

MINUTES OF REGULAR MEETING – APRIL 28, 2014

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 LaMar on April 28, 2014 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: LaMar, Withers, Matheis and Reinhart

Directors Absent: Swan

Also Present: General Manager Cook, Executive Director of Finance Clary, Executive Director of Engineering and Planning Burton, Executive Director of Operations Sheilds, Executive Director of Water Resources Weghorst, Director of Water Resources Sanchez, Director of Human Resources Roney, Director of Public Affairs Beeman, Director of Administrative Services Mossbarger, Assistant Director of Maintenance Drake, Assistant Director of Recycling Operations Lee, Legal Counsel Arneson (via conference call), Secretary Bonkowski, Ms. Lyndy Lewis, Mr. Barkev Mererlian, Ms. Jesse Perez, Mr. Christian Kessler, Ms. Gina Jackson, Mr. Lars Oldewage, Mr. Christopher Smithson, Ms. Tina Bertsch, Mr. Jim Reed, Mr. Bruce Newell, 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, C-8, C-9, 10, 12, 15 16, 17 and 18 will operate in accordance with the District's annual pumping plan. Wells 1, 3, 4, 5, 6, 7, 11, 13, and 14 will be off. This was confirmed by Mr. Cook, General Manager of the District.

On October 31, 2013, the District received its fully executed copy of the Annexation Agreement with the Orange County Water District. 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. On November 10 2008, the IRWD Board 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 approved the operating agreement. This was confirmed by Mr. Cook.

ITEMS TOO LATE TO BE AGENDIZED: None.

CSUF LEADERSHIP DEVELOPMENT FOR PUBLIC AGENCIES PRESENTATION AND RECOGNITION OF DISTRICT GRADUATES

Using a PowerPoint presentation, Ms. Kim Tang, Program Developer, and Shelly Wang, Manager of Program Development with the University Extended Education, California State University, Fullerton provided an overview of their series entitled "Leadership Development for Public Agencies" and congratulated the District's most recent graduates of the program including Mr. Christian Kessler, Assistant Engineer; Ms. Lindy Lewis, Regulatory, Compliance Manager; Mr. Barkev Meserlian, Engineer; and Mr. Jesse Perez, Operator III.

WORKSHOP

FISCAL YEAR 2014-15 OPERATING BUDGET AND PROPOSED RATES AND CHARGES

Using a PowerPoint presentation, Executive Director of Finance Clary provided an overview of the schedule for budget and rate adoption. She reviewed the key drivers of the budget and provided a comparison of the current Fiscal Year (FY) 2013-14 with the proposed FY 2014-15 budget. She said that the proposed FY 2014-15 Operating Budget is \$130.6 million, representing an increase of \$13.6 million, or 11.6%, over FY 2013-14. She said that one substantive change since the April 14, 2014 Board presentation is that the Orange County Water District (OCWD) Board approved a Replenishment Assessment (RA) of \$294 per acre-feet, down from staff's earlier assumption of \$304 per acre foot included in the April 14, 2014 Board package. The change has been updated under the "Summaries" tab and in Department 410 under the "Water Operations" tab. The effect of the change decreases the cost of water and total operating expenses by \$0.5 million. She further said that the primary drivers for increases in the FY 2014-15 Operating Budget include increased purchases of imported water due to higher water sales associated with District growth and the drought, along with substantial increases in the rates charged by the District's electric power provider. The FY 2014-15 Operating Budget also includes additional expenses associated with operating and maintaining substantial new capital facilities, some currently under construction and others recently completed.

Using a PowerPoint presentation, Mr. Christopher Smithson provided a review of the proposed rates for the District rate areas. He said that due to the proposed increases in the FY 2014-15 budget and the current drought, staff has incorporated several strategic changes in order to reduce overall water demands and control this year's rate increase. These include: 1) a change in the reasonable use allocation, reducing the water usage allocation per resident from 55 gallons per day to 50 gallons per day; 2) a change in the rate structure tiers, reducing the amount allowed in the inefficient, excessive, and wasteful tiers by 20%. Staff also recommends decreasing the commodity rate charged in the low volume tier from \$0.91 per hundred cubic feet (ccf) to \$0.88/ccf. The changes in the reasonable use allocations and tiered rate structure could initially increase some customers' water bills, but the cumulative effect of changes in the tiered rate structure and conservation messaging by the District and others is intended to change water use behaviors such that the amount of water purchased for IRWD customers will be reduced by 3,500 acre feet over the FY 2013-14 forecast in a drought year; 3) utilization of the over-allocation revenues to help fund the imported water costs purchased by the customers in the over-allocation tiers; and 4) utilization of the IRWD Replacement Fund to stabilize rate increases in a drought year. Mr. Smithson said that based on the recommended increases and assuming an average customer's allocation is 18 ccf per month, the average customer in the Irvine Ranch rate area will experience an expected rate increase of \$3.41 or 7.1%, from \$48.23 per month to \$ 51.64 per month. An average residential customer in the Los Alisos Rate Area will experience a rate increase of \$3.65 or 5.8%

from \$62.73 to \$66.38 per month. An average customer in the Orange Park Acres Rate Area will see a rate increase of \$2.01 or 3.8% from \$53.29 to \$55.30 per month.

Mr. Smithson reported on the Proposition 218 notices for the Irvine Ranch, Los Alisos and Orange Park Acres Rate Areas. The Proposition 218 notices include a schedule for a possible increase during the year of up to \$0.02/ccf in the commodity rate in addition to the recommended increase of \$0.07/ccf for the Irvine Ranch and Orange Park Acres rate areas if water purchases exceed target. The rate impacts to the Irvine Ranch and Orange Park Acres rate areas is an increase of 0.4% and 0.6%. The Los Alisos Rate Area would not include a step up provision because the melded cost of water does not increase with additional purchases. He said that staff is recommending that the Board approve the proposed Proposition 218 notices subject to non-substantive changes, whereupon staff will proceed with the mailing of these notices to the District's customer and landowners.

Following discussion, Director Reinhart asked that staff create a water shortage contingency plan this fall. Discussion was held on relative to the utilizing money from the Replacement Fund (Rate Stabilization Fund) to minimize the increase in rates. It was the consensus of the Board that the approval of the budget incorporate adjustments to the proposed rates to reflect a \$3 million rate stabilization contribution. On MOTION by Withers, seconded and unanimously carried, THE BOARD ADOPTED THE FOLLOWING RESOLUTION BY TITLE APPROVING THE OPERATING BUDGET FOR FISCAL YEAR 2014-15; AND APPROVED THE PROPOSITION 218 NOTICES SUBJECT TO NON-SUBSTANTIVE MODIFICATIONS.

RESOLUTION NO. 2014 -24

RESOLUTION OF THE BOARD OF DIRECTORS
OF IRVINE RANCH WATER DISTRICT,
ORANGE COUNTY, CALIFORNIA
APPROVING DISTRICT'S OPERATING BUDGET FOR
FISCAL YEAR 2014-15 AND DETERMINING COMPLIANCE WITH
ARTICLE XIII B OF THE CALIFORNIA CONSTITUTION

CONSENT CALENDAR

Director Reinhart noted a change in Item No. 6 relative to his attendance at conference. There being no further comments, on MOTION by Reinhart, seconded and unanimously carried, CONSENT CALENDAR ITEMS 5 THROUGH 9 WERE APPROVED.

5. MINUTES OF REGULAR AND ADJOURNED REGULAR BOARD MEETING

Recommendation: That the minutes of the April 4, 2014 Adjourned Regular Board Meeting and the April 14, 2014 Regular Board Meeting be approved.

CONSENT CALENDAR (continued)

6. 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, and John Withers.

7. MARCH 2014 TREASURY REPORTS

Recommendation: That the Board receive and file the Treasurer's Investment Summary Report, the Monthly Interest Rate Swap Summary for March 2014, and Disclosure Report of Reimbursements to board members and staff; approve the March 2014 Summary of Payroll Ach payments in the total amount of \$1,457,937 and approve the March 2014 Accounts Payable Disbursement Summary of Warrants 346630 through 347427, workers' compensation distributions, wire transfers, payroll withholding distributions and voided checks in the total amount of \$18,428,899.

8. CATHODIC PROTECTION FOR GREEN ACRES PROJECT PIPELINE SEGMENT CONSULTANT SELECTION

Recommendation: That the Board approve an Expenditure Authorization in the amount of \$121,000, and authorize the General Manager to execute a Professional Services Agreement with RBF Consulting in the amount of \$106,565 for the Cathodic Protection for Green Acres Project Pipeline Segment, project 30415 (4396).

9. PLANNING AREA 40 CYPRESS VILLAGE CAPITAL SEWER IMPROVEMENTS

Recommendation: That the Board authorize the addition of project 21204 (5337) in the amount of \$227,000 to the FY 2013-14 Capital Budget, and approve an Expenditure Authorization in the amount of \$227,000 for the Planning Area 40 Capital Sewer Improvements, project 21204 (5337).

ACTION CALENDAR

IMPROVEMENT DISTRICT CONSOLIDATIONS LEGAL DESCRIPTION PREPARATION VARIANCE

General Manager Cook reported that RBF Consulting prepared approximately 40 legal descriptions required for the formation of the consolidated Improvement Districts (IDs) as part of the recently completed Long Term Finance Plan (LTFP). The legal descriptions had to be completed and filed with the County of Orange by December 1, 2013 in order to be effective on the County's 2014-15 tax roll. During preparation of the legal descriptions staff requested RBF to perform additional out of scope work to meet this aggressive schedule.

On MOTION by Reinhart, seconded and unanimously carried, THE BOARD AUTHORIZED BUDGET INCREASES FOR THE LONG TERM FINANCE PLAN IMPROVEMENT DISTRICT CONSOLIDATION, PROJECTS 11742 (4710) AND 21742 (4711), EACH IN THE AMOUNT OF \$34,100, FROM \$77,000 TO \$111,100, FOR A TOTAL BUDGET OF \$222,200; AND APPROVED EXPENDITURE AUTHORIZATIONS IN THE AMOUNT OF \$34,100, FOR A TOTAL OF \$68,200, FOR THE LONG TERM FINANCE PLAN IMPROVEMENT DISTRICT CONSOLIDATION, PROJECTS 11742 (4710) AND 21742 (4711).

MITIGATION CREDIT INVENTORY DEVELOPMENT

This project will identify and quantify potential mitigation areas in support of obtaining future regulatory permits for near-term and future Irvine Ranch Water District (IRWD) projects pursuant to State and Federal regulatory requirements. On MOTION by Withers, seconded and unanimously carried, THE BOARD AUTHORIZED THE ADDITION OF PROJECT 11797 (5338) TO THE FY 2013-14 CAPITAL BUDGET IN THE AMOUNT OF \$36,300 AND APPROVED THE EXPENDITURE AUTHORIZATION IN THE AMOUNT OF \$36,300 FOR THE MITIGATION CREDIT INVENTORY, PROJECT 11797 (5338).

EMBEDDED ENERGY PLAN CONSULTANT SELECTION

General Manager Cook reported that the development of an Embedded Energy Plan will position IRWD for obtaining energy utility grant funding for water conservation programs. Mr. Cook said that the plan will quantify energy use associated with each District facility involved in the production, treatment, distribution, collection, reuse and disposal of water and biosolids. It will also include the development of a tool that can be used to identify portions of the District where future water conservation and energy reduction measures should be focused. The plan will assist in developing a methodology for calculating pumping surcharges and will provide estimates of the District's embedded energy use for 20 years into the future.

Executive Director of Water Policy Weghorst reported that staff issued a Request for Proposals in February to seven firms to develop an Embedded Energy Plan. Proposals were received from Navigant Consulting, Inc. (Navigant), CLEAResult, and Kennedy Jenks Consultants. Staff completed a thorough evaluation of the written proposals and recommends the selection of Navigant to complete the work. Navigant's proposal includes the use of HDR Engineering (HDR) as a sub-consultant. Key strengths of the Navigant/HDR team proposal are: 1) significant experience in embedded energy models, including similar work for the California Public Utilities Commission on embedded energy in water and demand-side management studies; 2) HDR's in-depth knowledge of the District's water and sewage collection and treatment systems as HDR is currently developing the District's Recycled Water Salt Management Plan; 3) the Navigant/HDR team's proposal offers the strongest project understanding and a detailed project approach that includes a schedule that meet's staff expectations; and 4) costs were competitive when compared to the other proposals and are in line with staff estimates.

Director Reinhart said that this item was reviewed and approved by the Engineering and Operations Committee on April 15, 2014. On MOTION by Reinhart, seconded and unanimously carried, THE BOARD AUTHORIZED THE ADDITION OF PROJECTS 11792 (5343) AND PROJECTS 33499 (5344) TO THE FY 2013-14 CAPITAL BUDGET IN THE AMOUNT OF

\$180,000 EACH, FOR A TOTAL OF \$360,000 WHICH INCLUDES \$40,000 FOR STAFF TIME AND \$5,000 FOR LEGAL ASSISTANCE; APPROVED EXPENDITURE AUTHORIZATIONS FOR PROJECTS 11792 (5343) AND 33499 (5344) IN THE AMOUNT OF \$180,000 EACH, FOR A TOTAL OF \$360,000; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A PROFESSIONAL SERVICES AGREEMENT WITH NAVIGANT CONSULTING INC. IN THE AMOUNT OF \$282,140 TO DEVELOP THE EMBEDDED ENERGY PLAN.

ENTERPRISE ASSET MANAGEMENT SOFTWARE CONTRACT AWARD FOR PRE-IMPLEMENTATION ASSISTANCE AND EXPENDITURE AUTHORIZATION

General Manager Cook reported that the Enterprise Asset Management (EAM) Software Review, completed in February 2014, provided the District with a roadmap for implementing a program to better manage its operational assets. The roadmap outlines a systematic approach for implementing an Enterprise Asset Management System (EAMS) and addresses activities that need to occur in a logical, multi-phased approach.

Mr. Cook said that implementation of an EAMS will improve the District's ability to manage its operational assets from acquisition to retirement, providing tools for preventive and predictive maintenance, financial analysis, and reporting. Over the past 18 months, EMA, Inc. has assisted the District with developing an EAM strategy, software requirements, software review, and implementation roadmap.

Executive Director of Wastewater Operations Sheilds reported that staff has evaluated the work required for the pre-implementation activities identified in the implementation roadmap and the need for support from individuals who are familiar with the District's requirements for the EAMS implementation. Additionally, experience with asset management strategic planning, EAMS enterprise standards, assets data definition and collection, development of business processes, performance measures, and assistance with procurement of implementation services for the EAMS is necessary to ensure that the project continues on schedule. He said that staff recommends that a professional services agreement be executed with EMA, Inc. as its staff demonstrated their ability to lead the development of the EAM strategy and provide a structured software review process. Additionally, EAM's experience is reflected in the content and quality of the Asset Management Strategy Report and EAMS Implementation Roadmap deliverables. He said that based on EMA's qualifications and unique knowledge of the District's asset management needs, staff is recommending EMA, Inc. on a sole-source basis.

Director Reinhart reported that this item was reviewed and approved by the Engineering and Operations Committee on April 15, 2014. On MOTION by Reinhart, seconded and unanimously carried, THE BOARD APPROVED TWO EXPENDITURE AUTHORIZATIONS IN THE TOTAL AMOUNT OF \$957,800 FOR PROJECTS 11619 (3566) AND 21619 (3567), AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A PROFESSIONAL SERVICES AGREEMENT WITH EMA, INC. IN THE AMOUNT OF \$638,000 FOR THE ENTERPRISE ASSET MANAGEMENT PRE-IMPLEMENTATION ACTIVITIES PROJECT.

OTHER BUSINESS

GENERAL MANAGER'S REPORT

General Manager Cook reported on the compromise reached between OCWD and OCBC relative to pollution standards implemented by AB 2712. Mr. Cook said that at the last OCWD Board meeting, following a Closed Session, the Board President reported in Open Session that a settlement was reached with Textron, and that Textron would be responsible for cleanup efforts as well as a payment of \$700,000 for the investigation. He said that OCWD will be responsible for monitoring this cleanup effort with Textron along with other polluters. He further said that the cleanup by Textron is in close proximity to IRWD's Well No. 3.

Mr. Cook reported that most likely the Board meeting on May 12, 2014 will be cancelled due to a lack of items.

He said that at the May 20, 2014 Engineering and Operations Committee meeting, a presentation and walking tour of the Michelson Water Recycling Plant Biosolids and Energy Recovery Facility will be held.

Mr. Cook also reported on his attendance at Colonel Foley's Celebration of Life ceremony held on April 26, 2014.

DIRECTORS' COMMENTS

Director Matheis reported on her attendance at the Urban Land Institute's Best of the Best Awards where IRWD was a finalist. She said that one of the winners was a homeowners association in Northwood where as part of their entrepreneurial efforts they grow avocados for local sale which enables them to maintain reasonable monthly fees. She also said that it was mentioned that the avocado trees are irrigated with recycled water from IRWD.

Director Matheis reported on her attendance at Shadetree Partnership's quarterly Board meeting and thanked Tom and Leslie Bonkowski as well as Dave Asman for all of their continued efforts to make this an effective organization. She also complimented the two docents who work at the nursery on a regular basis. She said that the nursery looks very impressive and said if the Board has the opportunity, to visit the nursery.

Director Matheis further said she attended the MCAS RAB meeting last Wednesday night with the next meeting scheduled in August; an Orange County Forum event which she found interesting with Mr. Hugh Hewitt as moderator.

Director Withers reported on the upcoming LAFCO Commissioner elections and noted that he ran unopposed for the Special District Commissioner seat, and was appointed for a four-year term. He also said that he attended Jack Foley's memorial service and the WACO monthly meeting.

Director Reinhart reported that he attended a MWDOC Board meeting, a SOCWA meeting to interview General Manager candidates, a South Orange County Agencies meeting with General Manager Cook and Director LaMar.

Director LaMar said he attended a South Orange County agency meeting and an NROC Executive Committee meeting. He noted a conversation he had with Mr. Tim Quinn regarding the new bill, AB 839, relative to the sustainability of groundwater management which is sponsored by ACWA.

ADJOURNMENT

There being no further business, President LaMar adjourned the meeting at 7:05 p.m.

APPROVED and SIGNED this 27th day of May, 2014.

President, IRVINE RANCH WATER DISTRICT

Secretary IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone