

RECORD OF PROCEEDINGS

CHERRY CREEK VALLEY WATER AND SANITATION DISTRICT

SPECIAL MEETING OF THE BOARD OF DIRECTORS

July 27, 2011

The special meeting of the Board of Directors of the Cherry Creek Valley Water and Sanitation District was held at the District Offices, 2325 S. Wabash Street, Arapahoe County, Colorado at 6:30 p.m. on July 27, 2011.

PRESENT

Paul Hanley – Chairman
Jorge-Ayn Riley – Vice-Chairman
Paul Thayer – Secretary/Treasurer
Louis D. Halsell Jr. – Director

OTHERS PRESENT

John R. Warford – Manager
April Clendenin – Accountant
J.M. Fay – Board member candidate (late arrival – 6:49 p.m.)

ABSENT

None

Mr. Hanley, Chairman of the Board, called the meeting to order at 6:30 p.m.

Mr. Hanley asked each of the Board to write down the names of all the candidates that they would like to see appointed to the Board, with no limit on the number of candidates that each Board member could list as being acceptable for appointment to the vacant position. The intention was for the Board to avoid spending a lot of time discussing candidates who the Board does not wish to appoint, so that the time could be focused on discussing the candidates who the current Board members, as a group, are the most interested in seeing appointed. He wished to get consensus before calling a nomination or vote for the appointment.

The Board members wrote down their preferred candidates on paper and handed the papers down to Mr. Hanley, who then tallied up how many board members were interested in each of the candidates. Ms. Fay received zero, Mr. Cohen received one, Mr. Lombardi received one, Dr. MacPhee M.D. received one, Mr. Eck received two, Mr. Parrot received two, and Mr. Lampert received three. Mr. Hanley stated that since Ms. Fay received zero, they would not discuss her application and interview. He restated that these counts were for purposes of discussion, not an actual vote to appoint.

Mrs. Riley suggested that the candidates with only one vote should also be eliminated from discussion at this time. Mr. Thayer agreed. Mr. Hanley asked if any of the Board would object if they also went ahead and eliminated the three people with only one person interested at this time without discussion. Mr. Halsell answered that he was not comfortable with that, because the candidate that he most wanted to see appointed was one of the people who received only one vote and merits more discussion – Mr. Lombardi.

Mr. Hanley announced that discussion would begin for all the remaining candidates with the fewest amounts of interest (the people with one board member interested in them at the beginning of this meeting), and continue on through the list of candidates in order of least to most. The Board began to discuss the merits of each of the remaining candidates; as well as possible concerns that some of the Board has about each of them. They discussed Mr. Lombardi first, then Mr. Cohen.

Mr. Thayer asked how many of the Board seats will be up for election in May 2012. The answer

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was four of them; all but Mr. Thayer's seat. Mr. Hanley said that with the mail balloting, campaigning is going to be important to maintain continuity on the Board. Mr. Thayer said that is why he thinks the Board should be more spread out, geographically.

They then discussed Dr. MacPhee M.D., then Mr. Parrot, then Mr. Eck, and finally Mr. Lampert. Mr. Hanley asked if the Board agreed that it should try to reach a consensus. The Board agreed. He then asked if they could now eliminate some names for which there is not a consensus. The Board agreed. Mr. Hanley suggested, for purpose of consensus, temporarily eliminating Dr. MacPhee, Mr. Lombardi, Mr. Cohen and Ms. Fay. The Board agreed. Mr. Hanley asked the Board members where they stand on Mr. Parrot as a candidate now, after the discussions. The Board agreed that they felt that Mr. Parrot wasn't quite as experienced with serving on a board as Mr. Eck or Mr. Lampert, and were now comfortable to eliminate Mr. Parrot.

Mr. Hanley stated that the Board had narrowed it down to being between Mr. Eck and Mr. Lampert and that he himself was comfortable with each of those, and asked each of the Board members if they would also be comfortable with each of them. All of the Board members answered yes. Mrs. Riley added that she however agreed with Mr. Thayer's previous comment about seeking broader geographic representation. The majority of the Board is currently residing in Huntington Estates and that is where Mr. Eck also resides and Mr. Lampert does not – he live in Yorkshire Estates. Mr. Halsell raised a concern that Mr. Lampert seemed to be over-extended with his other community service activities. Mr. Hanley answered that Mr. Lampert did make a commitment during his interview that he would not take on other positions with Arapahoe County if he were chosen to serve on the Board of Directors for the Cherry Creek Valley Water and Sanitation District (the District). Mr. Hanley also mentioned Mr. Lampert's previous experience with running in contested elections.

Mr. Hanley called for a vote on the appointment. Mrs. Riley moved to appoint Mr. Lampert to the Board in place of Sheldon Ginsberg for the term that will come up for re-election in May 2012, seconded by Mr. Thayer. Motion carried.

Mr. Hanley agreed to draft and send a letter from the District to all the candidates who were not appointed and said he would also contact Mr. Lampert.

Mr. Warford informed the Board that he has met with MorganStanley SmithBarney (SmithBarney) about some of the District's investments in agency bonds. He and SmithBarney are very concerned about the value of the investments related to the recent political issues in Congress regarding the debt ceiling that may lead to many credit downgrades and possibly defaults by the Federal government. He's spoken with Mr. Thayer and has instructed SmithBarney to sell many of the investments and place the proceeds into money market, even though it will cause some losses to sell them now. He said that within 6-8 weeks the market should settle and the District can determine where the best place to invest would be at that time, but for now he feels that the money is safer in money market. He says the loss that the District will be taking is the lost earnings while the money is invested in money market instead of the agency bonds, since money market is paying close to nothing. He hasn't done anything yet with the investments at Sanford C. Bernstein & Co. (Bernstein). Mr. Hanley said that he's talked to Bernstein recently, and the District doesn't have any agency bonds with them. They do have a few Federal Treasury bonds at Bernstein, but Mr. Hanley said that they are probably less at risk of default – he is concerned about the agencies' ability to repay their own debt if the federal government can't back them up, such as if the debt ceiling is not raised soon. Mr. Hanley requested to see the last statements and Mrs. Clendenin produced them for him to examine. Mr. Hanley said that there was \$16.5 million as of June 30th in agency bonds. He expressed concern as to how much the transaction fees may total to, since the total of the investments is so large. Mrs. Riley added that it's important for the Board to know how much the charges will be for the transaction before going through with them. Mr. Halsell agreed. Mr. Hanley said that he felt that the District should invest more into US Treasuries. He said that he feels that the US Treasuries should be the last thing to default, the federal government would likely miss making Social

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Security payments and such before they miss making the US Treasury bond payments. Mr. Hanley asked Mr. Warford to use his best judgment and if he doesn't think it is a big number for the transaction costs, then he should continue with the sells, but if it is large then the remaining sells should be put on hold. Mr. Hanley also added that when Mr. Warford is checking the costs with SmithBarney, he should ask about the costs to sell now, and what the charges to buy more investments in a couple months when the Board may be ready to move the money back into bonds. Mr. Warford suggested that, in a couple months when the District wants to re-invest, the District should go back into US Treasuries. Mr. Hanley said he's fine with that strategy if the yield is high enough, such as around 2.0%. Mrs. Riley asked Mr. Warford if SmithBarney is good about calling him when they see the market beginning to fluctuate one way or the other to advise him to start moving the investments. Mr. Warford said yes and added that it isn't every day, but they do call on days when things are being downgraded and other things happen that affect the District's portfolio of investments. Mrs. Riley responded that this is important in critical times such as these.

Mr. Hanley asked if there was any additional business. There being no further matters to come before the Board, Mr. Hanley called for the Board to adjourn. Mr. Thayer moved to adjourn, seconded by Mrs. Riley. Motion carried. Mr. Hanley declared meeting adjourned at 7:33 p.m.

READ AND APPROVED Paul R. Thayer DATED aug 16-11