

MINUTES OF REGULAR MEETING – JANUARY 9, 2012

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order at 5:00 p.m. by President Matheis on January 9, 2012 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: Reinhart, LaMar, Matheis, Swan and Withers (arrived at 5:15 p.m.).

Directors Absent: None.

Also Present: General Manager Cook, Executive Director of Operations Pedersen, Executive Director of Engineering and Planning Burton, Treasurer/Assistant Director of Finance Jacobson, Secretary Bonkowski, Legal Counsel Arneson, Executive Director of Water Policy Heiertz, Director of Public Affairs Beeman, Director of Human Resources Wells, Director of Wastewater Operations Posey, Director of Water Resources Weghorst, Mr. Thomas Bonkowski, Ms. Fiona Sanchez, Ms. Debby Kanoff, Ms. Terri Isaacs, Mr. Nathaniel Singer, Mr. Jim Reed, Ms. Roberta Sitzler, Mr. Ken Drake, Mr. Brad Garcia, Mr. Jim Hamer, Mr. Brad Garcia, Ms. Kay Phillies, Mr. Louis Denger, and other members of the public and staff.

WRITTEN COMMUNICATION: None.

ORAL COMMUNICATION:

- 1) Mrs. Joan Irvine Smith's assistant addressed the Board of Directors with respect to the Dyer Road Wellfield. She said it was her understanding that currently wells 1, 5, 6, 7, C-8, C-9, 10, 15 and 17 will operate in accordance with the District's annual pumping plan. Wells, 2, 3, 4, 11, 12, 13, 14, 16, and 18 will be off. This was confirmed by Mr. Cook, General Manager of the District.

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), a Notice of Completion was approved by the OCWD Board of Directors on March 19, 2009. Metropolitan Water District has given notice to OCWD to extract 22,000 acre feet in fiscal year 2009/10. The extraction is being performed by agencies that constructed conjunctive use wells under this program. IRWD is not a participant. This was confirmed by Mr. Cook.

With respect to the OCWD annexation of certain IRWD lands, on June 5, 2009, IRWD received a letter from OCWD noting that OCWD has completed the formal responses to comments they previously received on the draft program Environmental Impact Report. The letter further noted that with this task completed, OCWD has exercised its right to terminate the 2004 Memorandum of Understanding (MOU) regarding annexation. OCWD also indicated that due to the lack of progress on the annexation issue, the draft program Environmental Impact Report will not be completed. On June 8, 2009, OCWD completed the Long-Term Facilities Plan which was received and filed by the OCWD Board in July 2009. Staff has been coordinating with the City of Anaheim (Anaheim) and Yorba Linda Water District (YLWD) on their most recent annexation requests and has reinitiated the annexation process with

OCWD. IRWD, YLWD and Anaheim have negotiated a joint MOU with OCWD to process and conduct environmental analysis of the annexation requests. The MOU was approved by the OCWD Board on July 21, 2010. This was confirmed by Mr. Cook.

With respect to the Groundwater Emergency Service Plan, IRWD has an agreement in place with various south Orange County water agencies, MWDOC and OCWD, to produce additional groundwater for use within IRWD and transfer imported water from IRWD to south Orange County in case of emergencies. IRWD has approved the operating agreement with certain south Orange County water agencies to fund the interconnection facilities needed to affect the emergency transfer of water. MWDOC and OCWD have also both approved the operating agreement. This was confirmed by Mr. Cook.

- 2) In response to Mr. Louis Denger's inquiry relative to the selection process of Directors for Standing Committees, President Matheis said that she would provide an overview of the process under item 8 on the agenda (see page 4). Mr. Denger also suggested that information be provided on the website relative to the Natural Treatment System's (NTS) removal of nutrients. In response to Mr. Denger's inquiry if the NTS is meeting nutrient removal expectations listed in the NTS Master Plan, General Manager Cook said he would need to investigate this further as this information was not immediately available.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED: None.

PRESENTATIONS

AQUA DUCK CONTEST WINNER

Ms. Erika Blaska presented a certificate to Ms. Britany Long, the winner of IRWD's art contest to redesign the District's water conservation mascot, Aqua Duck.

SHADETREE PARTNERSHIP OVERVIEW

Using a PowerPoint presentation, Mr. Thomas Bonkowski, General Manager of Shadetree Partnership, provided an overview of the 2011 activities. President Matheis thanked Mr. Bonkowski and the Board for all of its efforts with the organization.

PUBLIC HEARING

ADOPTION OF REVISED RULES AND REGULATIONS

General Manager Cook reported that the District has compiled a series of proposed changes to its Rules and Regulations for water, sewer, recycled water, and natural treatment system service. He said that the purpose of this hearing is to allow members of the public and the Board to comment prior to the adoption of the revised Rules and Regulations.

Mr. Cook said that changes have been made to update definitions and promote consistent nomenclature throughout the document, and that changes have been made to specific sections as follows: Section 4: Distinguishes "lower lateral" and "upper lateral" sewer responsibilities and

maintenance, repair and reconstruction; adds provision at 4.13 for reservation of rights to supply potable or non-potable water to the District's recycled water system without adjustment of costs for source of supply, as a conforming change relating to a clarification in the definition of Recycled Water; Section 7: Removes provisions for grease disposal mitigation; adds provisions for Fats, Oils and Grease (FOG) permitting process and recordkeeping requirements; and Section 12: Updates payment methods to incorporate electronic forms of billing and payment methods; updates variance process for rate structure allocations; updates procedures for revisions to acreage and base indexes; provides specific time window for application of retroactive adjustments; specifies parameters for customer courtesy adjustments to conform to District practices.

President Matheis declared this to be the time and place for the hearing on the adoption of revised Rules and Regulations for water, sewer, recycled water, and natural treatment system service in accordance with Water Code Section 35423, and declared the hearing open. She asked Secretary Bonkowski how the Notice of Hearing was given.

Secretary Bonkowski said that the Notice of this hearing was published in the Orange County Register on December 24 and December 31, 2011. She said a notice was also posted in the District office on December 16, 2011. She then presented an Affidavit of Posting and the Proof of Publication. On MOTION by Swan, seconded and unanimously carried, THE BOARD RECEIVED AND FILED THE AFFIDAVIT OF POSTING AND THE PROOF OF PUBLICATION PRESENTED BY THE SECRETARY.

President Matheis inquired of the Secretary whether there have been any written communications. Secretary Bonkowski said that there were no communications.

President Matheis asked Legal Counsel Arneson to describe the nature of the proceeding. Ms. Arneson said that a public hearing is being held to allow all persons interested an opportunity to be heard concerning any matters set forth in the proposed changes to its Rules and Regulations.

President Matheis inquired if the Executive Director of Water Policy would like to give a report. Mr. Heiertz said that the General Manager had summarized the changes in the Rules and Regulations, and said he was available to answer any questions from the Board. There were no questions from the Board.

President Matheis inquired whether there is anyone present who wished to address the Board concerning the Irvine Ranch Water District's revised Rules and Regulations for water, sewer, recycled water, and natural treatment system service. There were none.

President Matheis inquired whether there are any comments or questions from members of the Board of Directors. There were none.

On MOTION by Swan, seconded and unanimously carried, THE HEARING WAS CLOSED AND THE FOLLOWING RESOLUTION WAS ADOPTED BY TITLE:

RESOLUTION NO. 2012-1

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT, ORANGE COUNTY, CALIFORNIA
RESCINDING RESOLUTION NO. 2009-4 AND
ESTABLISHING REVISED RULES AND REGULATIONS OF
THE IRVINE RANCH WATER DISTRICT
FOR WATER, SEWER, RECYCLED WATER,
AND NATURAL TREATMENT SYSTEM SERVICE
AND EXHIBIT A THERETO

CONSENT CALENDAR

President Matheis asked that item No. 8, RATIFICATION OF MEMORANDUM RELATIVE TO THE BOARD, COMMITTEE AND OTHER ASSIGNMENTS, AND APPROVAL OF AGENCY AND OUTSIDE ORGANIZATION BOARD REPRESENTATION AT MEETINGS/EVENTS FOR 2012, be placed on the Action Calendar for discussion. There being no objections, this item was moved to the Action Calendar. On MOTION by Withers, seconded and unanimously carried, CONSENT CALENDAR ITEMS 6 AND 7 WERE APPROVED AS FOLLOWS:

6. MINUTES OF REGULAR BOARD MEETING

Recommendation: That the minutes of the December 12, 2011 Regular Board Meeting be approved as presented.

7. RATIFY/APPROVE BOARD OF DIRECTORS' ATTENDANCE AT MEETINGS AND EVENTS

Recommendation: That the Board ratify/approve the meetings and events for Steven LaMar, Mary Aileen Matheis, Peer Swan and John Withers.

ACTION CALENDAR

RATIFICATION OF MEMORANDUM RELATIVE TO THE BOARD, COMMITTEE AND OTHER ASSIGNMENTS, AND APPROVAL OF AGENCY AND OUTSIDE ORGANIZATION BOARD REPRESENTATION AT MEETINGS/EVENTS FOR 2012

President Matheis reported that as the newly-elected President, it is customary to review and evaluate the assignments of Directors who serve on various standing and ad hoc committees as well as District representation in various other assignments. She said that in consultation with General Manager Cook, she reviewed the committees and other assignments, and has incorporated changes in the Memorandum which is provided in the write-up. She said that she also received suggestions from the Directors on various assignments. Mr. Denger, a member of the public, who had inquired about the selection process for standing committees, said that he was satisfied with the explanation provided by President Matheis.

On MOTION by Withers, seconded and unanimously carried. THE BOARD RATIFIED THE MEMORANDUM DATED JANUARY 9, 2012 ENTITLED OFFICERS OF THE BOARD, COMMITTEE AND OTHER ASSIGNMENTS, APPROVED ATTENDANCE FOR THE MEETINGS AND EVENTS FOR THE BOARD'S REPRESENTATION FOR CALENDAR YEAR 2012 AS OUTLINED AND ADOPTED THE FOLLOWING RESOLUTION BY TITLE.

RESOLUTION NO. 2012-2

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT, RESCINDING
RESOLUTION NO. 2011-2 AND REVISING THE
ASSIGNMENT OF DIRECTORS TO COMMITTEES
OF THE BOARD

INTEREST RATE SWAPS BASIS SWAP STRATEGY AND AUTHORIZATION REQUEST

General Manager Cook reported that staff and the District's interest rate swap financial advisor, Mr. Nathaniel Singer of Swap Financial Group, will present an overview of interest rate basis swap fundamentals including potential transaction scenarios, current market rates/ratios and potential cash flow and market value implications to the District. Mr. Cook said that the Finance and Personnel Committee requested that staff evaluate the tax-exempt/taxable ratio levels that occurred in late 2008 to determine if a long-term basis swap(s) executed in a similar interest rate environment would be a prudent and effective strategy for the District.

Using a PowerPoint presentation, Mr. Singer provided an overview of the basis swaps. Using charts, he reviewed the long-term tax-exempt bond price inefficiency relative to short-term tax-exempt bonds; described how a basis swap could be used to capture the inefficiency associated with long-term tax exempt bond pricing; described how long-term ratios are higher than tax-exempt break even; provided factors that can influence SIFMA/LIBOR ratios; reviewed how a \$100 million basis swap will fit within IRWD's existing debt structure; and provided a chart on statistics summary and market-to-market sensitivity ratios. In response to Director LaMar's inquiry, he said that the Metropolitan Water District has had success with this trading strategy.

Director Swan reported that this item was reviewed by the Finance and Personnel Committee at its meeting on August 19 and December 6, 2011, and said that over the District's lifetime, has had over \$1 billion in interest rate swaps which were very successful. In regard to the process for approving swap transactions should the Board approve the proposed term sheet, Mr. Jacobson explained that as provided in the authority delegated pursuant to the District's *Interest Rate Swap Policy*, the transaction will be submitted to the Finance and Personnel Committee, who will specify further detailed parameters for the transaction and then to the Treasurer, who will execute the documents, and of whose action(s) will also be reported to the full Board. He said this process permits timely response to quickly-changing market conditions. Director Swan added that information will be provided to the Board as soon as feasible if a transaction proceeds. Director Withers asked staff to obtain a Statement of Qualifications and resume from the Swap Financial Group for his review. On MOTION by Swan, seconded and unanimously carried, THE BOARD APPROVED "INTEREST RATE SWAP AUTHORIZATION – TERM SHEET NO. 7"

AUTHORIZING AN INTEREST RATE BASIS SWAP TRANSACTION(S) NOT TO EXCEED \$100 MILLION NOTIONAL AMOUNT AT A MINIMUM TAX-EXEMPT/TAXABLE RATIO OF 96% AND FOR A MAXIMUM TERM OF UP TO 20 YEARS FROM THE TRANSACTION DATE, AS FURTHER SET FORTH IN SAID TERM SHEET.

ASSET OPTIMIZATION – SAND CANYON MEDICAL OFFICE PROJECT TENANT IMPROVEMENT CONSTRUCTION AWARD

Treasurer/Assistant Director of Finance Jacobson reported that in March 2011, the Board approved a 10-year lease agreement with Coastal to lease 12,031 square feet of the planned medical office building, resulting in occupancy of approximately 73% of the space in the new building. The approved lease agreement includes a tenant improvement (TI) allowance in order to design and construct Coastal's new facilities.

Mr. Jacobson said that included in the lease agreement with Coastal is a TI allowance of up to \$100.00 per useable square foot (10,583 useable SF), or a total of \$1,058,300. The lease terms also include a provision for the District to finance additional TIs, if required, up to \$25.00 per useable square foot, or up to an additional \$264,575, at an interest rate of 8.00% per year. Lease terms provide for the additional amount to be amortized and included in the tenant's monthly lease payments over the term. Any improvements in excess of this amount are the sole responsibility of Coastal.

Mr. Jacobson said that based on bids received for Coastal's TI construction, as well as design and project management expenses incurred to date, Coastal anticipates it will likely require the maximum amount allowed in the lease agreement of \$125.00 per square foot, or a total of \$1,322,875. He said that staff is recommending an increase to the 2011/12 Capital Budget of \$1,455,100 and an Expense Authorization for \$1,455,100, representing the stated TI budget plus contingencies.

Mr. Jacobson said that the general contractors submitting proposals include KPRS Construction (KPRS), Driver SPG (CW Driver) and Swinerton Builders. The cost variance of the submitted proposals ranged from \$1,338,399 to \$1,418,889. He said that based on its competitive bid proposal of \$1,338,399, its experience with similar medical office tenant improvement projects, as well as its performance as general contractor for the building shell construction, staff is recommending KPRS Construction to provide general contractor services for the TIs. Director Withers left the Board room at 6:10 p.m.

Director Swan said that this item was reviewed by the Asset Management Committee at meetings in June 2010, September 2010 and January 2012, and was approved by the Committee at its January meeting. On MOTION by Swan, seconded and carried (4-0) (Swan, LaMar, Reinhart, and Matheis voting aye, and Withers absent), **THE BOARD AUTHORIZED THE GENERAL MANAGER TO EXECUTE A CONSTRUCTION CONTRACT WITH KPRS CONSTRUCTION IN AN AMOUNT NOT TO EXCEED \$1,338,399; APPROVED AN INCREASE TO THE 2011/12 CAPITAL BUDGET IN THE AMOUNT OF \$1,455,100 AND APPROVED AN EXPENDITURE AUTHORIZATION IN THE AMOUNT OF \$1,455,100 FOR PROJECT 1284.**

NEWPORT BOULEVARD DOMESTIC WATER MAIN RELOCATION - CONSTRUCTION AWARD

Executive Director of Engineering and Planning Burton reported that the Newport Boulevard Domestic Water Main Relocation project will replace approximately 5,000 linear feet of 12-inch asbestos cement water main located in Santa Ana Heights which provides drinking water, irrigation, fire services, and fire hydrants to approximately 73 customers. He said that an existing 12-inch asbestos cement domestic water main runs parallel to the rear property line of properties facing either Newport Boulevard or Elden Avenue, from Wilson Street to Mesa Drive. Mr. Burton that since the water main is “landlocked”, repairing leaks and performing routine maintenance requires IRWD to enter private property. Aside from the costs to repair or maintain the pipeline, there are additional costs should IRWD damage any private improvement. He said that this project will construct a replacement 12-inch water main in Newport Boulevard. All existing pipeline appurtenances and service connections will be relocated to the new pipeline and reconnected to private on-site plumbing outside the buildings. The existing water main will be filled with slurry and abandoned in place and the existing water meters will be removed.

Mr. Burton said that the project was advertised on November 21, 2011 to a select bid list of nine pipeline contractors including Steve Bubalo Construction Co., Doty Brothers Construction Co., RC Foster Corporation, GCI Construction, Inc., Kennedy Pipeline Company, L&S Construction, Inc., Leatherwood Construction, Inc., Paulus Engineering, Inc., and Sully-Miller Contracting Co. He said that the bid opening was held on December 19, 2011, with bids received from four of the nine contractors. Sully-Miller Contracting Co. was the apparent low bidder with a bid amount of \$3,657,815.54. The engineer's estimate was \$4,897,000. He further said that of the five other contractors that declined to bid, Steve Bubalo Construction and Doty Brothers Construction cited their manpower deficiencies to complete the project within the proposed construction period. The amount of on-site plumbing work on private properties may also have been a contributing factor to the non-submittal of bids from the other contractors. Director Withers returned at 6:15 p.m.

On MOTION by Reinhart, seconded and unanimously carried, THE BOARD AUTHORIZED AN INCREASE TO THE FY 2011-12 CAPITAL BUDGET FOR PROJECT 10822 (1866) IN THE AMOUNT OF \$1,237,200, FROM \$3,622,300 TO \$4,859,500; APPROVED AN EXPENDITURE AUTHORIZATION FOR PROJECT 10822 (1866) IN THE AMOUNT OF \$4,152,200; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A CONSTRUCTION CONTRACT WITH SULLY-MILLER CONTRACTING CO. IN THE AMOUNT OF \$3,657,815.54 FOR THE NEWPORT BOULEVARD DOMESTIC WATER MAIN RELOCATION PROJECT.

Director Reinhart left the Board meeting at 6:19 p.m. due to another commitment.

GENERAL MANAGER'S COMMENTS

General Manager Cook provided an update on the Metropolitan Water District shutdown in South County which is proceeding on schedule. He said that water is being provided through an emergency interconnection as well as the Baker pipeline.

Mr. Cook noted the 2012 ACWA Committee assignments are as follows: Beth Beeman (Communications); Peer Swan (Energy, Finance and Water Management), Steve LaMar (Federal Affairs), Doug Reinhart (Groundwater), Mary Aileen Matheis (Legal Affairs), Kirsten McLaughlin (State Legislative), and Dave Pedersen (Water Quality).

Mr. Cook said that OCWD's Board Member Irv Pickler will be resigning from its Board, and that a reception will be held for him on January 25. Staff was asked to prepare a resolution of commendation for him for adoption at the January 23 Board meeting. He further said that Mr. Harry Sidhu will be appointed to fill Mr. Pickler's open seat. Staff was asked to invite Mr. Sidhu to attend a tour of IRWD.

Mr. Cook further said that OCWD will be holding a groundbreaking ceremony of the GWRS on January 17.

DIRECTORS' COMMENTS

Director LaMar reported that he attended the City of Lake Forest's 20th anniversary event.

Director Swan reported that he continues to work with ACWA on the Delta Alternative package. He said that he made a presentation at the WACO meeting relative to the Delta last Friday.

Director Withers reported that he will be attending a LAFCO Commission meeting this Wednesday as well as a Concordia Public Affairs meeting next week.

Director Matheis reported that she attended a CSDA Education Committee meeting where they are planning the next annual conference.

ADJOURNMENT

President Matheis adjourned the meeting at 6:28 p.m.

APPROVED and SIGNED this 23rd day of January, 2012.

President, IRVINE RANCH WATER DISTRICT

Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone