

**MINUTES OF THE BOARD OF DIRECTORS
MESA CONSOLIDATED WATER DISTRICT
1965 Placentia Avenue, Costa Mesa, CA
Tuesday, July 14, 2009
7:00 p.m. Regular Board Meeting**

CALL TO ORDER

The meeting of the Board of Directors was called to order on July 14, 2009 at 7:00 p.m. by President Dewane at the District Office Boardroom, located at 1965 Placentia Avenue, Costa Mesa, California.

PLEDGE OF ALLEGIANCE

Director Atkinson led the Pledge of Allegiance.

ROLL CALL

Directors Present

Shawn Dewane, President
Fred R. Bockmiller, First Vice President
James F. Atkinson, Vice President
Trudy Ohlig-Hall, Vice President

Directors Absent

None

Staff Present

Lee Pearl, General Manager
Coleen L. Monteleone, Administrative Services Manager/
District Secretary
Victoria L. Beatley, Financial Services Manager/Treasurer
Robert R. McVicker, District Engineer
Jerry Vilander, Water Operations Manager
Barbara Wiseman, Human Resources Manager
Rob Anslow, Attorney, Bowie, Arneson, Wiles & Giannone

Others Present

Thomas G. Johnsen, Principal, Fieldman Rolapp & Associates
William J. Cooper, Ph.D., Director, Urban Water Research
Center, University of California Irvine
Paul Flanagan, Mesa Customer
Jim Fisler, Mesa Customer

PUBLIC COMMENTS

President Dewane invited members of the public to address the Board of Directors (Board) on matters that were not on the agenda. There being none, President Dewane proceeded with the meeting.

Director Ohlig-Hall asked, for the public present, for an explanation of why the Board was conducting a special meeting of the Board of Directors separate from the regular Board of Directors meeting.

President Dewane noted that a director has resigned from the Board and the special meeting allows the Board an opportunity to discuss the vacancy.

ITEMS TO BE ADDED, WITHDRAWN, OR REORDERED ON THE AGENDA

General Manager Pearl recommended that Action Items III. C, D, and E be reordered to be taken following the Consent Calendar. There were no objections.

I. CONSENT CALENDAR ITEMS:

All matters on the Consent Calendar will be approved by one motion unless a Board member, staff, or a member of the public requests a separate action.

- A. Approve minutes of adjourned regular Board meeting of June 19, 2009.
- B. Approve minutes of regular Board meeting of June 23, 2009.
- C. Approve minutes of adjourned regular Board meeting of July 1, 2009.
- D. Approve attendance considerations (additions, changes, deletions).
 - 1. Design a “Green” Garden Presentation: Costa Mesa, CA; various dates.
 - 2. CA-NV Section AWWA Desalination Committee for Director Ohlig-Hall.
- E. Board Schedule:
 - 1. Tentative Meeting Topics
 - 2. Conference, Seminars, and Meetings
 - 3. Board Calendar
- F. Cast ballot in support of the bylaws amendments as presented by the California Special Districts Association and authorize the Board President to sign the ballot.
- G. Award a contract to Hill Brothers Chemical Company to furnish Ammonium Hydroxide for the amount of \$0.49 per pound delivered with a fuel surcharge of \$15 per trip and authorize the General Manager to execute the contract.
- H. Approve a professional services contract with DCSE for an amount not to exceed \$98,780 to create a new distribution system hydraulic model from Mesa’s GIS data and authorize the General Manager to execute the contract.

MOTION 2009-55

Motion by Director Ohlig-Hall, seconded by Director Atkinson, to approve Items A–H of the Consent Calendar as amended. Motion passed 4-0.

III. ACTION ITEM:

C. 2009 REFUNDING CERTIFICATES OF PARTICIPATION DOCUMENTS:

Financial Services Manager Beatley introduced Tom Johnsen from Fieldman | Rolapp & Associates, Mesa’s Financial Advisor. She noted that Attorney Anslow has been bond counsel during the process.

Ms. Beatley noted that the purpose of the 2009 refunding is to refinance Mesa’s existing debt. She further noted that there will be no new debt included and no extension of the term of the debt. The bonds will mature in 2018.

Director Ohlig-Hall asked for clarification on this refinancing.

Attorney Anslow commented that the 1998 Certificates of Participation (COPs) were examined. Staff and the Financial Advisor looked at it in terms of potential savings, net of the financing, in order to save the District's ratepayers money through the final maturity of 2018. The new certificates will not extend the current maturity.

President Dewane recognized Tom Johnsen. Mr. Johnsen commented that based on today's market, based on an AA rating, the present value of savings is estimated to be about \$670,000 for the life of the COPs. The annual savings, between now and 2018, is approximately \$80,000 to \$90,000 per year. The savings are net all of the costs for the transaction (the professional fee, the bond certificate discount). All of the fees are already factored out and the savings to the District in terms of present value is approximately \$670,000.

Director Bockmiller asked for a definition for the annual discount factors and inflation factors used and the base stream of cash flow.

Mr. Johnsen responded that they are discounted at the bond yield which is 3.55%. The true interest cost on the new bonds is 3.55%. The net interest cost is 3.58% and the arbitrage yield is 3.45%.

Director Bockmiller asked about calculating the present value and assumptions in relation to time, value and money, and costs of inflation.

Mr. Johnsen responded that the discount rate is the bond rate and that is inclusive of all the components.

Attorney Anslow clarified that the above information is based upon today's interest rates and the rates may change somewhat between now and when the transaction is concluded. The remaining term of the loan is March 15, 2018.

Ms. Beatley reminded the Board that when this process started the anticipated savings were estimated to be in the \$500,000 range. During the course of the month, the market has gotten more favorable.

President Dewane thanked all of those participating in this effort as it was a short time from beginning to completion.

MOTION 2009-56

Motion by Director Bockmiller, seconded by Director Atkinson, to approve Resolution 1379 Approving as to Form and Authorizing Execution and Delivery of an Installment Sale Agreement, Trust Indenture, Escrow Agreement, Approving and Authorizing Delivery of a Preliminary Official Statement and Final Official Statement with Respect to the Execution and Sale of the Mesa Consolidated Water District 2009 Refunding

Certificates of Participation, Approving a Certificate Purchase Agreement, Appointing a Trustee and Escrow Agent, Establishing Terms of the Sale, Delivery and Execution of such 2009 Refunding Certificates, Authorizing Necessary Documents and Certifications, Making Certain Findings and Taking Related Actions with a requirement that staff bring back exact savings figures to the Board once the transaction is concluded. Motion passed by the following roll call vote:

AYES: DIRECTORS Ohlig-Hall, Atkinson, Bockmiller, Dewane
NOES: DIRECTORS None
ABSENT: DIRECTORS None
ABSTAIN: DIRECTORS None

D. 2009 REFUNDING CERTIFICATES OF PARTICIPATION CONTRACTS:

Director Ohlig-Hall asked for an explanation of the contracts.

Attorney Anslow responded that various professional financial services are needed. Bowie, Arneson, Wiles & Giannone (BAWG) served as special counsel to provide the tax exempt validity opinion. BAWG is listed in the Red Book, which means the firm is commonly accepted as a writer of such opinions. Fieldman Rolapp is acting as the District's financial advisor who looks at the numbers and reviews with, Stone and Youngberg, the underwriters, on the day of pricing to make sure the District gets the best pricing on the maturing of the certificate and also preparation of the disclosure documents which is increasingly important under the SEC requirements. The District is using outside counsel, Stradling Yocca Carlson and Rauth as disclosure counsel. Tonight the Board is approving the contracts for the financial specialists. As a reminder, these costs have been factored in the net savings to the District.

Director Bockmiller commented that the professional services fees charged to the District are in line with other services and in no way greater than fees charged to any customer for similar size issuance.

Attorney Anslow also noted that the fees his firm charged for this transaction are the same as those charged to the District seven years ago for the 2002 Certificate of Participation.

Ms. Beatley noted that except for the professional services of Bowie, Arneson, Wiles & Giannone and Fieldman Rolapp because of their history with Mesa, all other professional services of the refinancing transaction were put out to bid through the Financial Advisors office for request for quotes, which the District did to obtain a minimum of three bids.

Attorney Anslow added that he does a number of these transactions a year, with this being his 15th this year, the disclosure counsel fees, trustee and escrow fees are all extremely low.

MOTION 2009-57

Motion by Director Bockmiller, seconded by Director Atkinson, to approve the contracts related to the 2009 Refunding Certificates of Participation and authorize the General Manager to execute the documents.

1. Special Counsel Retention Agreement between Mesa Consolidated Water District and Bowie, Arneson, Wiles & Giannone in an amount not to exceed \$45,500.
2. Professional Services Agreement for Financial Advisor between Mesa Consolidated Water District and Fieldman | Rolapp & Associates in an amount not to exceed \$60,500.
3. Engagement Letter for Disclosure Counsel between Mesa Consolidated Water District and Stradling Yocca Carlson & Rauth not to exceed \$25,000.

Motion passed 4-0.

E. MESA CONSOLIDATED WATER DISTRICT IMPROVEMENT CORPORATION SPECIAL MEETING:

President Dewane recessed the regular meeting of the Board of Directors at 7:21 p.m. to conduct a special meeting of the Mesa Consolidated Water District Improvement Corporation. The regular meeting of the Board of Directors reconvened at 7:24 p.m.

II. PRESENTATION AND DISCUSSION ITEMS:

A. URBAN WATER RESEARCH CENTER:

General Manager Pearl introduced Dr. William J. Cooper who was invited to make a presentation to the Board regarding the Urban Water Research Center (UWRC or Center).

Dr. Cooper offered that he provided the Board with a packet of information that identifies the work the UWRC has done over the last year and what the Center hopes to do in the future. He commented that the goal of the UWRC, is to better serve southern California and to become an internationally recognized research center. He noted that UCI has had a number of new faculty members in the area of water. He listed several of the new faculty members and the outreach programs conducted in 2008. The Center is looking forward to the pilot studies at the Colored Water Treatment Facility (CWTF) for research regarding groundwater treatment.

Director Atkinson asked Dr. Cooper about work at Mesa's CWTF. Dr. Cooper responded that working with District Engineer McVicker, they recently completed a report on the economics of the CWTF.

Prior to proceeding with Dr. Cooper's presentation, Director Bockmiller asked Attorney Anslow for his professional opinion, since Bockmiller is employed by the University of California, Irvine regarding a possible perception of a conflict of interest with his employer and the UWRC.

Attorney Anslow asked Director Bockmiller if he has any relationship with the UWRC through his work at UCI and Director Bockmiller responded no. Director Bockmiller commented that given the consideration and due respect to Mesa's esteemed guest, he would absent himself from the room to avoid any appearance of a conflict.

Director Bockmiller exited the Board meeting at 7:31 p.m.

Dr. Cooper continued with his report on efforts by the Research Center regarding the CWTF. He noted that the report was a survey of the economics of the deep water treatment system using as a comparison the Irvine Ranch Water District's Deep Aquifer Treatment System (DATS). He continued to explain the filtration system and explained the bromide concentration problem which has been created due to the interaction of ozone and bromide and react to form bromate which is a regulated disinfection byproduct. He noted that Mesa had to add a third filtration step to the process which was supplied by Calgon carbon. He noted that Calgon Carbon is the only facility that has National Sanitation Foundation (NSF) approval for this process. The study was to show how much the existing treatment system is costing, which uses no ozone nano-filtration. The purpose of the study is to show comparative costs between Mesa's system and the DATS. The report is forthcoming. The Research Center is also working with a large filtration system company, Ahlstrom Corporation. This company has developed a nano-aluminum coated filtration system that is supposed to remove dissolved organic carbon as well as the bromide. This technology is being studied as a way to eliminate the bromide at the beginning of the process to eliminate the Calgon carbon filtration. Because Calgon is a single source provider for Mesa's CWTF, the Research Center is investigating ways to eliminate the dependence.

Dr. Cooper explained an additional project the Center is doing with disinfection byproduct research which could benefit Mesa.

Director Ohlig-Hall noted that she does not see the benefit to Mesa's membership in the Urban Water Research Center. She noted that she believes the research performed benefits the Center more than it does Mesa and she will not support the membership.

President Dewane thanked Dr. Cooper for the information he provided and noted that he encourages the Board to look at the bigger picture and believes it is extremely important to support independent research as opposed to consulting efforts. Without research there is no innovation and without innovation there is no progress. An institution like the Urban Water Research Center is uniquely situated to take advantage of the extraordinarily dense population and the extraordinary demands on our water and waste water systems given the regulatory drought Southern California is going through, the continuing encroachment of the Endangered Species Act and the environmentalist movement. The water issues are only going to be more acute in the future. The Center also provides an opportunity for students, and perhaps District employees, by providing another alternative to stay in the industry and add value through research and perhaps continuing education.

Director Atkinson spoke in support of Mesa's continued membership.

Director Ohlig-Hall commented that the water industry has many resources available but feels that with the current economic conditions it is not in Mesa's best interest to approve this membership. Mesa does not pay as much in membership dues to ACWA or AWWA.

A motion was made by President Dewane and seconded by Director Atkinson to approve Mesa's continued membership in the Urban Water Research Center and to authorize the payment of \$15,000 for District Membership and Subscriptions.

Attorney Anslow commented that with four Board members a majority vote consists of three ayes and with Director Bockmiller absent for this portion of the meeting and Director Ohlig-Hall indicating that she did not support the membership, the vote would not be sufficient to pass the motion and suggested the Board bring the issue back to the Board when a new director has been appointed and seated.

President Dewane thanked Mr. Cooper for his attendance and presentation.

RECESS

President Dewane declared a recess at 7:44 p.m. The Board meeting reconvened at 7:49 p.m.

Director Bockmiller returned to the meeting.

B. AD HOC AUDIT COMMITTEE:

Directors Ohlig-Hall and Atkinson provided an overview of a discussion at the Finance Committee meeting with the auditors regarding the need for an Audit Committee. It was noted that because of the additional reporting standards that auditors must follow, Mesa's audit firm, Charles Z. Fedak and Company, has requested that the Board formally appoint an ad hoc Audit Committee. Although not a current legal requirement in the public sector, the external auditors recommend that Mesa take this action in anticipation of future legal requirements.

Director Ohlig-Hall offered support for the ad hoc Audit Committee to consist of a member of the Executive Committee and a member of the Finance Committee. This approach provides for an unbiased review process by not containing both members of the Finance Committee.

Director Bockmiller commented the functions of a small non-profit for which he is a member and brought forth the idea of the Best Practices for Non-Profit Governance. This particular document recommends an Audit Committee, but does not recommend that any members of the Finance Committee participate on the ad hoc Audit Committee to avoid any connection to the Finance Committee. He noted that neither the Board

President nor members of the Finance Committee should be on the ad hoc Audit Committee.

Financial Services Manager Beatley commented on the Statement on Auditing Standards (SAS) No. 112, which is an Audit Risk Alert and a standard followed by the American Institute of Certified Public Accountants. She also noted that this is the beginning of a movement to expand the Sarbanes-Oxley requirements, which currently apply to the private sector, not non-profits, or any agency not regulated by the SEC.

The Board gave direction to form the ad-hoc Audit Committee to consist of the Board President and the chair of the Finance Committee with the financial impact to Mesa of the addition of two meetings and the associated Directors' fees for two Board Members.

C. WATER CONSERVATION PROGRAM:

President Dewane reported that the Executive Committee reviewed this item. The Ordinance was crafted with the Board's desire that the program should be supportive and educational, not punitive.

Director Ohlig-Hall commented that the Ordinance was well written.

Staff was directed to schedule a public hearing to adopt a Water Conservation Ordinance.

III. ACTION ITEMS:

A. REVISED REGULATIONS OF THE CALIFORNIA FAIR POLITICAL PRACTICES COMMISSION:

The resolutions are in response to the Fair Political Practices Commission's (FPPC) revised regulations of the California Code of Regulations Sections 18944.1 and 18944.3.

MOTION 2009-58

Motion by Director Bockmiller, seconded by Director Ohlig-Hall, to approve Resolution 1376 – Adopting a Policy Authorizing the Provisions of Food/Meals to Mesa Consolidated Water District Officials at Certain Meetings. Motion passed by the following roll call vote:

AYES: DIRECTORS Ohlig-Hall, Atkinson, Bockmiller, Dewane
NOES: DIRECTORS None
ABSENT: DIRECTORS None
ABSTAIN: DIRECTORS None

