

## MINUTES OF ADJOURNED REGULAR MEETING – AUGUST 8, 2008

The adjourned regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order by President Miller at 7:45 a.m., August 8, 2008, in the Duck Club Facility on Riparian View, Irvine, California.

Directors Present: Matheis, Miller, Swan, Withers, and Reinhart

Directors Absent: None

Also Present: General Manager Jones, Assistant General Manager Cook, Legal Counsel Arneson, Ms. Debby Cherney, Mr. Greg Heiertz, Mr. Wayne Posey, Mr. Phil Bettencourt (of Bettencourt Associates), Mr. Mike Hoolihan, Mr. Sat Tamaribuchi and Mr. Dean Kirk (of The Irvine Company).

COMMUNICATIONS TO THE BOARD – None

### WORKSHOP

General Manager Jones outlined the desired outcomes as follows: 1) determine direction and timing for establishing rate parity for customers in the Los Alisos service area; 2) update the Board regarding the development of the Great Park; 3) discuss developments in the ongoing negotiations with Orange County Sanitation District (OCSD); 4) adopt the proposed IRWD Potable Water Supply Reliability Policy; 5) review target activity, and 6) brainstorm new strategic initiatives and future agenda items.

### LOS ALISOS SERVICE AREA RATE PARITY APPROACH

Director of Finance Cherney reported that the consolidation with Los Alisos did not specify an acquisition balance methodology for purposes of reaching rate parity between the service areas. Ms. Cherney said that instead, the Pre-consolidation Agreement between these two agencies outlined the terms of the consolidation and some of the steps necessary to reach rate parity including, but not limited to: 1) Improvement Districts (IDs) 135/235 shall participate in capital construction and acquisition of new facilities; 2) IDs 135/235 shall establish and maintain replacement funds equivalent to their proportionate share of the District as a whole, and 3) rates will be set annually within each service area based on revenues and expenses with the intention to ultimately have a uniform rate structure.

Ms. Cherney said that at the July 28, 2006 Strategic Planning Workshop, the Board further defined the circumstances under which potable water rates for Los Alisos customers would be equalized with rates for the balance of IRWD, while still following the provisions of the Pre-consolidation Agreement. The Board stated its intent to accomplish this by utilizing general revenue from sale of all or part of the former LAWD headquarters property (the Property) and applying the revenue to the equitable contributions of that area into regional facilities, future replacement needs, and equalization of the differential in cost of service.

Ms. Cherney said that the Development Agreement (DA) for the Property has now been approved by both IRWD and the City of Lake Forest. Ms. Cherney said that the entitlements set forth in the DA create value in the Property that will provide the mechanism for establishing a uniform water rate structure. The revenue necessary to align the rates and charges within the Los Alisos service area with the Irvine service area will be derived from the sale or development of the Property, providing for repayment of the various preliminary estimates totaling between \$51.1-66.1 million. The recommended Rate Differential Contribution amount would be the functional equivalent of a perpetual non-wasting endowment. This amount would generate interest earnings that would be used to fund the annual operational differential between the Irvine and Los Alisos area customers. The Contribution would be held in the District's Replacement Funds, and be maintained and used at the discretion of the IRWD Board. Staff recommends that this amount be established at the time payback begins due to the near-term volatility of the MWD water rate forecast and interest earnings.

Ms. Cherney further said that the development and sale of the Property is not expected to occur immediately, nor is it expected to occur all at once. The revenue will stream in over time, potentially beginning in three to five years, but will depend on a number of factors such as the residential real estate market. Staff recommends establishing rate parity in the Los Alisos area by July 1, 2009, which will allow time for staff to implement the necessary steps to communicate the effects of the conversion of the Los Alisos area customers to the allocation-based tiered rate structure prior to the summer months. The recommended methodology provides a simple mechanism for accomplishing rate parity.

Ms. Cherney said that as part of the migration of the Los Alisos customers to the tiered rate structure, staff is required to establish allocations. Staff anticipates hiring 15-20 temporary workers to assist with the measurement of the properties, and tying those properties into the District's GIS system at an estimated cost of \$100,000. Funding for this effort will be added to the Operating Budget for FY 2008-09, funded as a loan from Conservation Revenue, and repaid at such time as the property development begins to produce revenue.

The Board discussed the appropriate timing of achieving rate parity, and staff agreed to bring an item back to the Board for discussion in the early months of 2009. It was the consensus of the Board to approve staff's approach for achieving rate parity for the Los Alisos area customers. On **MOTION** by Swan, seconded and unanimously carried, **THE OPERATING BUDGET WAS INCREASED FOR FY 2008-09 BY \$100,000 TO BE FUNDED AS A LOAN FROM CONSERVATION REVENUE AND REPAID AT SUCH TIME AS THE LOS ALISOS PROPERTY DEVELOPMENT BEGINS TO RECEIVE REVENUE.**

## ORANGE COUNTY GREAT PARK ISSUES UPDATE

### Great Park Sub-Area Master Plan (SAMP) Status

Mr. Mike Hoolihan reported that in January 2008 Lennar asked IRWD to move forward with the completion of the Great Park Sub-Area Master Plan (SAMP) analyzing three possible development alternatives, and since that time, staff has been working closely with Lennar and the Great Park Design Studio to complete it. The final SAMP, expected to be completed by late

September 2008, will present analysis results for both the Base Scenario (3,625 dwelling units) and Lennar's most aggressive intensification plan (9,500 dwelling units).

#### Special Bond Elections for Improvement Districts 112/212:

Ms. Cherney reported that staff has met with both Lennar and the City of Irvine to review the ballots and requirements for submitting their votes on the August 26, 2008 election on bond authorization for IDs 112 and 212. Two-thirds of the votes cast must be a "yes" vote in order for the bonds to be authorized.

#### Infrastructure Funding for the Great Park:

Mrs. Cherney reported that staff met with Lennar and representatives of the City of Irvine and the Great Park during the week of July 28, 2008 to reiterate the Board's policy on maintaining a 50/50 split between connection fees and property taxes, and the funding of capital facilities needed to serve IDs 112/212 and regional facilities, whether the infrastructure is required for the Great Park itself or the balance of the ID in which more traditional development is expected to occur. She said that both Lennar and the Great Park Corporation staff inquired about whether all of the Great Park water and sewer capital costs could be included in the Community Facilities District (CFD) for which they are planning to assess taxes. She said staff reiterated that a fair-share allocation would have to be developed and that this could not all be included within a CFD because it would unfairly burden the ID 112/212 property owners in excess of 50%.

Staff then presented alternative approaches to addressing the payment of connection fees/capital costs for the Board's consideration.

#### UPDATE ON OPEN INTER-AGENCY ISSUES WITH OCSD

Using a PowerPoint presentation, Director of Finance Cherney provided an overview of the OCSD Reserves. Ms. Cherney said that: 1) in the 1995 amendment, reserves for Revenue Area (RA) 14 are to be maintained on a basis "more consistent with" the Board-approved methodology for other revenue areas; 2) OCSD is required to provide quarterly accounting; 3) in 2003-04, all other revenue areas consolidated into one except for RA 14, and 4) until recently, no accounting was ever provided to IRWD.

Ms. Cherney reviewed the current reserve calculation noting that 1) OCSD budgets for a targeted "reserve" balance; 2) RA 14 currently represents 6.0% of total equity in Joint Works Treatment Facilities; and 3) OCSD's initial estimate for FY 08/09 is \$27.7 million. She then reviewed other accounting issues since 1995.

Using a PowerPoint presentation, Director of Engineering Heiertz reported on the OCSD Main Street flume meter error at Main Street near Jamboree Road with a projected net credit due IRWD from \$1.1 to \$2.1 million (before consideration of biosolids O & M capital costs). Mr. Heiertz discussed the request from OCSD for changing the current basis of billing IRWD for MWRP solids treatment and handling, and that it was agreed that an engineering study be

performed by a mutually-agreeable independent consultant to determine the appropriate formula for charging IRWD for solids treatment and handling costs.

IRVINE RANCH WATER DISTRICT – POTABLE WATER SUPPLY RELIABILITY POLICY

Director of Engineering Heiertz reported that the IRWD Potable Water Supply Reliability Study final report was received by the Board in July 2008 which will assist the District in defining appropriate levels of potable water reliability under different water supply and demand scenarios consistent with the Board’s and IRWD customers’ expectations. The study included analysis of how imported water supply shortages, climate change, facility outages, and emergencies will affect demands, supplies, and major conveyance facilities. Mr. Heiertz said that staff has prepared a draft IRWD Potable Water Reliability policy position paper that reflects the findings of the study.

On MOTION by Reinhart, seconded and unanimously carried, THE BOARD ADOPTED THE POLICY POSITION PAPER ENTITLED *IRWD POTABLE WATER SUPPLY RELIABILITY AS PRESENTED*.

IRWD’S GOALS AND PRIORITIES

General Manager Jones reviewed the District’s goals and priorities with the Board. Following discussion, the priorities list was revised and it was agreed that new items will be added to the list.

ADJOURNMENT

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

APPROVED and SIGNED this 18th day of August, 2008.

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President, IRVINE RANCH WATER DISTRICT

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Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

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Legal Counsel - Bowie, Arneson, Wiles & Giannone