

MINUTES OF REGULAR MEETING –APRIL 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 April 9, 2012 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

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

Directors Absent: None

Also Present: General Manager Cook, Executive Director of Operations Pedersen, Executive Director of Engineering and Planning Burton, Executive Director of Finance Cherney, Executive Director of Water Policy Heiertz, Secretary Bonkowski, Legal Counsel Arneson, Director of Water Resources Weghorst, Treasurer Jacobson, Director of Administrative Services Mossbarger, Director of Water Operations Posey, Director of Public Affairs Beeman, Assistant Director of Water Policy Sanchez, Ms. Kirsten McLaughlin, Ms. Gretchen Maswadeh, Mr. Yannick Gagne, Mr. Ken Al-Imam, Mr. Jim Reed and other members of the public and staff.

WRITTEN COMMUNICATION: None.

ORAL COMMUNICATION:

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 2, 4, C-8, C-9, 10, 15 and 17 will operate in accordance with the District's annual pumping plan. Wells, 1, 3, 5, 6, 7, 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.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED: None.

WORKSHOP

FISCAL YEAR 2012-13 OPERATING BUDGET AND PROPOSED RATES AND CHARGES

Using a PowerPoint presentation, Executive Director of Finance Cherney provided an overview of the proposed Operating Budget and proposed rates. Ms. Cherney reviewed the schedule for the budget and rate adoption and noted the format changes for this year's budget which has been reorganized under six major functional areas. Using a chart, she said that the proposed budget is \$111.3 million, representing an increase of \$3.8 million, or 3.5%, over FY 2011-12. She said that the budget assumes that revenues will be relatively flat overall prior to application of any rate increase. She reviewed expenses for major changes including the change in labor at \$955,000; benefit change at \$683,000; water purchases at (\$1,066,000), chemicals at \$206,000, energy at \$712,000; repairs and maintenance at \$1,022,000; fuel at \$137,000; data processing at \$227,000; and conservation at \$379,000. In response to Director Swan's request, staff will provide detailed capital and operation costs for the Wells 21 and 22 project. Ms. Cherney then reviewed revenues and expenses along with the proposed rate adjustments for the District's three rate areas: Irvine Ranch, Los Alisos, and Orange Park Acres. She said that as a follow-up to inquiries at the Finance and Personnel Committee on April 3, 2012, modeling was provided on two items including: 1) impact analysis on the potential elimination of the District's 401(a) contribution (match up to 3%); and 2) Metropolitan Water District's rate increases expected on January 1, 2013. There being no further discussion, Ms. Cherney said that the second Board workshop is scheduled for Monday, April 23, 2012.

CONSENT CALENDAR

On MOTION by LaMar, seconded and unanimously carried, CONSENT CALENDAR ITEMS 4 THROUGH 7 WERE APPROVED AS FOLLOWS:

CONSENT CALENDAR (CONTINUED)

4. MINUTES OF REGULAR BOARD MEETING

Recommendation: That the minutes of the March 26, 2012 Regular Board Meeting be approved as presented.

5. 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, Douglas Reinhart, Peer Swan and John Withers.

6. 2012 STATE LEGISLATIVE UPDATE

Recommendation: That the Board take a SUPPORT position on SB 1090 (Senate Governance and Finance Committee), AB 2069 (Solorio), AB 2595 (Hall), and an OPPOSE position on AB 2000 (Huber), AB 2421 (Berryhill), SB 1340 (LaMalfa), and the State Board's 2010 Delta Flow Criteria.

7. SUPPORT FOR LAFCO SPECIAL DISTRICT REPRESENTATIVE CANDIDATE AND DIRECTOR OF CALIFORNIA DEPARTMENT OF WATER RESOURCES APPOINTMENT

Recommendation: That the Board support the nomination of Mr. Charley Wilson for the LAFCO Regular Special District seat representative, support the confirmation of Mr. Mark Cowin as Director of the California Department of Water Resources, and designate Mary Aileen Matheis to vote in the LAFCO election on behalf of IRWD and Steve LaMar as the alternate voting member.

ACTION CALENDAR

RETIREMENT STUDY UPDATE: SUPPLEMENTAL PROJECTIONS AND PROFESSIONAL SERVICES VARIANCE FOR AON HEWITT

General Manager Cook reported that as a continuation of the Board workshop discussion on February 22, 2012, consultants from Aon Hewitt (Aon) have prepared a set of supplemental financial projections for the funding of the District's CalPERS pension program using a variety of differing contribution rates. These projections reflect the additional employee contributions being made as of March 1, 2012 as well as an assumed discount rate of 7.25%. Staff is requesting direction from the Board regarding the identification of a preferred alternative decision for the retirement plan for IRWD employees.

Executive Director of Finance Cherney reported that Aon's initial proposal was for a scope of services totaling \$217,700 and that the Board authorized a contract not to exceed \$150,000, and directed staff to prepare a variance for its consideration should additional funds be required. She said that additional meetings and financial modeling services have been required and will continue to be required of the Aon team in order to complete the retirement and health benefits

study. She said that staff recommends that the Board approve a variance on a time and materials basis not to exceed \$127,700, bringing the total Aon Professional Services Agreement to \$277,700.

Using a PowerPoint presentation, Mr. Yannick Gagne provided an evaluation of the retirement benefits package. Using a chart, he reviewed a deterministic projection summary which showed the extent to which larger projected annual employer contributions would be necessary to achieve 100% funding within 20 years if ultimate employee contributions are lowered compared to the original *Strawman* design. He then reviewed an income replacement slide showing the impacts of eliminating a deferred compensation match. In response to Director Reinhart's inquiry, Mr. Yannick said that he will provide additional data on the employee match at the next workshop. Following discussion, Director Swan expressed that he recommends deferring adoption of the operating budget until the Board meeting on June 25, 2012 where the Public Hearing will be held relative to the Proposition 218 responses as well as adoption of the rates and charges for fiscal year 2012-13. On MOTION by Swan, seconded and unanimously carried, A PROFESSIONAL SERVICES VARIANCE NO. 1 WITH AON HEWITT IN THE SUM OF \$127,700 WAS APPROVED.

IMPLEMENTATION OF CALPERS SECOND BENEFIT TIER FOR FUTURE-HIRED IRWD EMPLOYEES

General Manager Cook reported that at the Board workshop on February 22, 2012 and the Finance and Personnel Committee meeting on March 5, 2012, staff was directed to proceed with the necessary steps to implement a second pension tier for newly-hired employees. Mr. Cook said that the adoption of the Resolution of Intention is the next step in the contract amendment process. Following the adoption of the Resolution of Intention, the Board is required to also adopt a Final Resolution approving an amendment to the contract with the California Public Employees' Retirement System (CALPERS). He said that the effective date of the new formula for future-hired employees is proposed to be May 26, 2012. He said that based on staff's understanding of current CalPERS rules, an agency can only amend its contract to provide a different level of benefits once every three years with respect to each member category. Following discussion on the timing of this item, on MOTION by Swan, seconded and unanimously carried, THE BOARD ADOPTED THE FOLLOWING RESOLUTION BY TITLE:

RESOLUTION NO. 2012-16

RESOLUTION OF INTENTION
TO APPROVE AN AMENDMENT TO THE CONTRACT
BETWEEN THE BOARD OF ADMINISTRATION OF THE
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT
SYSTEM AND THE BOARD OF DIRECTORS OF THE
IRVINE RANCH WATER DISTRICT

AUDITOR SELECTION OF FIVE-YEAR CONTRACT COMMENCING WITH FY 2011-12

General Manager Cook reported that in 2006, the Board authorized a five-year audit services contract with Mayer Hoffman McCann P.C., Conrad Government Services Division (MHM) for financial statement audit services each year, including single-audit services as required by the Federal government for certain grant funding. Mr. Cook said that in April 2011, the Board authorized a one-year contract extension for the Fiscal Year (FY) 2010-11 financial statement audits and single audit with Mayer Hoffman.

Executive Director of Finance Cherney said staff is once again soliciting proposals for these services as the contract with Mayor Hoffman has expired. She said that staff sent the Request for Proposals to 10 qualified firms and received proposals from Mayer Hoffman McCann, P.C.; White Nelson Diehl Evans LLP; Lance, Soll & Lunghard; and Charles Z. Fedak & Company. She said that staff evaluated the proposal and elected to interview the teams from Mayer Hoffman McCann (MHM) and White Nelson Diehl Evans. Based upon the proposals and interviews, staff recommends that the Board approve a five-year contract with Mayer Hoffman McCann, L.P. The five-year agreement is estimated at \$255,000 plus possible single audit fees not to exceed \$12,490 over the five-year period. Director Swan reported that this item was reviewed by the Finance and Personnel Committee on April 3, 2012, and concurs with the staff recommendation. Following discussion, on MOTION by Swan, seconded and unanimously carried, **THE BOARD APPROVED A FIVE-YEAR CONTRACT WITH MAYER HOFFMAN MCCANN, P.C. AT A COST OF \$255,000 PLUS POSSIBLE SINGLE AUDIT FEES NOT TO EXCEED \$12,490 OVER THE FIVE-YEAR PERIOD.**

LETTER OF CREDIT REPLACEMENT

General Manager Cook reported that in February 2012, Moody's Investors Services placed Bank of America (B of A) and 16 other banks and securities firms on credit watch for possible downgrade. If the short-term rating of B of A is downgraded from P-1 to P-2, staff anticipates the interest rates on three of District's variable rate bond (VRDOs) issues backed by B of A letters of credit (LOCs) will be negatively impacted.

Executive Director of Finance Cherney reported that staff received letter of credit proposals from Bank of New York, US Bank and Mizuho. Bank of New York and Mizuho provided very competitive proposals, and while the Mizuho proposal reflects lower pricing, the ratings on the bank are lower than the ratings on Bank of New York. She said that staff recommends selecting Bank of New York to provide LOCs on the 1989, 1991 and the 1993 bond issues at 0.35% for two years. She further said that staff is also recommending the retention of Orrick Herrington & Sutcliffe, and Bowie, Arneson, Wiles and Giannone as co-bond counsel and Stradling Yocca Carlson & Rauth as disclosure counsel.

Director Swan said this item was reviewed by the Finance and Personnel Committee on April 3, 2012 and that replacing the LOCs on the issues will result in an estimated annual savings of \$148,900. On MOTION by Swan, seconded and unanimously carried, THE BOARD APPROVED THE RETENTION OF ORRICK HERRINGTON & SUTCLIFFE AND BOWIE, ARNESON, WILES AND GIANNONE AS CO-BOND COUNSEL, AND STRADLING YOCCA CARLSON & RAUTH AS DISCLOSURE COUNSEL, AND ADOPTED THE FOLLOWING RESOLUTION BY TITLE:

RESOLUTION NO. 2012-17

RESOLUTION OF THE BOARD OF DIRECTORS OF
THE IRVINE RANCH WATER DISTRICT AUTHORIZING
CERTAIN ACTIONS IN CONNECTION WITH
REPLACEMENT OF LETTERS OF CREDIT
(CONSOLIDATED SERIES 1989, CONSOLIDATED SERIES 1991,
AND CONSOLIDATED SERIES 1993)

UTILITY BILLING REQUIREMENTS ANALYSIS: VARIANCE NO. 1: ADDITIONAL
BUDGET AND EXPENDITURE AUTHORIZATION FOR SERVICES AND SOFTWARE
SUPPORT

Director of Administration Services Mossbarger reported that in May 2011, the Board approved procurement of the Oracle CC&B applications licenses, and in December 2011, approved a Professional Services Agreement with Five Point Partners to assist the District with defining the detailed functional requirements for implementation and prepare a Request for Proposal for implementation services. Mr. Mossbarger said that in addition to the services in the original proposal response, Five Point Partners submitted an addendum for additional procurement services, including: 1) solution scope - an in-depth review of the implementation finalist's response to confirm assumptions and scope of activities required for a successful implementation; 2) solution confirmation - a service that provides final evaluation activities to ensure that all solution components have been identified, priced accordingly, and that IRWD has confirmed that the solution remains the optimal solution to move forward into contract negotiations; and 3) contract negotiation service - focuses on the development of the statement of work and contracts for implementation which may include multiple vendors, i.e. software, service, hardware, and third-party implementation partners.

Director Swan reported that this item was reviewed and approved by the Finance and Personnel Committee on April 3, 2012. On MOTION by Swan, seconded and unanimously carried, THE BOARD AUTHORIZED A BUDGET INCREASE TO PROJECTS 3236/11615 AND 3237/21615 FOR THE FY 2011-12 CAPITAL BUDGET AND APPROVED ACCOMPANYING EXPENDITURE AUTHORIZATIONS IN THE AMOUNT OF \$182,000 EACH FOR ORACLE SOFTWARE LICENSE SUPPORT AND THE FIVE POINT PARTNERS VARIANCE, AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE PROFESSIONAL SERVICES AGREEMENT VARIANCE NO. 1 WITH FIVE POINT PARTNERS, LLC IN THE AMOUNT OF \$144,700 FOR THE UTILITY BILLING SOFTWARE SUPPORT AND REQUIREMENTS ANALYSIS PROJECTS 3236/11615 AND 3237/21615.

GENERAL MANAGER'S REPORT

General Manager Cook reported that a settlement check was received today from AECOM for \$63,000 relative to the water transfer structure remedial work at Strand Ranch.

Mr. Cook reminded the Board of an upcoming Business Outreach lunch on April 24. He said that he and management staff will also be meeting with a few vendors for an Always Business Smart breakfast this Thursday.

Mr. Cook said that he will be in Sacramento testifying at the Assembly Local Government Committee hearing on April 18 relative to AB 2069 (Solorio).

DIRECTORS' COMMENTS

Director LaMar said that he attended a MWDOC meeting as well as his regular meetings representing the District.

Director Reinhart reported that he attended MWDOC's Elected Officials event last week.

Director Swan reported that he will be attending a WACO meeting this Friday as well as an ACWA Board meeting at the end of the month. He also said that on April 20, he will be attending a screening of Dr. Jay Famiglietti's film on declining water table levels at UCI.

Director Matheis reported that she and staff will be attending a meeting with Representative Campbell on Thursday and a meeting with Senator Correa on Friday.

ADJOURNMENT

There being no further business, President Matheis adjourned the meeting at 7:15 p.m.

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

President, IRVINE RANCH WATER DISTRICT

Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles and Giannone