

MINUTES OF REGULAR MEETING – APRIL 9, 2007

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order by President Reinhart at 6:00 p.m., April 9, 2007 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: Matheis, Miller (arrived at 6:18 p.m.), Swan, and Reinhart

Directors Absent: Withers

Also Present: General Manager Jones, Assistant General Manager Cook, Director of Engineering Heiertz, Treasurer Loomis, Secretary Bonkowski, Legal Counsel Arneson, Ms. Beth Beeman, Mr. Carl Ballard, Ms. Mary Ann Brown, Mr. Jim Carter, Mr. Bruce Newell, Mr. Mike Hoolihan, Mr. Ray Thatcher, Mr. Dick Diamond, and other members of the public and staff. Additionally, Mr. Joshua Thatcher, who was in the process of receiving his Citizenship in the Community merit badge for Boy Scouts, was asked to be seated at the Board table, and it was the consensus of the Board to make him an Honorary Board of Director for the evening.

COMMUNICATIONS TO THE BOARD

Written Communications: None

Oral Communications: Mrs. Joan Irvine Smith addressed the Board of Directors with respect to the Dyer Road Wellfield. Mrs. Smith said it was her understanding that currently the DATS wells C-8 and C-9, and well 10 are in operation in accordance with the District's annual pumping plan. To date, MWDOC and OCWD have determined they will not take in-lieu recharge deliveries from MWD in April, as the groundwater levels are very high. Staff will be going forward with the following start-up schedule for the summer season: April 23 – Wells 17 and 5; April 24 – Wells 15 and 18; April 25 – Wells 2 and 12; April 26 – Wells 1 and 4; April 27 – Wells 13 and 14; April 30 – Well 16; May 28 – Wells 7 and 11; and June 25 – Wells 3 and 6. There is a starter replacement project currently underway on several wells that could change the above schedule based upon the actual progress of the replacements. The District's planned pumping for both May and June is 4,200 AF per month. This was confirmed by Mr. Jones, General Manager of the District. Mr. Jones said that staff received communications today from OCWD indicating that in-lieu recharge deliveries from MWD are currently available; however, IRWD is not participating at this time in order to maintain eligibility for MWD's seasonal shift program.

With respect to the Orange County Basin Groundwater Conjunctive Use Program being coordinated by Municipal Water District of Orange County (MWDOC) and Orange County Water District (OCWD), the agencies participating are the cities of Anaheim, Westminster, Santa Ana, Buena Park, and Garden Grove, Yorba Linda Water District and Southern California Water Company. Contracts have been awarded by OCWD to Layne Christensen Company and Bakersfield Well & Pump, Inc. to construct a total of eight wells. Well drilling activities are complete and it will take an additional 18 months to complete the well head facilities. OCWD is required to have the wells operational by March 2008. Following well

construction, each well will be owned by the individual participating agencies. This was confirmed by Mr. Jones.

With respect to the OCWD annexation of certain IRWD lands, OCWD released the Environmental Impact Report (EIR) in early January 2006. The extended comment period for the EIR closed March 17, 2006, and OCWD is now completing the response to comments. On January 17, 2007, the OCWD Board approved proposed terms and conditions for annexation and directed staff to prepare an annexation agreement for OCWD and IRWD approval. Staff anticipates the OCWD Board will take action on the EIR and annexation agreement in the spring of 2007. This was confirmed by Mr. Jones. He also said that on April 11, 2007, a draft annexation agreement will be submitted to OCWD's Water Issues Committee with the recommendation to transmit to IRWD for review and consideration. Staff anticipates the OCWD Board will take action on the EIR and annexation agreement in the Spring of 2007.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED - None

SAN JOAQUIN MARSH SMALL AREA MITIGATION SITE 1 (SAMS) WETLAND CONCEPTS – UNIVERSITY OF CALIFORNIA IRVINE DESIGN STUDIO PRESENTATION

University of California Irvine students working on their Master in Urban and Regional Planning curriculum presented two separate conceptual designs for the Natural Treatment System (NTS) wetland for Small Area Mitigation Site 1 (SAMS) site. Director Miller arrived at 6:18 p.m.

PUBLIC HEARING

General Manager Jones said that a request was noted by a member of the Board for staff to review the District's credit enhancements with the Finance and Personnel Committee prior to adopting resolutions making findings and providing for the issuance of consolidated bonds for Consolidated Series 2007. Mr. Jones said he recommended opening the hearing, receiving and filing the proof of publications, asking legal counsel to describe the nature of the proceedings, and inquire if there were comments from the public and Board, but to continue the hearing to the April 30, 2007 Board meeting. He said that in the interim, an item to discuss credit enhancements would be submitted to the Finance and Personnel Committee for discussion.

There being no objections, President Reinhart declared this to be the time and place for a hearing on the proposed resolution of issuance of consolidated bonds for Improvement District Nos. 105, 113, 213, and 250 in an amount up to \$100 million, and declared the hearing open. President Reinhart asked the Secretary how the hearing was noticed.

Secretary Bonkowski said that Resolution No. 2007-4 declaring the Board's intention to issue bonds was published for two successive weeks in the Orange County Register on March 19, 2007 and March 26, 2007 and posted at the District office on March 8, 2007. She said additionally on March 19, 2007 Resolution No. 2007-04 was posted in three public places within each Improvement District. She presented the Proof of Publication and Affidavit of Posting to be received and filed.

On MOTION by Miller, seconded and unanimously carried, THE AFFIDAVIT OF POSTING AND THE PROOF OF PUBLICATION PRESENTED BY THE SECRETARY WAS RECEIVED AND FILED.

President Reinhart asked legal counsel to describe the nature of the proceedings. Legal Counsel Arneson said that the purpose of the hearing was to permit any interested person to be heard concerning any matters set forth in Resolution No. 2004-7 and the proposed resolution of issuance or any matters material, including the question of whether the burden on the lands of any of the included Improvement Districts would be increased over the burden that would be borne by the included Improvement District if its bonds sold separately or whether the use of a negotiated sale or variable interest rate for the issuance of consolidated bonds (Series 2007) of said District as proposed in the resolution would have a higher cost than if such features were not used.

President Reinhart asked if there had been any written communications. Secretary Bonkowski said there were none. President Reinhart asked is there was anyone present who wished to address the Board concerning the matter. There were none.

President Reinhart said that the hearing would be continued to Monday, April 30, 2007 at the next Board of Directors' meeting. On MOTION by Swan, seconded and unanimously carried, THE PUBLIC HEARING ON 2007 BOND ISSUANCE WAS CONTINUED TO THE APRIL 30, 2007 BOARD OF DIRECTORS' MEETING AND THE EVALUATION OF THE IRVINE RANCH WATER DISTRICT'S PROVISION OF CREDIT ENHANCEMENTS WAS REFERRED FOR DISCUSSION AT A SPECIAL FINANCE AND PERSONNEL COMMITTEE MEETING.

WORKSHOP

GREEN ACRES PROJECT SERVICE ANALYSIS

General Manager Jones reported that staff completed preliminary analysis of serving all Green Acres Project (GAP) demands with IRWD reclaimed water through the existing GAP interconnection. Mr. Jones said that the analysis indicated IRWD could serve GAP demand if Orange County Sanitation District (OCSD) was taken off the system.

Using a PowerPoint presentation, Mr. Mike Hoolihan provided a GAP overview on the following matters: 1) system description; 2) service scenarios proposed; 3) the current service agreement, 4) how to serve all irrigation demands; and 5) conclusions which determined that IRWD could hydraulically serve GAP without OCSD demands; serving all GAP demands alone has marginal benefit to IRWD; and serving all GAP demands with winter disposal option has a greater benefit to IRWD. Mr. Hoolihan reviewed other points to consider including GAP pipeline ownership, operations and maintenance issues; if OCSD could take excess flows when available for GWRS supplement during winter months; and if OCWD could use the San Joaquin Reservoir for storage of GWRS water for emergency shutdown of GWRS pipeline. He further reviewed the next steps which would include a complete and thorough analysis of system operations and hydraulics. Following discussion, staff was asked to continue further work on the analysis.

RECESS AND RECONVENE

President Reinhart declared a recess at 7:30 p.m. The meeting was reconvened at 7:35 p.m. with Directors Matheis, Swan, Miller, and Reinhart present. Director Swan asked staff to prepare an Honorary Board of Director Certificate for Mr. Joshua Thatcher's attendance for tonight's Board meeting (for his Boy Scout merit badge).

WORKSHOP

PROPOSED FY 2007—08 OPERATING BUDGET AND RATE IMPACTS

General Manager Jones said that staff would review the proposed operating budget this evening for fiscal year 2007/08. Mr. Jones said that public notice of this workshop was given by publication in the Register on April 2, 2007.

Using a PowerPoint presentation, Mr. Christopher Smithson reported on the 2007-08 Proposition 218 requirements. Following discussion, staff was asked to: 1) provide the draft mailer for Board review prior to distribution; 2) examine if the mailer could be customized by customer type/group; and 3) consider whether a press release should be used in addition to the mailer.

Mr. Smithson said that the key assumptions driving rate impacts were identified and reviewed at the March 6 Finance and Personnel Committee meeting. The Operating Budget review was held twice on March 27 and April 4 by same. He said at the April 4 meeting, the Committee recommended some additions to the budget that have been included in the Consolidated Operating Expense Budget for FY 2007-08. Items recommended by the Committee include increased funding for discretionary staffing additions associated with succession planning and funding for additional community outreach.

Mr. Smithson said that the Proposed FY 2007-08 Consolidated Operating Budget totals \$94.8 million and represents a \$6.1 million or 6.8% total increase over the mid-year updated budget of \$88.7 million for FY 2006-07. He said that the Proposed Operating Budget was separated into two components, controllable and uncontrollable costs. Of these, uncontrollable costs, or those which the District has limited authority over, was \$4,302,700 with controllable costs at \$1,757,600. He said that the primary drivers of the budget can be broken down as follows: 1) electricity at \$1,985,700 (uncontrollable); external cost of potable water at \$1,161,100 (uncontrollable); labor at \$1,202,400 (controllable); chemicals at \$947,600 (uncontrollable) and benefits excluding payroll taxes at \$830,800 (controllable).

Mr. Smithson said that the consolidated treated water system requires additional revenue of \$3,510,000, of which \$3,062,000 is allocable to the Irvine Ranch rate area and \$448,000 which is allocable to the Los Alisos rate area. The Irvine Ranch rate area treated system shortfall was due to an increase in the cost of water, increased chemical costs, energy, labor which carries with it G & A, and materials and supplies. He said that

the cost of water increase was offset with a commodity rate increase (\$0.07/ccf; \$1,525,300 which is consistent with the District practice of matching commodity revenues with commodity expense. The increase to operating expenses requires an 11.1% (\$1,536,700) increase in the fixed service charge revenue. The Los Alisos rate area experienced similar cost increases in water from MWD and operational costs such as energy, chemicals including increases in labor which carries with it G & A and materials and supplies such as chemicals, electricity, and fuel. Offsetting these expense increases requires a commodity rate increase (\$0.06/ccf; \$226,400) and fixed service charge increase of 12.33% (\$221,600) and the impact to a typical residential customer.

Mr. Smithson said staff's 2007/08 proposed rates for treated water would be as follows: service charge - \$7.50 (for a \$.75 increase); and commodity charge - \$16.36 (for a \$1.26 increase). He said the proposed rates for sewer would be as follows: service charge - \$10.60 (for a \$.20 increase; and replacement component - \$3.05 (for a \$.40 increase).

Mr. Smithson said that the cost of Metropolitan Water District (MWD) untreated water will increase as the MWD has announced a \$23/acre foot increase for untreated water as well as setting the capacity reservation charge at \$14/acre foot. The combined impact will be \$37/acre foot for untreated water. He said that staff also recommends setting the internal purchase price for native water at \$130/acre foot and increasing the current commodity rate from \$335/acre foot to \$372/acre foot. The consolidated sewer system requires additional revenues of \$941,000 that is additive to the \$904,000 that will be generated from the user/replacement rate component of \$0.40 on the Sewer service charge for a typical residential customer. After adjusting for the additional reclaimed revenue, the fixed charge for the IRWD sewer customers would increase by an additional 1.5% to rectify the remaining shortfall and the replacement component will increase the sewer fixed charge by an additional 3.1%.

Following discussion, staff was asked to make changes on data under the consolidated sources and uses of funds as well as the comparison of IRWD's proposed rates to current rates of neighboring agencies based on 18 cfs, and to submit an agenda item to the Finance and Personnel Committee for discussion. Mr. Smithson said that the second workshop would be held on April 30, 2007.

CONSENT CALENDAR

On MOTION by Swan, seconded and unanimously carried, CONSENT CALENDAR ITEMS 7 THROUGH 11 WERE APPROVED AS FOLLOWS:

7. MINUTES OF BOARD MEETING

Recommendation: That the minutes of the March 26, 2007 Board of Directors' meetings be approved as presented.

8. RATIFY/APPROVE BOARD OF DIRECTOR'S ATTENDANCE AT MEETINGS AND EVENTS

Recommendation: That the Board ratify/approve the meetings and events for Mary Aileen Matheis, Darryl Miller, Doug Reinhart, Peer Swan and John Withers.

9. QUITCLAIM OF REAL PROPERTY

Recommendation: That the Board adopt the following resolution by title approving execution of the Quitclaim Deed to The Irvine Company LLC.

RESOLUTION NO. 2007 – 6

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT APPROVING
EXECUTION OF THE QUITCLAIM DEED TO
THE IRVINE COMMUNITY DEVELOPMENT COMPANY LLC

10. QUITCLAIM OF REAL PROPERTY

Recommendation: That the Board adopt the following resolution by title approving execution of the Quitclaim Deed to Irvine Community Development Company LLC.

RESOLUTION NO. 2007 – 7

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT APPROVING
EXECUTION OF THE QUITCLAIM DEED TO
THE IRVINE COMMUNITY DEVELOPMENT COMPANY LLC

11. QUITCLAIM OF REAL PROPERTY

Recommendation: That the Board adopt the following resolution by title approving execution of the Quitclaim Deed to JN Holdings LLC.

RESOLUTION NO. 2007 – 8

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT APPROVING
EXECUTION OF THE QUITCLAIM DEED TO
JN HOLDINGS LLC LLC

ACTION CALENDAR

RESERVOIR LADDER AND SAFETY IMPROVEMENTS - CONSTRUCTION AWARD, BUDGET INCREASE AND EXPENDITURE AUTHORIZATION

A safety audit recently revealed that six reservoirs in the Santiago Canyon area and three reservoirs in other areas of Irvine Ranch Water District have significant safety issues related to ladders and fall protection equipment. District operations are being hampered at these reservoirs because of the safety issues. On MOTION by Swan, seconded, and unanimously carried, THE BUDGET WAS INCREASED TO THE FY 2006/07 CAPITAL BUDGET FOR PROJECT 10819 BY \$178,000, FROM \$195,800 TO \$373,800; AN EXPENDITURE AUTHORIZATION FOR \$314,400 FOR PROJECT 10819 WAS APPROVED; AND THE GENERAL MANAGER WAS AUTHORIZED TO EXECUTE A CONTRACT WITH WATSON MECHANICAL, INC. FOR \$263,660 FOR THE RESERVOIR LADDER AND SAFETY IMPROVEMENTS, PROJECT 10819.

IRVINE LAKE OPERATION AND MAINTENANCE BUDGET JULY 2007 TO JUNE 2008

On MOTION by Swan, seconded, and unanimously carried, THE BOARD APPROVED THE IRVINE LAKE OPERATIONS AND MAINTENANCE BUDGET FOR THE PERIOD OF JULY 1, 2007 TO JUNE 30, 2008 IN THE AMOUNT OF \$682,200 WITH IRVINE RANCH WATER DISTRICT'S PROPORTIONATE SHARE OF THE BUDGET IN AN AMOUNT NOT TO EXCEED \$505,150, AND SERRANO WATER DISTRICT'S PROPORTIONATE SHARE IS IN AN AMOUNT NOT TO EXCEED \$177,050.

GENERAL MANAGER'S REPORT

General Manager Jones reported on ACWA's Water Law and Policy Scholarship. He said that staff would make a recommendation to the Water Resources Policy and Communications Committee. He said that OCWD transmitted a draft of the annexation agreement which is being submitted to their Water Issues Committee this Wednesday. He said that IRWD staff will be reviewing the document. He said that he would be testifying on April 18 in Sacramento on Assembly Bill 1406 for using recycled water in condominiums (Huffman).

DIRECTORS' COMMENTS

Director Swan reported on an upcoming WACO meeting on Friday, April 13, 2007. He said that he attended a MWDOC/OCWD Joint Committee meeting on March 28, 2007.

Director Matheis reported that she attended a Shadetree Partnership Board meeting on March 29, 2007 and that the organization has been doing an outstanding job. She said they were working with a wide range of volunteers to perform nursery tasks and that the next event was scheduled for Saturday, April 28 at its nursery. She reported on the recent

Orange County Register article on the Diemer Intertie shut down. She further reported on her attendance at an ISDOC Quarterly meeting.

Director Miller reported on his attendance at the Groundwater Replenishment System Steering Committee meeting today and asked staff to provide a copy of the history of the program budget changes to the Board. He also said that he attended a Santiago Management Advisory Committee meeting on April 5, 2007.

President Reinhart reported on his attendance at the SOCWA Board meeting.

CLOSED SESSION

President Reinhart said that a Closed Session item would be held this evening with legal counsel relative to initiation of litigation (Government Code Section 54956.9(c)) involving one potential case in regards to Armstrong Trunk Sewer Project.

OPEN SESSION

Following the Closed Session, the meeting was reconvened with Reinhart, Miller, Swan, and Matheis (Withers absent). No action was reported.

ADJOURNMENT

There being no further business, President Reinhart adjourned the meeting.

APPROVED and SIGNED this 30th day of April, 2007.

President, IRVINE RANCH WATER DISTRICT

Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone