

## MINUTES OF REGULAR MEETING – MARCH 31, 2008

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order at 6:00 p.m. by President Miller on March 31, 2008 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

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

Directors Absent: None

Also Present: General Manager Jones, Assistant General Manager Cook, Director of Engineering Heiertz, Ms. Barbara Mourant, Legal Counsel Arneson, Mr. Rob Jacobson, Ms. Beth Beeman, Mr. Jim Reed, Mr. Kevin Burton, Mr. Carl Ballard, Mr. Steve Malloy, Mr. Terry Loomis, Mr. Bruce Wiley, Mr. Steve Tedesco, Mr. Jim Carter and Mr. Ergun Bakall and other members of the public and staff.

### 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 it was her understanding that currently wells C-8, C-9, 10, 14, 16 and 18 are in operation in accordance with the District's annual pumping plan. The District's planned pumping for March is 1,700 AF per month. 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 staff is evaluating IRWD's most current projections of the amount and general location of its future groundwater production for inclusion in OCWD's proposed update of the Long Term Facilities Plan and Annexation Environmental Impact Report. On Friday, March 14, 2008, Paul Jones met with Orange County Water District General Manager Mike Markus to further discuss the annexation process and the status of the EIR.

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 the south county in case of emergencies. IRWD is finalizing negotiations of an agreement with certain south Orange County water agencies to fund the interconnection facilities needed to affect the emergency transfer of water.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED: None

CONSENT CALENDAR

Regarding sediment removal (item #10), Director Swan inquired as to why at the end of Basin 3 the channel is constricted. General Manager Jones said he will investigate the drop structure constraints.

On MOTION by Miller, seconded and unanimously carried, CONSENT CALENDAR ITEMS 3 THROUGH 13 WERE APPROVED AS FOLLOWS:

3. MINUTES OF BOARD MEETING

Recommendation: That the minutes of the March 10, 2008 Adjourned Regular Board Meeting and March 10, 2008 Regular Board Meeting be approved as presented.

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

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

5. DISTRICT STRATEGIC MEASURES DASHBOARD

Recommendation: Receive and file the Strategic Measures Dashboard and information items.

6. FEBRUARY 2008 FINANCIAL REPORTS

Recommendation: Receive and file the Treasurer's Investment Summary Report and the Monthly Interest Rate Swap Summary for February 2008; approve the February 2008 Summary of Wire Transfers and Ach Payments in the total amount of \$6,341,862.50; and approve the February 2008 Warrants Nos. 287905 through 288707, Workers' Compensation distributions and voided checks in the total amount of \$12,497,303.95.

7. 2008 STATE LEGISLATIVE UPDATE

Recommendation: That the Board adopt a support position on AB 2723 if the suggested amendment to include Special Districts in AB 2723 is accepted by Assemblymember De la Torre.

8. ALLIANCE FOR WATER EFFICIENCY CHARTER SPONSORSHIP

Recommendation: That the Board approve IRWD becoming a charter sponsor and contribute \$5,000 to the Alliance for Water Efficiency.

9. NEW WATER SUPPLY COALITION MEMBERSHIP RENEWAL

Recommendation: That the Board approve renewing IRWD's membership in the New Water Supply Coalition at an annual cost of \$35,000, and recommend the appointment of Director Darryl Miller and General Manager Paul Jones to represent IRWD.

10. 2004-2006 SAN DIEGO CREEK SEDIMENT REMOVAL PROJECT FINAL ACCEPTANCE

Recommendation: That the Board accept construction of the 2004-2006 San Diego Creek Sediment Removal project, project 20382; authorize the General Manager to file a Notice of Completion; and authorize release of retention 35 days after the filing of the Notice of Completion.

11. WELL 106 EQUIPMENT REPLACEMENT

Recommendation: That the Board authorize the addition of project 30326 to the Fiscal Year 2007/08 Capital budget for \$154,000, and approve an Expenditure Authorization in the amount of \$154,000 for project 30326.

12. IRWD INTERCONNECTION TO SOUTH ORANGE COUNTY WATER TRANSMISSION MAINS – BUDGET AND EXPENDITURE AUTHORIZATION INCREASE

Recommendation: That the Board authorize an increase to the Fiscal Year 2007-08 Capital budget for the IRWD interconnection to South Orange County Water Transmission Mains Phase A, project 11159, in the amount of \$258,400, from \$1,974,100 TO \$2,232,500, and approve an Expenditure Authorization for project 11159 in the amount of \$258,400.

13. FINAL ENVIRONMENTAL IMPACT REPORT ADDENDUM FOR MICHELSON WATER RECLAMATION PLANT FLOOD PROTECTION IMPROVEMENTS

Recommendation: That the Board approve the proposed addendum to the final Environmental Impact Reports for the Michelson Water Reclamation Plant Phases 2 and 3 Capacity Expansion Project (project) and San Joaquin Freshwater Marsh Enhancement Plan (plan), including the determinations in

the addendum; and approve the modification of the project and the plan to include permanent flood protection facilities for the Michelson Water Reclamation Plant and associated facilities.

## ACTION CALENDAR

### SOUTH COAST WATER DISTRICT OPERATIONS REPORT

Assistant General Manager Cook placed before the Board a revised draft Agreement to Perform Contract Services for Interim Operation of South Coast Water District's Groundwater Recovery Facility. General Manager Jones stated that he reviewed the agreement with South Coast senior management and the changes are acceptable to them. Director Reinhart said that this item was reviewed and approved by Engineering and Operations Committee on March 20, 2008. On MOTION by Reinhart, seconded and unanimously carried, **THE BOARD AUTHORIZED THE GENERAL MANAGER TO EXECUTE THE OPERATIONS SUPPORT AGREEMENT WITH THE SOUTH COAST WATER DISTRICT SUBJECT TO NON-SUBSTANTIVE CHANGES.**

### SOUTH ORANGE COUNTY EMERGENCY INTERTIE AGREEMENT

General Manager Jones requested that this item be deferred to the April 14, 2008 Board meeting, as staff plans to hold a meeting with the agencies tomorrow. Hearing no objections, President Miller continued the item.

### PORTOLA HILLS ZONE 9 BOOSTER PUMP STATION CONSTRUCTION AWARD

Director of Engineering Heiertz reported that the Portola Hills Zone 9 booster pump station, which was severely damaged by the Santiago Fire last October, is the single source of domestic water supply to the Portola Hills Zone 9 reservoir which services approximately 4,000 people. Staff is working to reconstruct the booster by June 2008 so that is sufficient to handle peak demands. The new station will incorporate several fire protection improvements like a roof system composed of steel trusses, steel decking, non-flammable felt and concrete tiles, eaves enclosed with sheet metal, and replacement of plastic skylights with steel hatches. President Miller inquired as to staff's evaluation of the bid price. Mr. Heiertz responded that the price appeared to be reasonable when compared with recent bids in similar work. On MOTION by REINHART, seconded and unanimously carried, **THE BOARD AUTHORIZED AN INCREASE TO THE FISCAL YEAR 2007-08 CAPITAL BUDGET FOR PROJECT 11350 FOR \$495,000, FROM \$1,377,200 TO \$1,872,200; APPROVED AN EXPENDITURE AUTHORIZATION FOR \$830,500; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A CONTRACT WITH WATSON MECHANICAL INC. FOR \$639,227 FOR THE PORTOLA HILLS ZONE 9 BOOSTER PUMP STATION.**

## IRVINE DESALTER PROJECT MANGANESE REMOVAL EQUIPMENT SELECTION

Director of Engineering Heiertz reported that in September 2007 the Board approved staff's recommendation to execute a Professional Services Agreement with TetraTech for the design of manganese removal facilities for the Irvine Desalter Project. The elevated levels of manganese have to be treated to reduce customer acceptability problems. The preliminary design report recommended that manganese removal equipment shop drawings be developed as soon as possible due to long manufacturing lead times and that manganese removal equipment be pre-purchased. Mr. Heiertz said this should accelerate the project and enable IRWD to have the manganese removal system in operations by the end of 2008. In February, 2008 equipment specifications and plans were made available to Avantech, Layne, Loprest, Filtronics, Preflow and Tonka. The engineer's estimate for this project is \$727,250. Tonka was the low bidder at \$632,361. Because Tonka's bid was for a single pressure vessel, which is not as beneficial as a multi-pressure vessel, staff recommended that the Board reject Tonka's bid, waive the irregularities in Loprest's bid and award the contract to Loprest whose bid was \$743,575. This item was reviewed and approved by the Engineering and Operations Committee on March 20, 2008. On **MOTION** by Reinhart, seconded and unanimously carried, **THE BOARD REJECTED THE BID OF TONKA EQUIPMENT COMPANY AS NON-RESPONSIVE, FOUND THAT THE IRREGULARITIES IN THE BID OF LOPREST WATER TREATMENT COMPANY DID NOT RESULT IN A COMPETITIVE ADVANTAGE OVER THE OTHER BIDDERS AND WAIVED SUCH IRREGULARITIES, AND SELECTED THE BID OF LOPREST WATER TREATMENT COMPANY TO PROVIDE MANUFACTURING OF MANGANESE REMOVAL EQUIPMENT AS THE BASIS FOR DEVELOPMENT OF A PRE-NEGOTIATED BID ALLOWANCE OPTION IN THE BIDDING PROCESS FOR THE GENERAL CONTRACTOR.**

## MICHELSON WATER RECLAMATION PLANT 2005 UPGRADES BUDGET, EXPENDITURE AUTHORIZATION AND CONSTRUCTION SUPPORT SERVICES

Director of Engineering Heiertz reported in June 2006, the Board awarded the construction of the Michelson Water Reclamation Plant (MWRP) upgrades to Gateway Pacific Contractors in the amount of \$8,828,497. Malcolm Pirnie was selected to perform construction management and inspection services. Since the start of construction, there has been a significant redesign effort to resolve several major changes due to conflicts with existing plant utilities, manufacturer delays and planning for the future. Due to inconsistencies with plans, Mr. Heiertz said that existing facilities need to be substantially redesigned which extended the construction schedule from 16 months to 23 months. This also required additional effort from the construction manager, and other supporting services. He said that additional meetings with the contractor, shop drawings, and work from consultants were conducted. Three variances with the contractor have been negotiated for each of these efforts. Director Swan inquired as to what the responsibility is of the engineers regarding conflicts and whose responsibility is it to discover these. Mr. Heiertz said that there was effort made to evaluate these problems at the beginning of the project. General Manager Jones said IRWD's existing information

was believed to be accurate and therefore any errors and oversights were the responsibility of IRWD.

There being no further discussion, On MOTION by Reinhart, seconded and unanimously carried, THE BOARD AUTHORIZED AN INCREASE TO THE FISCAL YEAR 2007/08 CAPITAL BUDGET FOR PROJECT 20276 IN THE AMOUNT OF \$537,700, FROM \$11,618,400 TO \$12,156,100; APPROVED AN EXPENDITURE AUTHORIZATION FOR PROJECT 20276 IN THE AMOUNT OF \$1,131,900; AUTHORIZED THE GENERAL MANAGER TO EXECUTE VARIANCE NO. 2 WITH MALCOLM PIRNIE, INC. FOR CONSTRUCTION MANAGEMENT AND INSPECTION SERVICES IN THE AMOUNT OF \$325,000; AUTHORIZED THE GENERAL MANAGER TO EXECUTE VARIANCE NO. 2 WITH MALCOLM PIRNIE FOR ENGINEERING SUPPORT SERVICES DURING CONSTRUCTION IN THE AMOUNT OF \$180,000; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE VARIANCE NO. 4 WITH BROWN AND CALDWELL FOR ENGINEERING SUPPORT SERVICES DURING CONSTRUCTION IN THE AMOUNT OF \$31,260 FOR THE MICHELSON WATER RECLAMATION PLANT 2005 UPGRADES.

MICHELSON WATER RECLAMATION PLAN PHASE 2 EXPANSION – VARIANCE NO. 3

General Manager Jones said that the MWRP Phase 2 Expansion Variance No. 3 pertains to the design contract. Several items were added to the scope of work, primarily methods to reduce production costs. He said that Director of Engineering Heiertz was able to make effective changes to reduce costs by an estimated \$15.4 million on this project. Mr. Heiertz then reviewed scope and fee impacts as well as estimated construction cost savings for each variance item, as follows:

1. Change to Ultraviolet Disinfection, \$146,557:
2. Refurbish Potable Water System, \$25,915:
3. Repair and Repave Existing Plant Roads, \$39,986:
4. Magnesium Hydroxide Study, \$16,360:
5. Influent Sewer Extensions, \$53,397:
6. Repair Cracks at Primary Sludge Pump Station, \$12,142:
7. Modify Approach to Control Loop Descriptions, \$52,691:
8. Modify Scope to Reduce Construction Cost, \$30,423:
9. Membrane Bioreactor (MBR) Submittal Review and Coordination, \$46,409:
10. Coordination with Floodwall Project, \$35,803:
11. Pre-qualification of Construction Contractors, \$5,059:
12. Pre-negotiation for Sole-Source Equipment, \$67,220:
13. Increased Project Management, \$79,352:

Mr. Heiertz further reported that staff has negotiated Variance No. 3 with HDR Engineering to complete the MWRP Phase 2 Expansion design and requests that the Board approve Expenditure Authorizations and approve Variance No. 3 with HDR

Engineering. Director Reinhart said that this item was reviewed and approved by the Engineering and Operations Committee on March 20, 2008. He also said that this sort of project refinement is typical of a large project in that everything cannot be included on a Request for Proposal. On MOTION by Reinhart, seconded and unanimously carried, **THE BOARD APPROVED EXPENDITURE AUTHORIZATIONS IN THE AMOUNTS OF \$283,500 FOR PROJECT 20214 AND \$532,400 FOR PROJECT 30214, AND APPROVED VARIANCE NO. 3 FOR \$611,314 TO HDR ENGINEERING, INC. FOR ADDITIONAL DESIGN SERVICES FOR MICHELSON WATER RECLAMATION PLANT PHASE 2 EXPANSION, PROJECTS 20214 AND 30214.**

### MUNICIPAL AUCTION RATE SECURITIES INVESTMENT ALTERNATIVES

Mr. Jones said that subsequent to preparation of the agenda item, Director Swan suggested variable rate demand obligations (VRDO) as having advantage over auction rate securities (ARS) from a liquidity standpoint, and Mr. Jones handed out a revised resolution and recommended motion.

Investment manager Rob Jacobson said that due to unusually high interest rates in the municipal auction rate securities (ARS) market, staff was requested by the Chairman of the Finance and Personnel Committee to evaluate strategies for investing a portion of the District's fixed income portfolio in certain high yielding auction rate securities. Mr. Rob Jacobson reviewed three potential alternatives for Municipal Auction Rate Securities investment, as follows:

Alternative #1: Leveraging a portion of the fixed income portfolio using reverse repurchase agreements and investing the proceeds in ARS;

Alternative #2: Liquidating a portion of fixed income portfolio securities and investing the proceeds in ARS; and

Alternative #3: Investing in ARS on a phased basis as fixed income portfolio securities mature.

Mr. Jacobson said that because the District's fixed income portfolio has a short average maturity, a number of the investments mature in March, April and May. As a result, staff developed and recommends Alternative #3 which would use proceeds from maturing fixed income investments to invest in the ARS market in a phased approach. He said that this would avoid some of the legal constraints and risks of the previous alternatives, but would still allow higher yields to be realized; although initially on a smaller portion of the portfolio. In addition, this approach reduces exposure and allows experience to be gained by entering into the market in a phased and deliberate manner. He said the upcoming maturing investments include:

March \$11 million (on March 31)

April \$17 million

May \$35 million

\$63 million

Maturing investments would provide a total of \$63 million for potential investment over the next two months. According to a broker that is very active in the ARS market for corporate clients, successful bidders typically receive blocks of about \$5 million or less on the ARS issues on which each bids. Funds that the District has invested in the Local Agency Investment Fund (LAIF) which are currently earning approximately 3.50% could also be used between investment maturities if initial ARS investments are successful and additional ARS opportunities become available. In the event that the District is not a successful bidder on a given day, it would reinvest funds overnight at money market rates which currently earn about 1.00%. IRWD has already invested the maximum amount of funds allowable in LAIF and would not be able to invest any additional funds there. He said that staff is recommending that the Board adopt a resolution and provide authorization for staff to open new investment accounts with qualified investment bankers, as needed, to facilitate the transactions. Director Reinhart inquired if Alternative #3 is a change in investment policy to which Mr. Jacobson replied no. Director Reinhart also asked if Alternative #3 would provide staff with more freedom to which Mr. Jacobson replied yes. Director Swan recommended that IRWD invest in Variable Rate Demand Obligations (VRDO) as well as ARS. He further recommended that the underlying rating for approved investments be AA- or better instead of AA or better. Director Swan recommended that in lieu of the phased approach described in Alternative #3, the investment in the recommended types of securities be carried out expeditiously, by liquidating existing securities, and using LAIF withdrawals only to the minimum extend needed to match reinvestment amounts. Discussion of this approach versus Alternative #3 followed, and following discussion, it was the consensus that the recommended motion be revised. General Manager Jones was further directed to report back to the Board in the Weekly Report and at the April 14, 2008 Board Meeting regarding the revised resolution for this item. On MOTION by Miller, seconded and unanimously carried, THE BOARD AUTHORIZED STAFF TO INVEST A PORTION OF THE DISTRICT'S FIXED INCOME PORTFOLIO IN MUNICIPAL AUCTION RATE SECURITIES AND VARIABLE RATE DEMAND OBLIGATIONS AS SPECIFIED IN THE RESOLUTION ADOPTED HEREBY IN AN EXPEDITIOUS MANNER BY LIQUIDATING EXISTING PORTFOLIO SECURITIES; AUTHORIZED STAFF TO OPEN NEW INVESTMENT ACCOUNTS AS DEEMED NECESSARY TO FACILITATE THE EFFICIENT INVESTMENT WITH INVESTMENT BANKING FIRMS MEETING THE CRITERIA SPECIFIED IN THE DISTRICT'S 2008 INVESTMENT POLICY; AND ADOPTED THE FOLLOWING RESOLUTION BY TITLE, AS REVISED TO REFLECT A CHANGE IN THE INVESTMENT GRADE FROM AA TO AA- AND EXPEDITIOUS REINVESTMENT BY LIQUIDATION OF PORTFOLIO SECURITIES:

RESOLUTION NO. 2008 – 16

RESOLUTION OF THE BOARD OF DIRECTORS OF  
IRVINE RANCH WATER DISTRICT RATIFYING AND  
APPROVING INVESTMENT SECURITIES



## GENERAL MANAGER'S REPORT

General Manager Jones reported on the MWDOC budget preparation, and said MWDOC staff has been receptive to members' recommendations for making various budget reductions and avoiding a rate increase. Mr. Jones also reported on the OPAWMC shareholders' proxy count which 436 shares as of today. After May 11, 2008 staff will coordinate with LAFCO staff to record the annexation and the merger to be effective at the same time, anticipated to be June 1, 2008.

Mr. Jones also reported on AB 2882, the allocation-based rate structure, which will be going to a legislative hearing in Sacramento on April 1, 2008 where he will testify. Mr. Jones recognized Beth Beeman for her efforts. He said that Desert Water Agency, who has a concern about urban run-off issues, is opposing the bill. Mr. Jones also advised that IRWD will be receiving a "save the date" invitation from Orange County Water Summit for an event on May 2, 2008. Mr. Jones further said that he attended a meeting at MWDOC to discuss water banking with Steve Arakawa, Jeff Knightlinger, Kevin Hunt and Paul Weghorst. Discussions included unbalanced exchange, concern with state water contract, explained benefits and being open to a proposal.

## DIRECTORS' COMMENTS

Director Swan reported that he continues to meet on the Bay Delta and that he will be meeting with SAWPA water management tomorrow.

Vice President Matheis reported on her attendance at the Sea & Sage event and said she found it very interesting. She also reported that Director Swan was recognized for his contributions. Mrs. Matheis said that she also attended the ACWA Legislative Symposium, the Southern California Water Committee, and a meeting of about 20 people, including Jeff Mosher and OCWD staff, organized by Bill Cooper of the Urban Water Research Committee. The purpose of the meeting was to discuss pharmaceuticals in water and what it means to the general public. Mrs. Matheis also reported that Bill Locklear spoke positively about the state of California despite the housing market and that she was pleased to attend the WateReuse workshop on the legislative proposal regarding recycled water.

Director Reinhart reported that he attended the WateReuse conference and appreciated the talk that speaker Mike Duvall gave. He also reported that Paul Jones was nominated and elected Vice Chair of WateReuse.

President Miller requested that General Manager Jones draft a letter of support to MWDOC regarding its budget by April 8, 2008. He further acknowledged Leslie Bonkowski for her 30 years of service to the District and requested that each Board members sign her acknowledgement.

ADJOURNMENT

There being no further business, President Miller adjourned the meeting at 7:55 p.m.

APPROVED and SIGNED this 14th day of April, 2008.

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President, IRVINE RANCH WATER DISTRICT

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Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

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Legal Counsel - Bowie, Arneson, Wiles & Giannone