

MINUTES OF REGULAR MEETING – FEBRUARY 14, 2011

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 February 14, 2011 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: Reinhart, Matheis, LaMar, Swan, and Withers (arrived at 5:52 p.m.)

Directors Absent: None

Also Present: General Manager Jones, Assistant General Manager Cook, Director of Planning/Water Resources Heiertz, Director of Engineering Burton, Director of Finance Cherney, Assistant Treasurer Jacobson, Director of Information Services Mossbarger, Secretary Bonkowski, Legal Counsel Arneson, Director of Public Affairs Beeman, Director of Operations Pedersen, Mr. Paul Weghorst, Ms. Kirsten McLaughlin, Ms. Fiona Sanchez, Mr. Jim Reed, Mr. Tim Romer and Mr. Simon Wirecki of Goldman Sachs, Mr. John Sheldon of Morgan Stanley, and other members of the public and staff.

WRITTEN COMMUNICATIONS: None.

ORAL COMMUNICATION:

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, 12, 15 and 17 will operate in accordance with the District's annual pumping plan. Wells 2 and 11 will operate a portion of the week. Wells 1, 3, 4, 5, 6, 7, 13 and 14 will be off. The District's currently planned pumping for January is 2,940 AF. 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), 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. Jones.

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, the 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. Jones.

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. Jones.

CONSENT CALENDAR

On MOTION by Matheis, seconded and unanimously carried (Withers absent), CONSENT CALENDAR ITEMS 3 THROUGH 7 WERE APPROVED AS FOLLOWS:

3. MINUTES OF REGULAR BOARD MEETING

Recommendation: That the minutes of the January 24, 2011 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 Steven LaMar, Mary Aileen Matheis, Douglas Reinhart, Peer Swan and John Withers.

5. RATIFYING MEMORANDUM OF OFFICERS OF THE BOARD, COMMITTEE, AND OTHER ASSIGNMENTS, APPROVAL OF BOARD OF DIRECTOR ATTENDANCE AT MEETINGS/EVENTS, AND ADOPTION OF REVISED COMMITTEE ASSIGNMENTS

Recommendation: That the Board ratify the memorandum dated January 26, 2011 entitled Officers of the Board, Committee and Other Assignments, approve attendance for the meetings and events for the Board's representation for calendar year 2011 as delineated in the write-up, and adopt the following resolution by title rescinding Resolution No. 2009-10 and revising the assignment of Directors to Committees of the Board.

RESOLUTION NO. 2011 – 2

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT, RESCINDING
RESOLUTION NO. 2009-10 AND REVISING THE
ASSIGNMENT OF DIRECTORS TO COMMITTEES
OF THE BOARD

CONSENT CALENDAR (CONTINUED)

6. 2011 STATE LEGISLATIVE UPDATE

Recommendation: That the Board take an OPPOSE position on AB 134 (Dickenson) and AB 157 (Jeffries) and a WATCH position on AB 148 (Smyth).

7. ADMINISTRATIVE CLAIM FOR DAMAGES –VERIZON, CMR, TPA

Recommendation: That the Board receive the claim for damages from Verizon, CMR, TPA without action.

ACTION CALENDAR

VARIABLE RATE DEBT PORTFOLIO – RESTRUCTURING STRATEGY

General Manager Jones reported that Irvine Ranch Water District (IRWD) currently has eight variable rate bond issues totaling \$385.2 million supported by letters of credit (LOCs) expiring between April and June 2011. Mr. Jones said that staff has been working with various underwriters to evaluate options for restructuring the current outstanding bond issues to provide a lower cost of debt, reduce reliance on bank LOCs, and possibly further diversify the debt portfolio.

Director of Finance Cherney requested and received proposals from 10 qualified underwriting firms to provide analysis, recommendations and pricing to restructure the variable rate portfolio that would result in a cost effective structure for the District. Ms. Cherney said that staff reviewed all of the proposals and selected four firms that best met the criteria of the Request for Proposal, provided the most thorough analysis and recommendations, and had strong underwriting teams. Bank of America Merrill Lynch (BAML), Goldman Sachs (Goldman), Stone & Youngberg, and Morgan Stanley (Morgan) were invited to participate in an interview to discuss their proposed structures. Based on the proposals received, recommended debt structures and experience in the Index Based Tender Notes (ITN) market, staff recommends engaging Goldman Sachs as lead underwriter and Morgan Stanley as co-underwriter for the refunding and reissuance of ITNs.

Ms. Cherney said that staff and underwriters have reviewed a number of options for restructuring the debt portfolio and recommends extending most of the current LOCs, adding new LOCs on three of the bond issues, and refunding and reissuing the 2008-B bond issue as ITNs. Staff also recommends that the District maintain the flexibility to increase the size of the ITNs to include the 2008-A bond issue in order to maintain leverage with the LOC banks. Ms. Cherney said staff would be bringing to the Board items for approval as the various restructuring steps move forward.

Director Swan reported that this item was reviewed by the Finance and Personnel Committee for a number of months and concurs with the staff recommendation. On MOTION by Swan, seconded and unanimously carried (Withers absent), THE BOARD APPROVED PARTIALLY RESTRUCTURING THE VARIABLE RATE DEBT

PORTFOLIO, INCLUDING REFUNDING THE 2008-B VARIABLE RATE DEMAND BONDS AND REISSUING AS INDEX TENDER NOTES, APPROVED THE RETENTION OF GOLDMAN SACHS AS LEAD UNDERWRITER AND MORGAN STANLEY AS CO-UNDERWRITER FOR THE REFUNDING AND REISSUANCE, EXTENDING THE EXISTING LETTERS OF CREDIT WITH BANK OF AMERICA AND US BANK ON THE 1989, 1991, 1993 AND 2009-A BONDS, REPLACING THE STATE STREET LETTER OF CREDIT ON THE 1995 BONDS AND REPLACING LANDESBANK BADEN-WURTTENBERG ON THE 2008-A BONDS WITH NEW LETTERS OF CREDIT FROM SUMITOMO MITSUI, AND REPLACING THE BANK OF AMERICA LETTER OF CREDIT AND JP MORGAN AS REMARKETING AGENT WITH BARCLAYS CAPITAL AS THE LETTER OF CREDIT PROVIDER AND REMARKETING AGENT FOR THE 2009-B BONDS.

ORACLE TECHNOLOGY IMPLEMENTATION VARIANCE

General Manager Jones reported that in May 2010, the Board authorized the purchase of the Oracle E-Business Suite R12 to replace IRWD's existing financial management and human resources management systems. In November 2010, the Board authorized the purchase of technology licenses that will provide for the minimum number of technology and database licenses needed for a fully-redundant, high-performance technology architecture.

Director of Finance Cherney reported that staff has requested a proposal from the District's certified Oracle system implementation consultant, AST Corporation, to perform the implementation services required for technology architecture. Staff has worked with AST to develop options for implementing the high-availability architecture that utilizes the Oracle Real Application Cluster (RAC) and Active Data Guard technology (ADG). RAC ensures high-availability of the ERP system so that system users would not be impacted by a computer failure. ADG is a comprehensive data protection, data availability, and disaster recovery solution for the Oracle Database. It provides a flexible and easy-to-manage framework that addresses both planned and unplanned outages.

Ms. Cherney said that AST proposed two alternative solutions in its assessment. The primary difference between the two alternatives, summarized below, is the timing of the work as follows: *Alternative 1*: Move forward with installing the underlying technical architecture in Wave 1 (financials and basic human resources functions, as well as associated business intelligence tools); Wave 1 would be scheduled to go live in May 2011; or *Alternative 2*: Delay installing this technical architecture until Wave 2 (advanced benefits, payroll, time and labor, and associated business intelligence tools); Wave 2 is scheduled to go live in October 2011.

Ms. Cherney said that staff has worked with AST to determine the risks and benefits of implementing RAC and ADG in the alternative waves, and recommends that the District move forward with the work immediately as part of Wave 1. This schedule will meet the District's technology architecture objectives, reduce the risk associated additional testing and rework in Wave 2, and offers high-availability protection and data protection from the first go live dates. She further said that staff sought proposals not only from AST from but from other firms to do the RAC and ADG work in conjunction with AST. Based on those proposals and an assessment of project risks and benefits, staff negotiated a contract variance with AST. AST is already on-

site and has experience in implementing RAC and ADG for public sector clients. Potential project risks will be mitigated by having only one firm be responsible for certifying the platform and applications at the conclusion of each project wave.

Director Swan reported that this item was reviewed by the Finance and Personnel Committee on February 1, 2011. He said that the Committee asked for a total package cost which will be submitted at the next meeting. On MOTION by Swan, seconded and unanimously carried (Withers absent), **THE BOARD AUTHORIZED A BUDGET INCREASE OF \$221,200 EACH FOR PROJECTS 11521 AND 21521, APPROVED EXPENDITURE AUTHORIZATIONS FOR \$221,200 FOR EACH PROJECT, AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE VARIANCE NO. 1 WITH AST CORPORATION FOR AN AMOUNT OF \$401,874.**

ADDITIONAL CONTRIBUTIONS FOR FISCAL YEAR 2010-11 TO THE CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Director of Finance Cherney reported that CalPERS employer contributions can be made in two ways: 1) a lump sum payment option made between July 1 and July 15 of the beginning of the new fiscal year, or 2) making payments based on each semi-monthly payroll total based on a payroll percentage established annually by CalPERS actuaries. In FY 2009-10, the District elected to utilize the lump sum payment option because it benefited from the assumed actuarial interest rate of 7.75%.

Ms. Cherney said that the District's approved operating budget for FY 2010-11 included \$3,498,000 for the CalPERS employer contribution rate. It anticipated using the lump sum payment option as well as making an additional contribution of approximately \$482,000 to reduce the District's unfunded liability. In July 2010, when staff recommended that the District make its lump sum payment and the budgeted additional contribution, the Finance and Personnel Committee (Committee) raised concerns centered around the unstable economy and that a loss in PERS investments could potentially negate the Board strategy to reduce the District's actuarially-determined unfunded pension liability. The safer approach was to make the semi-monthly payroll contributions and consider additional contributions throughout the year to reduce the unfunded liability. She said that at its February 1, 2011 meeting, the Committee requested that staff make the balance of the budgeted additional contributions to CalPERS. After application of the July 2010 payment of \$120,000, the balance is approximately \$362,000. The additional contribution is consistent with the District's policy principles to strategically reduce the District's actuarially-determined unfunded pension liability.

Director Swan reported that this item was reviewed by the Finance and Personnel Committee on July 6, 2010 and February 1, 2011. Following discussion, he asked that this item be reviewed at the next Board meeting along with the Special Finance and Personnel Committee meeting. On MOTION by Swan, seconded and unanimously carried (Withers absent), **THE BOARD APPROVED AN ADDITIONAL CONTRIBUTION OF \$362,000 TO REDUCE THE DISTRICT'S ACTUARIALLY-DETERMINED UNFUNDED PENSION LIABILITY.**

Director Withers arrived at 5:52 p.m.

EMERGENCY REPAIR OF 39-INCH IRVINE LAKE PIPELINE CONTRACT CHANGE ORDER

General Manager Jones reported that approximately 200 feet of the 39-inch Irvine Lake Pipeline (ILP) washed out in Santiago Creek at Irvine Park during the severe December 2010 storm events. Mr. Jones said that staff secured two bids for the emergency repair work: one from Paulus Engineering, Inc. for \$172,101.17 and the other from J. R. Filanc Construction Company, Inc. for \$209,450. He said that he authorized the low bidder, Paulus Engineering, Inc., to begin the emergency repair work. He said that following the diversion of water in Santiago Creek to allow for the repair work, it was discovered that a larger than originally estimated segment of the ILP had been exposed during the storms and was vulnerable to future storm damage. A cost proposal was requested from Paulus Engineering for the additional work, which consisted of importing backfill and installing one ton rip-rap for an additional 325 feet of the ILP.

Mr. Jones said that in accordance with the February 6, 1928 Agreement and its amendments, the cost share for construction and support work for the ILP is 75 percent IRWD and 25 percent Serrano Water District (SWD). Reimbursement for a portion of the project cost may be available from Cal EMA and FEMA. He said that staff will pursue reimbursement funding for the project and funds received will be applied pro-rata to IRWD and SWD. Mr. Jones said that this item was approved by the IRWD/SWD Ad Hoc Committee on January 26, 2011.

On MOTION by Reinhart, seconded and unanimously carried, THE BOARD AUTHORIZED A \$130,000 INCREASE TO THE FISCAL YEAR 2010-11 CAPITAL BUDGET FOR PROJECT 11571, FROM \$220,000 TO \$350,000; APPROVED AN EXPENDITURE AUTHORIZATION FOR PROJECT 11571 IN THE AMOUNT OF \$130,000; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE CONTRACT CHANGE ORDER NO. 1 FOR PROJECT 11571 WITH PAULUS ENGINEERING, INC. IN THE AMOUNT OF \$129,952.

DESTRUCTION AND REPLACEMENT OF WELL 78 CONSTRUCTION AWARD

General Manager Jones reported that Well 78 was constructed in 1993 and is nearing the end of its useful life. Mr. Jones said that staff has been coordinating the replacement of Well 78 with the Department of Navy (DON) and they have been coordinating with the regulatory agencies. The DON is aware that no water will be pumped at the Well 78 site during the destruction of the existing well and during construction of the new well. It is anticipated that pumping will cease in April 2011 and the new well will be operational by March 2012.

Director of Engineering Burton reported that the design for the destruction and replacement of the well was completed in January 2011 and the project was advertised to eight select contractors. The invited bidders were ARB, Caliagua, F.T. Ziebarth, Gateway Pacific, Schuler Engineering, Pacific Hydrotech, Pascal & Ludwig, and SS Mechanical. Although eight general contractors were invited to bid on the project, only four bids were received. Mr. Burton said that staff recommends that Gateway Pacific be awarded the contract for destruction and replacement of Well 78 with an apparent low bid of \$2,789,913 compared to the engineer's estimate of \$2,819,530. Staff has been satisfied with their past performance on other IRWD projects.

Richard C. Slade (Geohydrologist) will provide well destruction and drilling field inspection services with engineering and construction inspection assistance from Tetra Tech and IRWD staff.

Mr. Burton made a correction on the funding source on the Expenditure Authorization noting that it will be from the replacement fund. On MOTION by Reinhart, seconded and unanimously carried, THE BOARD APPROVED AN INCREASE TO THE FY 2010-11 CAPITAL BUDGET IN THE AMOUNT OF \$619,300 FROM \$3,066,200 TO \$3,685,500; APPROVED AN EXPENDITURE AUTHORIZATION IN THE AMOUNT OF \$3,160,500; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A CONSTRUCTION CONTRACT WITH GATEWAY PACIFIC IN THE AMOUNT OF \$2,789,913 FOR THE DESTRUCTION AND REPLACEMENT OF WELL 78, PROJECT 30351.

GENERAL MANAGER'S REPORT

General Manager Jones reported on the sewer lateral septic conversation legislation (Huffman). Mr. Jones said that work is continuing to add a section to the Health and Safety Code to allow for a pre-abatement concept. Also, a section may be added for a 10-year Infrastructure Plan, i.e. regulation penalties. He said that he heard that Huffman has decided to go forward with the sewer lateral septic conversation under a separate bill.

Mr. Jones said that last Friday he and Mr. Weghorst met with Ms. Lorri Gray and Mr. James Harkin of the Bureau of Reclamation in Nevada relative to Wells 21 and 22, Tustin Well 52, and the Cienega project where he asked for a nine-month extension on the Wells 21 and 22 project, a 12-month extension on the Cienega project, and requested to move the Well 52 site in Tustin. He said that the Bureau approved a nine-month extension for Wells 21 and 22 along with the Cienega project. He said he will be providing a detailed schedule at a later date. In response to Director Reinhart's comments, staff will submit an item to the March Engineering and Operations Committee on the Cienega project where Mr. Jones said it may become a diversion project with only the direct rechargers, including the City of Irvine, the Floor Control District, the City of Tustin and TIC.

Mr. Jones reported on his trip to Washington, DC along with President LaMar. He said that they had meetings with staff from the offices of Calvert, Feinstein, and Royce, attended two subcommittee meetings, and met with the US Army Corps of Engineers. He noted the huge concerns with *earmarks*.

Mr. Jones reported on his and Director Swan's meeting with Mr. Brett Sanders and three of his faculty members from UCI. He said that they would like to collaborate with IRWD having undergraduate and graduate students with internships for potential IRWD succession planning. He said that UCI will be submitting a plan in the near future for our review. Director Swan said that UCI will be emphasizing a direct value to IRWD to create specific projects. Mr. Jones said that UCI will be looking into linking classroom study for practical training.

DIRECTORS' COMMENTS

Director Swan reported on his attendance at the Association of California Cities, WACO, Newport Chamber of Commerce, a West Basin meeting with Ms. Debra Mann, a UCI collaboration meeting, an OCWD Board meeting, a tour with staff from both the Discovery Science Center and Great Park, an ACWA Region X Planning meeting, an ACWA Board meeting, a Southern California Dialogue meeting, an SWD/IRWD Ad Hoc Committee meeting relative to Irvine Lake, an Encino Plant tour on solids handling where he learned that IRWD should not start with a fuel cell process. He said that he met with Snyder Langston and that he received suggestions from them on how to save money on our real estate developments which he will bring to the next Asset Management Committee meeting. He said that he had a conversation with Kia Motors about a draining problem from a reflecting pond.

He further said that he will be attending: 1) a Newport Bay Watershed Executive Committee meeting this Wednesday where one of the items will be on the Cienega program; and 2) the monthly OCWA luncheon on south county reliability/sustainability.

Director Matheis reported on her attendance at an OCBC event, WACO, State of the City of Irvine address, a Lake Forest Chambers event with Mr. Jim Reed, and an Association of California Cities meeting. She said that on March 20 IRWD is hosting a WaterReuse meeting in Dana Point.

Director Withers said that he will be briefly attending a California LAFCO workshop this Thursday at IRWD's Duck Club. He asked staff to provide him with 35 copies of the brochure on the San Joaquin Wildlife Sanctuary.

President LaMar thanked Director Swan for getting him through the first Finance and Personnel Committee meeting. He reported on his trip to Washington, DC with the General Manager. He said it was discouraging to see how they will be dealing with *earmarks* and that he is not optimistic to see funding this year.

ADJOURNMENT

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

APPROVED and SIGNED this 28th day of February, 2011.

President
IRVINE RANCH WATER DISTRICT

Secretary
IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone