready to view; the bill can be attached as a PDF, the customer would click on the PDF or have a link that would take them back to the e-bill site to log in and view the bill. Director Olson said she thought the bill came after the automatic debit; Ms. Geldert said the bill was sent first, and the amount was debited on the 24th day after the bill was sent. Mr. Schatz advised that the rate increase was approved and there was a requirement for a thirty-day notice and all customers would receive the notice. Director Faubel asked if there was a possibility for the electronic transmittals to have an asterisk noting "Important Information - Please View"; Ms. Geldert said she would check.

CLOSED SESSION


CONFERENCE WITH LEGAL COUNSEL—ANTICIPATED LITIGATION;
Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9 (one potential case).

The Board adjourned to Closed Session at 8:53 a.m.

The Board reconvened at 8:51 p.m. and announced no action had been taken.

There being no further finance business to come before the Board and motion duly made, the meeting was adjourned at 9:15 am.

Respectfully submitted,


Kristine Ferguson
Administrative Analyst

Santa Margarita Water District



MEMORANDUM

TO: Board of Directors

DATE: December 9, 2011

FROM: Dan Ferons

SUBJECT: Consideration and Action on Water Quality Analysis

SUMMARY

Issue: Trussell Technologies has experience in water quality analysis and corrosion engineering. The District requested the firm to provide a review of the potential causes of copper pipe pitting within the Ladera Ranch and Talega development.

Recommendation: Authorize retention of Trussell Technologies in the total amount of \$15,000.

Fiscal Impact: Included in District budget.

Previous Related Action: The District reviewed and rejected a claim for damages caused by copper pipe failure.

DISCUSSION:

The District initially contracted with Trussell Technologies to review information provided by builders discussing copper pipe corrosion and pitting. Subsequently, the District pulled sample pieces of copper for lab analysis by Trussell in conjunction with the EPA. The additional services are required for the evaluation and preparation of a report to summarize the findings of water quality data and test results of the investigation.

The original services were approved through staff authorization of \$5,000; the additional services are not to exceed \$10,000 for a total authorization of \$15,000.

Funding

Engineering Department provides funding in the professional services account.

Current Budget 001-3001-451-6001	\$113,976.49
This Expense	\$15,000
Remaining Budget	\$98,976.49



MEMORANDUM

TO: Board of Directors **DATE:** December 9, 2011
FROM: Dan Ferons
SUBJECT: Capital Investment/Amortization Considerations and Related Water Pricing Benchmarks in Connection with Agreement for Lease of Supplemental Water and Provision of Service

SUMMARY

Issue: The District is considering entering into an agreement to purchase Supplemental Water for irrigation purposes to serve the Ranch Plan.

Recommendation: Review and Consider Pricing and Terms Structure.

Fiscal Impact: Purchase of Supplemental Water may result in deferment of capital expenses.

Previous Related Action: The District adopted CEQA documentation.

DISCUSSION:

Rancho Mission Viejo (RMV) is forming the Rancho Mission Viejo Mutual Water Company (MWC) to maintain the ability to utilize riparian water following the subdivision of its riparian lands in the San Juan Watershed. The proposed Agreement for Lease of Supplemental Water Lease provides the District the opportunity to contract with MWC to obtain up to 2,500 acre-feet of nondomestic water for primarily irrigation purposes. The leased nondomestic water may also be available for grading and construction activities for dust control, trench backfill and similar uses. In November 2011, the District considered and adopted a Mitigated Negative Declaration for the Rancho Mission Viejo Mutual Water Company Supplemental Water Lease project.

The District will make a presentation at the Finance Committee Meeting including discussion on the following to provide background for consideration of the pricing and term structure for the agreement:

- Projected irrigation water demands for the Ranch Plan development
- Projected schedules and cost for capital facilities
- Projected cost of recycled water, supplemental water and imported water

Santa Margarita Water District



MEMORANDUM

TO: Board of Directors **DATE:** December 9, 2011
FROM: Dan Ferons
SUBJECT: Consideration and Action on Engagement of Kumar & Gerchick for Risk Management and Insurance Coverage Matters

SUMMARY

Issue: The District has requested Aneeta Kumar to provide assistance with the potential recovery of insurance claims as well as reviewing risk management and insurance coverage issues.

Recommendation: Authorize engagement with cost of services not to exceed \$65,000.

Fiscal Impact: Included in District budget.

Previous Related Action: Kumar & Gerchick provided assistance with the recovery of insurance claims for Upper Oso Reservoir.

DISCUSSION:

Kumar & Gerchick (Kumar) is a law firm that specializes in risk management and insurance claims for covered events. Aneeta Kumar provided assistance with recovery of \$250,000 to date on installation of aeration equipment at the Upper Oso Reservoir. An additional \$20,000¹ is being pursued.

Based on successfully providing the previous services, the District requested Kumar to provide the following additional services:

- Review the actions taken by the District to repair the Plano Forcemain and determine the potential for recovery of insurance claims.
- Develop policies and procedures in connection with risk management and insurance coverage issues.

The District has several employees involved in acquisition of insurance and filing of claims. An overall review is needed to ensure the District has a clear understanding of available coverage and procedures in place to provide timely notice of claims. Ms.

¹ Kumar was a subcontractor to Brownstein Hyatt Farber Schreck, LLP

Board of Directors

December 9, 2011

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Kumar's work so far is within the General Manager's expenditure authorization, however, a total authorization level of \$65,000 is recommended to enable completion of the current scope of work.

Ms. Kumar will perform work on a time and material basis.