

MINUTES OF REGULAR MEETING – SEPTEMBER 11, 2006

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order by President Swan at 6:00 p.m., August 28, 2006 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: Withers, Reinhart, and Swan

Directors Absent: Matheis and Miller

Also Present: General Manager Jones, Assistant General Manager Cook, Director of Engineering Heiertz, Treasurer Loomis, Secretary Bonkowski, Legal Counsel Arneson, Mr. Wayne Posey, Mr. Bruce Newell (arrived at 6:30 p.m.), Ms. Marilyn Smith, Mr. Jim Reed, Mr. Steve Malloy, Mr. Carl Ballard, Mr. Christopher Smithson, Mr. Mike Hoolihan, Mr. Eric Akiyoshi, Mr. Rob Jacobson, and other members of the public and staff.

President Swan introduced Ms. Maryann Brown of the Santiago County Management Advisory Committee to the Board.

COMMUNICATIONS TO THE BOARD

WRITTEN COMMUNICATIONS: None

ORAL COMMUNICATIONS:

Mrs. Joan Irvine Smith addressed the Board of Directors with respect to the Dyer Road Wellfield. Mrs. Smith said that it was her understanding that currently the deep aquifer treatment system wells C-8 and C-9 and wells 1, 2, 3, 4, 5, 6, 7, 10, 11, 12, 13, 14, 15, 16, 17 and 18 are in operation. This was confirmed by Mr. Jones, 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), the agencies participating are the cities of Anaheim, Westminster, Santa Ana, Buena Park, and Garden Grove, Yorba Linda Water District and Southern California Water Company. Contracts have been awarded by OCWD to Layne Christensen Company and Bakersfield Well & Pump, Inc. to construct a total of eight wells. Well drilling activities are complete and it will take an additional 18 months to complete the well head facilities. OCWD is required to have the wells operational by March 2008. Following well construction, each well will be owned by the individual participating agencies. This was confirmed by Mr. Jones.

With respect to the OCWD annexation of certain IRWD lands, OCWD released the Environmental Impact Report (EIR) in early January 2006. The extended comment period for the EIR closed March 17. Staff has been working with OCWD to review comments on the EIR, and anticipates responses to be prepared and an OCWD Board action on the EIR and annexation in the fall of 2006. This was confirmed by Mr. Jones.

ITEMS TOO LATE TO BE AGENDIZED – None

WORKSHOP

General Manager Jones said that tonight's workshop on the Sewer Collection System Master Plan was the first step in the process, and that staff was proposing a follow-up meeting with Board members for additional comments. Mr. Mike Hoolihan placed before each Director a revised copy of his power point presentation. Mr. Hoolihan reviewed the goals of the Master Plan which included: 1) Minimizing potential for sewer spills; 2) Balancing environmental factors with economic objectives; 3) Establishing maintenance objectives and criteria; 4) Supporting future growth; and 5) Establishing capital improvement program through 2025. The following was then reviewed: 1) The existing and ultimate sewer systems capacity analysis which included six capacity related projects; and 2) the reliability and redundancy analysis including the San Diego Creek area and general reliability and redundancy for the MWRP area improvements and the Great Park trunk. Staff was asked to: 1) Add language as to the age of the system; 2) Investigate the physical risk of a wash out at the San Diego Creek, and 3) Schedule a meeting with interested Board members to discuss the plan in detail.

CONSENT CALENDAR

On MOTION by Withers, seconded and unanimously carried, CONSENT CALENDAR ITEMS 4 THROUGH 10 WERE APPROVED AS FOLLOWS:

4. MINUTES OF BOARD MEETINGS

Recommendation: That the minutes of the August 28, 2006 Board of Directors' meeting be approved as presented.

5. SANTIAGO COUNTY WATER DISTRICT BOARD MEETING NOTES

Recommendation: That the notes of the June 20, 2006 Regular Meeting, the June 27, 2006 Adjourned Meeting, and the June 30, 2006 Special Meeting of the former Santiago County Water District be received and filed, disclaiming the accuracy and completeness thereof.

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

Recommendation: Ratify/approve the meetings and events for Darryl Miller, Peer Swan and John Withers.

7. RATIFY/APPROVE OF SANTIAGO MANAGEMENT ADVISORY COMMITTEE MEMBERS' ATTENDANCE AT MEETINGS AND EVENTS

Recommendation: Ratify/approve the meetings and events for Maryann Brown, James Carter and Bruce Newell.

8. VISION INSURANCE COVERAGE FOR CALENDAR YEAR 2007

That the Board authorize the General Manager to extend the contract with Medical Eye Services for Medical Eye Services vision coverage for a total projected expense for Fiscal Year 2006/07 of \$48,400.

9. 2005/06 FOURTH QUARTER OPERATING AND FINANCIAL HIGHLIGHTS

Recommendation: That the Board approve the additional unbudgeted net fund transfer to the replacement fund from operations totaling \$1,087,138.

10. BOARD MEMBERS' AND GENERAL MANAGER'S EXPENSE AND FEES PAID THROUGH THE FOURTH QUARTERS, FISCAL YEAR 2005/06

Recommendation: Receive and file.

ACTION CALENDAR

SANTIAGO SYSTEM WATER QUALITY SAMPLE SITES UPGRADE PROJECT

Director of Operations Ballard reported that staff has been meeting with the Department of Health Services (DHS) on a number of water quality topics including a review of the Santiago water system water quality monitoring program. Mr. Ballard said that distribution water samples are currently being taken from land owner hose bibs at 10 locations. He said that in the past, samples were not routinely taken from reservoirs as this was not a requirement by DHS and therefore the reservoirs were not designed for routine samples.

Mr. Ballard said that with respect to reservoir sampling, IRWD has found that regular sampling of reservoir sites provides early detection of water quality issues, and thereby will allow corrective action to be taken prior to the distribution system having poor water quality results. He said that staff recommends the installation of 10 permanent sample sites to the distribution system in accordance with IRWD standard design to eliminate the hose bib sampling. In addition, staff recommends the installation of sample outlets on six reservoirs.

Ms. Mary Ann Brown of the Santiago Management Advisory Committee Meeting said that this item was reviewed on September 7, 2006, and said that the Committee concurred with the staff recommendation.

On MOTION by Reinhart, seconded and unanimously carried, PROJECT 11152 WAS ADDED TO THE BUDGET FOR \$33,000 AND AN EXPENDITURE AUTHORIZATION WAS APPROVED FOR THE SAME AMOUNT.

ALLOCATION OF ONE PERCENT PROPERTY TAX REVENUE FOR FY 2006-07

General Manager Jones reported that the one percent property tax revenue is allocated annually among the District's improvement districts. Mr. Jones said that the District uses the one percent tax as a revenue source to balance available sources to uses among the improvement districts and that this revenue is used to stabilize those fluctuations. Each year staff makes a recommendation as to any changes in the allocation of one percent revenue that may be required for the following year based upon the cash run model. Last year the anticipated tax revenue was much lower due to the state's budget crisis. The estimate for one percent tax revenue for FY 2005-06 was \$8.0 million compared to this year's estimate of \$19.4 million. The one noticeable change from last year to this year is that the revenue generated in the Coast that exceeds the annual debt service requirement for improvement district 140/240 (\$6.8 million) is being added to the pool for allocation.

Mr. Jones said that the District allocates one percent tax revenue to some improvement districts based on the revenue generated within those improvement districts. These are excluded from the pool allocation although tax revenues generated in excess of annual debt service are added to the pool for allocation as in the case of the Coast and these include: The Coast (140, 240); Foothill (182, 184, 282, 284); Portola (186, 188, 286, 288); and Los Alisos (135, 235). He said that staff recommends allocating general ad valorem tax revenues shown in the exhibit to meet debt service requirements for FY 2006-07 in the total allocation of \$19,419,300.

President Swan reported that this item was reviewed and approved by the Finance and Personnel Committee on September 5, 2006. On MOTION by Swan, seconded and unanimously carried, THE FOLLOWING RESOLUTION WAS ADOPTED BY TITLE:

RESOLUTION NO. 2006-30

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE IRVINE RANCH WATER DISTRICT
AMENDING ALLOCATION OF AD VALOREM
PROPERTY TAXES, SUBJECT TO PLEDGE

CSDA 2006 BOARD OF DIRECTOR ELECTION FOR REGION 6

General Manager Jones reported that the California Special Districts Association is conducting an election for a position on their Board of Directors representing Region 6. Mr. Jones said that there were two candidates for this position: 1) James F. Doud of South Bay Irrigation District; and 2) and Jo MacKenzie of Vista Irrigation District. President Swan recommended supporting Ms. Jo MacKenzie, and on MOTION BY Swan, seconded and unanimously carried, THE BOARD AUTHORIZED CASTING THE BALLOT FOR JO MACKENZIE FOR THE CSDA ELECTION FOR REGION 6, AND STAFF WAS DIRECTED TO EXECUTE AND MAIL IN THE BALLOT ACCORDINGLY.

EQUITY TRANSFERS

General Manager Jones reported that staff periodically reviews the capital fund balances of each improvement district to identify potential shortfalls. The need for equity transfers between improvement districts becomes more critical when property taxes are reduced to zero and connection fees are taken to the floor (based upon the application of one percent revenue to meet annual debt service). Mr. Jones said that reductions in connection fees and property taxes create shortfalls creating the need for equity transfers.

Mr. Jones said that equity transfers typically occur between improvement districts that share the same geographic area. He said that staff is recommending several equity transfers for fiscal year 2005-2006 including ID 140 to ID 240 for \$3,500,000; ID 221 to ID 220 for \$2,450,000; ID 221 to ID 1212 for \$1,750,000; ID 130 to ID 135 for \$1,550,000, and ID 186 to ID 286 for \$1,000,000 for a total transfer amount of \$10,250,000.

President Swan said that this item was reviewed and approved by the Finance and Personnel Committee on September 5, 2006.

On MOTION by Swan, seconded and unanimously carried, EQUITY TRANSFERS FOR VARIOUS IMPROVEMENT DISTRICTS WERE APPROVED TOTALING \$10,250,000.

LAKE FOREST OPPORTUNITIES STUDY – CONSULTANT CONTRACT WITH LEWIS OPERATING CORPORATION

Treasurer Loomis reported that staff is recommending that Lewis Operating Corporation be retained to provide consulting services related to completion of the Lake Forest Opportunities Study. Mr. Loomis said that staff is also recommending a reimbursement to Lewis for staff time and various third-party costs for services provided by Lewis related to entitlement and development of the Lake Forest property.

Mr. Loomis said that following the consolidation of Los Alisos Water District (LAWD) and IRWD in 2001, staff met with various real estate professionals and apartment developers, including Lewis Apartment Communities regarding the feasibility of developing an apartment project on a portion of the former LAWD headquarters site located in the City of Lake Forest. Based on these discussions, staff met with City representatives over the next 18 months on obtaining approval for the apartment project. During this time Lewis provided site planning and financial analysis services on the Lake Forest site and adjacent properties for IRWD's proposed apartment project and for City recreational and administrative facilities.

Mr. Loomis said that in September 2002, the City began a three-phase "Opportunities Study" to address landowner requests for land use changes (generally from commercial/industrial to residential) due to the closure of the former El Toro Marine Corps Air Station. The former LAWD headquarters site was within the City's study area, and IRWD was one of six landowners that elected to take part in and fund the City's

study. Lewis continued to assist IRWD with the Opportunities Study. As part of this process, the Board approved an option with Lewis to negotiate a joint venture agreement with IRWD to develop an apartment project on the Lake Forest property.

Mr. Loomis said that staff, Lewis, and legal counsel spent considerable time researching and evaluating the impact of prevailing wage issues on the feasibility of an apartment project and developing alternative deal structures to address the prevailing wage issues. However, the prevailing wage issues could not be resolved satisfactorily and in March 2005, the Asset Management Committee directed staff and Lewis to continue work on a joint venture agreement based on paying prevailing wages during construction. After several discussions with Lewis on their proposed joint venture agreement, staff recommended that IRWD retain a consultant to assist in negotiations with Lewis. Staff worked with IRWD's consultant, Alvarez and Marsal, and concluded that the impact of having to pay prevailing wages to construct units on the property and the financial obligations imposed on landowners under the Opportunities Study made an apartment project economically unfeasible. As such, the development strategy for the Lake Forest property was shifted from an apartment project to a for-sale condominium and town home development project. This strategy shift in turn changed IRWD's need for a development partner to a need for a consultant to assist with the entitlement and eventual sale of a portion of the Lake Forest property for a for-sale condominium and town home development.

Mr. Loomis said that the Opportunities Study is nearing completion with City staff currently expecting to bring the study before the City Council in the next few months. In past Committee meetings, staff has discussed IRWD's continued need for assistance in final negotiations with the City and other landowners to secure residential entitlement on the Lake Forest property. Lewis submitted a proposal to IRWD that provides for discrete work efforts and pricing related to the Opportunities Study and other steps to complete the entitlement and sale of the developable portion of the Lake Forest property to a homebuilder(s). In light of Lewis' intimate knowledge of the project and assistance with the Opportunities Study, staff is recommending a contract with Lewis to reimburse them for prior costs and to continue to provide assistance through the end of the Opportunities Study. Staff will continue to work on alternatives to complete entitlement and development of the Lake Forest property, and submit recommendations to Committee and Board at future meetings.

Lewis is proposing a flat fee of \$675,000 for past and future services related to potential development of the Lake Forest property and the Opportunities Study. In addition to this fee, IRWD will also be responsible for out-of-pocket expenses estimated at \$75,000 for special legal counsel, consultants and various other costs to complete the Opportunities Study. Lewis has also provided detailed documentation for prior third-party expenses that total \$305,000.

Director Withers reported that this item was reviewed by the Asset Management Committee and they concur with the staff recommendation. On MOTION by Withers, seconded and unanimously carried, **THE GENERAL MANAGER WAS AUTHORIZED TO EXECUTE A PROFESSIONAL SERVICES AGREEMENT WITH LEWIS OPERATING CORPORATION TO PROVIDE CONSULTING SERVICES RELATED TO THE OPPORTUNITIES STUDY**

IN AN AMOUNT NOT TO EXCEED \$650,000 PLUS THIRD-PARTY COSTS AND TO REIMBURSE LEWIS OPERATING CORPORATION FOR VARIOUS THIRD-PARTY COSTS IN THE AMOUNT OF \$305,000; AND THE 2006-07 CAPITAL BUDGET WAS INCREASED FOR PROJECT 11116 BY \$1,133,000, FROM \$852,500 TO \$1,985,500, AND AN EXPENDITURE AUTHORIZATION WAS APPROVED FOR \$1,188,000.

REVISIONS TO CONFLICT OF INTEREST CODE

General Manager Jones reported that the regulations of the FPPC contained in the California Administrative Code Title 2, Section 18730 require that the Board of Directors adopt and amend from time to time it's Conflict of Interest Code, Appendix "A-1", containing the list of designated persons who must disclose certain categories of economic interest under the Code, and Appendix "A-2" to the Conflict of Interest Code, containing the economic interest that must be reported in the various reporting categories specified for designated persons under the Code. Mr. Jones said that at the direction of the County of Orange, the District's appendices are being amended to conform to the new format required by the County to provide ease of retrieval of information by the general public. Mr. Jones said that these appendices are also included in the District's Personnel Policy No. 45 – Conflict of Interest and must be also be updated. In addition, staff is recommending that the District's voluntary requirement for quarterly reporting of economic interests by employees be removed, and to continue with the annual reporting of economic interests as required by state laws and regulations.

President Swan reported that this item was reviewed and approved by the Finance and Personnel Committee on September 5, 2006. On MOTION by Swan, seconded and unanimously carried, THE FOLLOWING RESOLUTIONS WERE ADOPTED TITLE:

RESOLUTION NO. 2006 -31

RESOLUTION OF THE BOARD OF DIRECTORS OF IRVINE RANCH
WATER DISTRICT, RESCINDING RESOLUTION NO. 2005-9 AND
ESTABLISHING REVISED PERSONNEL POLICIES
(FOR POLICY NO. 45)

RESOLUTION NO. 2006 -32

RESOLUTION OF THE BOARD OF DIRECTORS OF IRVINE RANCH
WATER DISTRICT, RESCINDING RESOLUTION NO. 2004-44, ADOPTING
REVISED APPENDIX "A-1" TO ITS CONFLICT OF INTEREST CODE AND
READOPTING CONFLICT OF INTEREST CODE AND APPENDIX "A-2"

GENERAL MANAGER'S REPORT

General Manager Jones reported on a letter sent from Congressman Campbell to Chairman Hobson of the Appropriations' Subcommittee on Energy asking to support the entire \$1 million for the District's San Diego Creek Watershed Natural Treatment System

project in the 2007 Energy Appropriations bill. He also said that the District's consultant, Mr. Hal Furman, would be meeting with Senator Hobson and Doolittle with Campbell's assistance in the near future relative to this matter. Mr. Jones then asked Mr. Carl Ballard to update the Board on the leak in Turtle Rock area which included damage to 11 residences. Following the update, Mr. Jones said that staff will be following up with the contractor who was working in the area during this incident.

DIRECTORS' COMMENTS

Director Reinhart reported on his attendance at the SOCWA Executive Committee meeting as well as a recent WACO meeting.

President Swan welcomed Mr. Bruce Newell of the Santiago County Management Advisory Committee who was in attendance this evening. Mr. Swan reported on his attendance with General Manager Jones visiting the Kern County in regards to water banking. He also said he attended a WACO meeting last Friday.

Former LAWD Board member Jim Reed thanked the Shadetree Partnership for providing trees three years ago in the Lake Forest area which he said have matured into a forest.

ADJOURNMENT

There being no further business, President Swan adjourned the meeting at 7:35 p.m.

APPROVED and SIGNED this 25th day of September, 2006.

President, IRVINE RANCH WATER DISTRICT

Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone