

MINUTES OF REGULAR MEETING – JULY 25, 2016

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 July 25, 2016 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: LaMar, Swan, Matheis and Withers (arrived at 5:17 p.m.).

Directors Absent: Reinhart.

Also Present: General Manager Cook, Executive Director of Engineering and Water Quality Burton, Executive Director of Finance Clary, Executive Director of Water Policy Weghorst, Executive Director of Operations Sheilds, Director of Treasury and Risk Management Jacobson, Director of Public Affairs Beeman, Director of Human Resources Roney, Assistant Director of Recycling Operations Zepeda, Legal Counsel Arneson, Secretary Bonkowski, Principle Engineer Akiyoshi, Ms. Christine Compton, Mr. James Clark, and Mr. Jim Reed.

WRITTEN COMMUNICATIONS: None.

ORAL COMMUNICATIONS: None.

PUBLIC HEARINGS

SEWER TAXES IN THE NEWPORT NORTH SERVICE AREA

General Manager Cook reported that on June 27, 2016, the Board adopted Rates and Charges for Fiscal Year 2016-17 which included monthly sewer charges of \$25.75 for a residential single family home and \$19.30 per unit for multiple family dwelling units. The Newport North customers will be billed the same rate, but the method of collection differs in that they will pay their sewer fees on an annual basis through the County tax rolls.

Mr. Cook said that by adoption of Resolution No. 1987-45, the Board of Directors elected to have sewer charges for certain parcels of land located in the Newport North area collected on the tax roll together with the District's general taxes. That resolution directs the filing of a report containing a description of such parcels and the corresponding charges for each fiscal year. Pursuant to the requirements of the Health and Safety Code of the State of California, a public hearing on the report is required.

President Matheis said this was the time and place for a hearing on the sewer taxes in the Newport North area, and declared the hearing open. She asked the Secretary how the hearing was noticed.

Secretary Bonkowski reported that the report was filed with her on June 28, 2016 and the notice of the filing of the report and the time and place of this hearing was published in the Newport Beach-Costa Mesa Daily Pilot on July 9 and July 16, 2016. She said that a notice was also posted in the District office on June 28, 2016.

On MOTION by Swan, seconded and carried (Matheis, LaMar, Swan voting aye and Withers absent), THE AFFIDAVIT OF POSTING AND THE PROOF OF PUBLICATION PRESENTED BY THE SECRETARY WAS RECEIVED AND FILED.

President Matheis requested Legal Counsel Arneson to describe the nature of the proceedings.

Legal Counsel Arneson described the nature of the proceedings, saying that the purpose of the hearing was to provide an opportunity for all persons interested or the owner of any parcel within the area to present objections or protests to the report.

President Matheis asked Secretary Bonkowski whether she had received any written communications concerning this matter, and she stated that she had not. President Matheis asked if there was anyone present who wished to address the Board concerning the report and the proposed collection of sewer charges on the tax roll. There was no one present who wished to be heard. President Matheis further inquired if there were any comments or questions from members of the Board of Directors. There were no comments from the Board.

On MOTION by Swans, seconded and carried (Matheis, LaMar, Swan voting aye and Withers absent), THE HEARING WAS CLOSED, AND RESOLUTION NO. 2016-18 WAS ADOPTED BY TITLE AS FOLLOWS:

RESOLUTION NO. 2016-18

RESOLUTION OF THE BOARD OF DIRECTORS OF IRVINE
RANCH WATER DISTRICT ADOPTING REPORT OF SEWER
CHARGES TO BE COLLECTED ON THE TAX ROLL
(NEWPORT NORTH SERVICE AREA)

2016 GENERAL OBLIGATION BOND ISSUANCE

General Manager Cook said that pursuant to the California Water Code, the IRWD Board is required to hold a Public Hearing and make findings pertaining to the issuance of consolidated Improvement District (ID) bonds.

President Matheis said that this to be the time and place for a hearing of the Board of Directors of the Irvine Ranch Water District regarding the proposed Resolution of Issuance of Consolidated Bonds for Improvement District Nos. 112, 113, 125, 153, 185, 188, 212, 213, 225, 240, 253, 285, and 288 in an amount up to \$130 million, and declared the hearing open. She asked the District Secretary how the hearing was noticed.

Secretary Bonkowski said that Resolution No. 2016-15, declaring the Board's intention to issue bonds, was published for two successive weeks in the Orange County Register on July 9, 2016 and July 16, 2016 and posted at the District office on July 9, 2016. Additionally, she said on July 9, 2016 this resolution was posted in three public places within each Improvement District. The Proof of Publication and Affidavit of Posting are now to be received and filed.

On MOTION by Swan, seconded and carried (Matheis, LaMar, Swan voting aye and Withers absent), THE AFFIDAVIT OF POSTING AND THE PROOF OF PUBLICATION PRESENTED BY THE SECRETARY WAS RECEIVED AND FILED.

President Matheis asked Legal Counsel to describe the nature of the proceedings.

Legal Counsel Arneson said the hearing is held and all persons interested, including all persons owning land in the included Improvement Districts or any persons otherwise interested in the Bonds, were given an opportunity to be heard concerning any matters set forth in Resolution No. 2016-15 and the proposed resolution of issuance or any matters material thereto, 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 were its bonds sold separately.

President Matheis asked the Executive Director of Finance and Administration to provide a summary of the proposed bond issue and requested findings. Director Withers arrived at 5:17 p.m.

Director of Finance Clary said that the proposed bond issue is recommended to reimburse the Capital Fund for expenditures that have occurred over the past three years up to a maximum amount of \$130 million. The capital expenditures are primarily related to the Biosolids project, the Baker Water Treatment facility and other smaller capital projects. Relative to the findings, Public Financial Management and Bank of America Merrill Lynch have prepared letters which staff has provided as Exhibits "A" and "B", respectively which outline the advantages of a negotiated transaction versus competitive bid sale of the bonds, issuing the bonds as a consolidated sale, and the advantages of issuing the bonds in a fixed rate mode.

President Matheis asked the Secretary whether there have been any written communications. Secretary Bonkowski said she had received none.

President Matheis asked whether there is anyone present who wished to address the Board concerning the matter. There was no one who wished to be heard.

President Matheis inquired whether there are any comments or questions from members of the Board. There were none. President Matheis said that hearing will be closed and asked for a recommendation to close the hearing and to adopt resolutions.

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

RESOLUTION NO. 2016-19

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
IRVINE RANCH WATER DISTRICT MAKING FINDINGS
RELATIVE TO CONSOLIDATED BONDS
(CONSOLIDATED SERIES 2016)

RESOLUTION NO. 2016- 20

RESOLUTION OF THE BOARD OF DIRECTORS OF
THE IRVINE RANCH WATER DISTRICT PROVIDING FOR
THE ISSUANCE OF CONSOLIDATED BONDS OF
SAID DISTRICT, APPROVING DOCUMENTS AND AUTHORIZING
AND RATIFYING CERTAIN ACTIONS (SERIES 2016)

CONSENT CALENDAR

5. MINUTES OF REGULAR BOARD MEETINGS

Recommendation: That the minutes of the July 11, 2016 Regular Board Meeting, and July 14, 2016 and July 18, 2016 Adjourned Board Meetings be approved as presented.

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

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, and Peer Swan as described.

7. IRVINE RANCH WATER DISTRICT STRATEGIC MEASURES

Recommendation: That the Board receive and file the report.

8. JUNE 2016 TREASURY REPORTS

Recommendation: That the Board receive and file the Treasurer's Investment Summary Report, the Monthly Interest Rate Swap Summary for June 2016, and Disclosure Report of Reimbursements to Board members and staff; approve the June 2016 summary of payroll ach payments in the total amount of \$1,641,418 and approve the June 2016 accounts payable disbursement summary of warrants 367878 through 368923, workers' compensation distributions, wire transfers, payroll withholding distributions and voided checks in the total amount of \$25,833,430.

9. SANTIAGO HILLS II SUPPLEMENTAL REIMBURSEMENT AGREEMENT

Recommendation: That the Board authorize the General Manager to execute a Supplemental Reimbursement Agreement with the Irvine Community Development Company for the design and construction of IRWD Capital Facilities within the Santiago Hills II Development.

ACTION CALENDAR

ESTABLISHING REDEVELOPMENT CONNECTION FEES

General Manager Cook reported that an increased level of redevelopment throughout the IRWD service area has been occurring over the past several years. Mr. Cook said that connection fees are being paid by developers based on existing rates and charges without any credits applied for system capacity previously paid. He said that staff has reviewed these fees and recommends that the Board adopt a redevelopment fee methodology as part of the District's Rates and Charges and also that that this methodology be retroactive to January 2014 when the IRWD rate-setting

long-term financing strategy was adopted with a reimbursement to developers totaling \$1.1 million.

Executive Director of Finance Clary reported that staff proposes adoption of the following methodology to calculate a redevelopment connection fee: 1) Calculate water and sewer connection fee based on redevelopment plans utilizing current rates and charges; 2) Provide a credit based on the existing project (to be redeveloped) by calculating a connection fee using current rates and charges; and 3) The redevelopment connection fee calculation is the difference between the new development connection fee and the connection fee credit. No refunds will be given if the credit is greater than the connection fee.

Director Swan reported that this item was reviewed and approved by the Finance and Personnel Committee on July 12, 2016. On MOTION by Swn, seconded and unanimously carried, THE BOARD ADOPTED THE FOLLOWING RESOLUTION BY TITLE CHANGING THE RATES AND CHARGES TO INCLUDE THE ADDITION OF A REDEVELOPMENT CONNECTION FEE METHODOLOGY ALONG WITH MISCELLANEOUS NON-SUBSTANTIVE CHANGES.

RESOLUTION NO. 2016- 21

RESOLUTION OF THE BOARD OF DIRECTORS OF IRVINE
RANCH WATER DISTRICT, ORANGE COUNTY, CALIFORNIA
ADOPTING CHANGES TO CONNECTION FEES AS SET FORTH IN
THE SCHEDULE OF RATES AND CHARGES IN EXHIBIT “B” TO THE
RULES AND REGULATIONS OF IRVINE RANCH WATER DISTRICT
FOR WATER, SEWER, RECYCLED WATER, AND NATURAL
TREATMENT SYSTEM SERVICE

2016 CERTIFICATES OF PARTICIPATION ISSUANCE AND REFUNDING OF THE 2010 CERTIFICATES OF PARTICIPATION

Director of Treasury and Risk Management Jacobson reported that on June 27, 2016, the Board approved the issuance of Certificates of Participation in an amount not to exceed \$100 million primarily to reimburse replacement-related capital expenditures for construction of the District’s Michelson Water Recycling Plant’s Biosolids Handling and Energy Recovery Facility, and approved a potential refunding of the callable portion (\$42.2 million) of the 2010 COPs outstanding at 3.82%. He said that legal counsel Arneson has prepared a resolution providing for approval of the new issuance and refunding documents in substantially final form, which includes the Installment Sale Agreement with the IRWD Water Service Corporation, a contract of purchase with Goldman Sachs, a trust agreement with Bank of New York Mellon, and a Preliminary Official Statement. All documents are on file with the Secretary.

Director Swan reported that the 2016 COPs issuance was reviewed and approved by the Finance and Personnel Committee on June 7, 2016 and July 12, 2016, and by the Board on June 27, 2016. On MOTION by Swan, seconded and unanimously carried, THE BOARD ADOPTED THE FOLLOWING RESOLUTION BY TITLE:

RESOLUTION 2016-22

RESOLUTION OF THE BOARD OF DIRECTORS OF THE IRVINE RANCH WATER DISTRICT APPROVING INSTALLMENT SALE AGREEMENT, TRUST AGREEMENT AND OTHER DOCUMENTS AND APPROVING CERTAIN ACTIONS RELATING TO CERTIFICATES OF PARTICIPATION, IRVINE RANCH WATER DISTRICT, SERIES 2016

MICHELSON WATER RECYCLING PLANT BIOSOLIDS AND ENERGY RECOVERY FACILITIES RECOVERY PLAN CONTRACT CHANGE ORDER

General Manager Cook reported that construction of the Biosolids Project was awarded to Filanc/Balfour-Beatty (FBB) in March 2013 in the amount of \$163,513,307. Mr. Cook said that the Biosolids Project will provide biosolids digestion, dewatering, energy production, and on-site sludge drying. The project includes excavation for subsurface structures; installation of 3,009 foundation piles; three egg-shaped digesters; a state-of-the-art odor control system; a biogas conditioning system and power generation using micro-turbines; a fats, oil and grease receiving station; and new utility services.

Executive Director of Engineering and Water Quality Burton said that staff negotiated with the contractor, FBB, for the past nine months to resolve complex items and FBB has agreed to the costs contained in Contract Change Order No. 45 in the amount of \$9,750,000. The change order addresses the following items: 1) *SCADA Recovery Plan*: The Supervisory Control and Data Acquisition (SCADA) programs are being written by Delta Systems Engineering, the System Integrator (SI), as a subcontractor to the electrical subcontractor (Morrow-Meadows Corporation) who is a subcontractor to the general contractor, FBB. The \$1,500,000 budget included by the SI in its original bid was over \$900,000 less than the next bidder. As the construction progressed, it became apparent that the SI underestimated the complexity of working with many equipment vendors and meeting the requirements of attending pre-programming workshops. Additionally, since the time that the project was bid, the SI experienced several staff changes including new management personnel who restructured their team with additional outside consultants. Although tremendous progress has been made, the SI is unable to absorb the cost of finishing the SCADA work through to completion of the project; 2) The cost and time for the SI to attend workshops, coordinate with equipment vendors, prepare documentation of how the control programs will be written, write the control programs, conduct bench testing, participate in field testing, and provide final documentation of the control programs through to completion of the project; 3) *Project Delays*: FBB submitted letters stipulating that its work was delayed due to Southern California Edison not providing electrical power in a timely manner, IRWD adding 480-volt secondary circuit breakers on four large electrical transformers, and submittal and approval of Local Control Panel drawings for the thickening and dewatering centrifuges; and 4) *Project Schedule*: The Biosolids project was planned with seven intermediate project milestones that generally follow the path of the treatment process. Achieving each intermediate milestone indicates that the contractor is pursuing the project towards final completion.

Director LaMar said that very complex issues of this project were reviewed and approved by the Engineering and Operations Committee on July 19, 2016. Following a discussion of this change order with Director Swan, on MOTION by LaMar, seconded and carried, (LaMar, Matheis and Withers voting aye, and Swan abstaining, THE BOARD APPROVED CONTRACT CHANGE

ORDER NO. 45 IN THE AMOUNT OF \$9,750,000 WHICH ADDRESSES ALL PROJECT DELAYS TO DATE AND AUTHORIZED EXTENSION OF THE CONTRACTUAL DATE FOR FINAL COMPLETION TO OCTOBER 31, 2017, EXTENSION OF THE CONTRACTUAL DATES FOR INTERMEDIATE MILESTONE BY VARIOUS AMOUNTS; AUTHORIZED REDUCTION OF RETENTION FROM 10% TO 6.25% AND RELEASED FUNDS IN EXCESS OF 6.25% OF THE CONTRACT AMOUNT FROM RETENTION CURRENTLY HELD FOR THE MICHELSON WATER RECYCLING PLANT BIOSOLIDS AND ENERGY RECOVERY FACILITIES, PROJECT 4286.

GENERAL MANAGER'S REPORT

General Manager Cook reported that staff had received another Public Records Act Request from Manatt Phelps & Phillip, LLP. Mr. Cook said that this request was relative to documents relating to proposed desalination plants in Orange County. He said that staff will be asking for a time extension this week, and will keep the Board informed relative to this request.

Mr. Cook said that he and President Matheis met with Mr. Brian Calle, Opinion Editor of Southern California News Group, to discuss the District's perspective on desalination and the Orange County Water District (OCWD) recycled water penalty.

He further reported that the District's windmill area outside the Operations Center has become a stop for the Pokémon smartphone application, and that it was necessary to have this site removed for safety/security reasons.

DIRECTORS' COMMENTS

Director La Mar said that he attended an Orange County Forum, a Southern California Water Committee meeting, an NCC Executive Committee meeting and an ACWA Board meeting in Sacramento.

Director Withers said that he will be attending an Orange County Sanitation District meeting this Wednesday.

Director Swan said that he will be attending a Southern California Dialogue meeting this Wednesday. He said he recommends that OCWD place more water into the basin so it will have a full basin this year.

Director Matheis also reported on her attendance at the meeting with Mr. Calle along with General Manager Cook. She said she also attended a Southern California Water Committee meeting with Director LaMar.

President Matheis said that the Board will recess to hold a Water Service Corporation Special meeting, and then hold the following Closed Session:

CLOSED SESSION

President Matheis said that the following Closed Session would be held:

CLOSED SESSION - CONFERENCE WITH LEGAL COUNSEL RELATIVE TO EXISTING LITIGATION - Government Code Section 54956.9(d)(1) IRWD v. OCWD (Case No.30-2016-00858584-CU-WM-CJC).

OPEN SESSION

Following the Closed Session, the meeting was reconvened with LaMar, Withers, Swan, and Matheis present. President Matheis said that there was no action to report.

ADJOURNMENT

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

APPROVED and SIGNED this 8th day of August, 2016.

President, IRVINE RANCH WATER DISTRICT

Secretary IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone