

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS OF THE
KINNELOA IRRIGATION DISTRICT
NOVEMBER 17, 2009**

MEMBERS PRESENT: Directors Barkhurst, Griffith, Kilburn, Pickard and Sorell

STAFF PRESENT: Shirley Burt, Administrative Assistant
Melvin Matthews, General Manager

CALL TO ORDER: The Meeting was called to order by the Chair, Director Barkhurst, at 1930 hours. He noted that there was a quorum present. The Agenda was unanimously approved as presented.

PUBLIC COMMENT: No persons from the Public wished to comment at this time.

NOMINATION OF LAFCO CANDIDATE

Director Barkhurst questioned whether any Member of the Board wished to nominate an individual as a candidate to the LAFCO Board. No nominations were made from the Board.

REVIEW OF THE KINNELOA MESA PIPELINE PROJECT

The **General Manager** reviewed his written report that was included in the Board Packet and noted that financially the job was finished under budget and that he was satisfied with the job.

Director Griffith questioned whether any of the additional items listed would have been included in the original bid and the **General Manager** replied in the negative explaining that the additional items were all requested at his direction and that the Contractor had not requested any changes. He stated that the only disappointment was the incremental cost for the Fire Hydrant.

Director Barkhurst noted however that it was the Board's job to be responsive to the concerns of the rate payors.

Director Barkhurst then stated that the written report had been received and was approved for filing.

REVIEW OF INVESTMENT POLICY

Director Barkhurst explained that this item came up for discussion because of the very low investment rate currently being paid by the Local Agency Investment Fund and the question as to whether there were ways to improve the investment returns on the monies set aside for future Capital Projects. He noted that the General Manager has suggested another investment firm and requested that he review this Agency now for the Board.

The **General Manager** explained that he became aware of the CalTRUST INVESTMENT FUND several years ago and received information from other Agencies regarding CalTRUST. He determined that presently they are out performing LAIF and that there are no issues of safety involved. He explained that there is \$250,000 that was received from the Developer of the Kinneloa

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REVIEW OF INVESTMENT POLICY (continued)

Ridge Tract that has been kept as an emergency fund to take care of any problems with the Tract and there currently is a need for these funds and they could be invested in a long term security. The rest of the reserve funds are truly the unrestricted funds that would still be available in LAIF for emergencies or to cover cash flow for projects.

Director Barkhurst requested comments from the Board Members and **Director Pickard** stated that he thought the monies should be split.

Director Griffith questioned whether the District could participate in CalTRUST because the District is a public agency and suggested that maybe our Legal Counsel should be consulted. He also expressed concern about the amount of risk involved as compared to LAIF.

Director Barkhurst explained that typically the higher the risk the higher the return and the longer the risk the higher the return. He noted that on the risk scale LAIF is probably a one and CalTRUST is probably a two and that CalTRUST is probably investing in some instruments that are perceived as having slightly more risk and slightly less liquidity.

Director Sorell noted that it is the longer term that makes a difference and there is a risk of price fluctuation which you would not have in a shorter term.

Director Griffith noted that there are restrictions on how long it takes to get your money, one being the next day.

Director Barkhurst replied that with CalTRUST you have to give thirty days notice for the medium and long term investment.

Director Kilburn questioned whether there would be any situation where the District would need the monies sooner than thirty days and Director Barkhurst replied in the negative.

Director Barkhurst explained that he had not done a lot of research on the subject but noted that --he thought that public agencies are permitted to invest in a wide variety of investment instruments,

any that are investment qualified, so the District is not limited to just these two options.

--he recommended that the District not look at other options because it creates concentration risk which the District does not want

--as a public agency the Board has an extreme fiduciary responsibility to be good stewards of the rate payors money which is why about 60% to 70 % of public agencies put their money in LAIF and the other 30% or so put their money in CalTrust or similar companies.

--LAIF is a much more liquid mutual fund as they are investing in very short term instruments but CalTRUST gets a little higher yield because they invest in longer term instruments.

--as a fiduciary it is very important as a good steward that the Board is very careful on how aggressive they get in chasing higher yields .

Director Sorell noted that however the Board doesn't want to be ultra conservative and **Director Barkhurst** agreed noting that you should try to optimize the rate of return but do so within the risk parameters that have been set and that the parameter should have a very low tolerance for risk.

Director Barkhurst then recommended that \$250,000 be placed in the medium term CalTRUST account which has low risk, a little less liquidity and that the probability of those funds being needed within a thirty day window is very small.

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REVIEW OF INVESTMENT POLICY (continued)

Director Sorell then noted that if the median term fund is tied up for a year or two year duration and there suddenly is a spike in interest rates, of course the principal would go down .

Director Barkhurst replied that means that the existing fund would go down in value.

Director Sorell noted however that if the instrument was held then it would liquidate out at 100%

Director Barkhurst noted that there would be no concern about return of principal but the primary concern would be the short term fluctuations in the monthly rate based on what is going on the in the market place. He further explained that he thought it would be safe to invest the first \$250,000 in a long term instrument as there is a low probability that the money would be needed for known expenditures.

Director Griffith questioned if the suggestion was for a one and half to three years for the median investment.

Dr. Barkhurst replied it would only be for thirty days but that the point that Director Sorell was making was if there was a spike up in interest rate and the District wanted the money in thirty days the District might not get the full \$250,000 back because the interest rate would have gone up which would have driven the principal down because the principal is always in inverse to interest rates in dead instruments.

Director Griffith questioned if CalTRUST was managed by Wells Fargo Bank and the **General Manager** replied that it is a subsidiary of Wells Fargo.

Director Sorell stated that it is interesting to note that in looking at the CalTRUST compared to the LAIF in the short term they have been trouncing LAIF in performance but since inception that are about the same.

Director Barkhurst stated that is because they are staying longer, such as if they are buying a one year California dead instrument it is always going to have a higher interest rate than a three month instrument.

Director Sorell stated that even if it was not going to give a better yield just going for the diversity and not have all the funds in one agency in a good reason to split the monies plus the possibility of getting a slightly higher yield.

Director Barkhurst stated he had no problem with putting the \$250,000 in a reasonably managed medium term investment since there is no reason to believe that the District would need those funds in the near future. He further noted that the District uses about \$250,000 a year for capital projects which is usually collected each year. However if the \$250,000 is not received from the rate payors there is the \$250,000 remaining in the LAIF account that can be drawn upon as needed. He therefore recommended that the first \$250,000 remain in the LAIF account and that the Ridge money go into the CalTRUST Medium Term Fund.

Director Griffith questioned the status of the two recommendations that had been submitted by the General Manager and **Director Barkhurst** replied that he did not agree with the second recommendation because it is the Board that sets investment policy and if the Board authorizes the establishment of an account with \$250,000, then any change to that would require another Board Resolution.

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REVIEW OF INVESTMENT POLICY (continued)

Director Barkhurst then noted that Director Griffith had raised a legitimate question as to whether the District should seek an opinion from the District's legal counsel as to whether the District is authorized to open an account in CalTRUST and he recommend that this be done. This suggestion was unanimously approved.

It was M/S/C/-(Sorell/Kilburn-5/0)-**“That, subject to the approval of the District's legal counsel that CalTRUST is a suitable investment vehicle for a portion of the Kinneloa Irrigation District's Reserve Funds, the Board directs staff to open an account with CalTRUST and that \$250,000 be transferred from the LAIF Reserve Fund to a MEDIUM TERM investment document with CalTRUST and that the interest earned remain in the CalTRUST Account.”**

GENERAL MANAGER'S REPORT

Doyne Road Development:

Director Barkhurst questioned as to whom the lender is for the project and what the current amount owed to the District by the Developer is at this time. The **General Manager** replied that it is a private lender, whose name he does not remember at this time, and that about \$6,000 for actual expenditures is owed to the District plus the \$20,000 deposit.

Director Sorell questioned as to the amount of money that had been spent on the project for which the District has been reimbursed by the Developer and the **General Manager** replied about \$20,000.

Director Sorell then questioned as to the last time that the District had received monies from the Developer and the **General Manager** replied about one month ago.

Director Kilburn then questioned had the payment been received since the last meeting and the **General Manager** replied yes.

Director Sorell stated that his concern was whether any of this was possibly a preference and **Director Barkhurst** noted that was a very good point.

Director Sorell explained that in a Bankruptcy they have the ability to go back and claw back ninety days although there are some exceptions to it.

Director Barkhurst explained that in this situation however it is the Lender who is in bankruptcy not the Developer, but if the Developer is unable to borrow and he goes into bankruptcy then it is a different question and could be of concern to the District. He further explained that if the Developer goes into bankruptcy and the District is not listed as a creditor, then the District would have cause of action in the bankruptcy court.

Director Barkhurst then suggested that because the District is actively involved in the project and, \$6000. is a lot of money to this small District, the District should spend some time and do some due diligence on both the Developer and the Lender in order to get a better handle on what is going on.

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GENERAL MANAGER'S REPORT (continued):

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Director Griffith questioned whether the District could lean the property and **Director Barkhurst** replied yes since the Developer owns the property and at this time the District is an unsecured lender.

The **General Manager** stated that he would make a phone call and try to obtain the status of both the Lendor and the Developer.

Production Report 2008-2009:

The **General Manger** directed the Board's attention to the Production Report that had been included in the Packet and noted the decrease in the tunnel production and indicated that he thought it would be prudent to lease fifty acre feet for the next year since there are also current limitations on the production from the wells.

Director Barkhurst questioned whether it costs the District more to run the Wilcox Well than the District is making from the sales of the water from that well, and stated if that was the case what would the implications be to mothball the Wilcox Well.

The **General Manager** replied that the well is virtually mothballed and that currently it is run once a month to keep it alive. He further noted that there is standby charge for power from the City of Pasadena for the Wilcox Well and that it is of concern to pay \$1000 for no pumping.

Director Barkhurst questioned whether power could be supplied from Edison and the General Manager explained that originally the well was served with Edison power but that after the property was annexed to Pasadena some years ago the power service was taken over by Pasadena.

Director Barkhurst questioned whether the District had looked into using solar power for any of the facilities and the **General Manager** replied that he has reviewed that possibility yearly for both the Wilcox and Vosburg sites, but at this time it does not pencil out although there could be an opportunity in the future if the District goes to the right kind of power that could actually run pumps rather than putting the power back into the grid. He further explained that the power required to run the pumps is three phase and that not enough power can be generated directly from solar cells.

REVIEW OF MINUTES:

The minutes of October 20, 2009 were reviewed and unanimously approved as presented.

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REVIEW OF FINANCIAL REPORTS:

Director Sorell reviewed the Financial Reports noting that the revenues for the month are within \$500-\$600 of the budget. He questioned the expenditure of \$850 for fluoride modifications and the **General Manager** explained that the expense was the amount charged by the Department of Public Health for their time spent in granting the District's request to - 1) reduce the fluoride monitoring from monthly to quarterly and 2) to delete the requirement of sending out the monthly fluoride letter.

Director Griffith questioned if a policy had been made as to which expenditures could be paid electronically by the General Manager and **Director Sorell** replied that the understanding was that the monthly repetitive invoices could be paid electronically, although the Auditor questions the decision.

Following clarification of several other expenditures the Financial Reports were approved for filing as presented.

ITEMS FOR NEXT AGENDA

Report from the District's Legal Counsel regarding the opening of the account with CalTRUST.

ADJOURNMENT:

The meeting was adjourned at 2035 hours. The next meeting will be on December 15, 2009.

Respectfully submitted,

Shirley L. Burt
Secretary to the Board