

MINUTES OF REGULAR MEETING – SEPTEMBER 12, 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 September 12, 2011 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

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

Directors Absent: None.

Also Present: Interim General Manager Cook, Senior Director of Finance Cherney, Senior Director of Operations Pedersen, Director of Engineering Burton, Assistant Secretary Savedra, Treasurer Jacobson, Legal Counsel Arneson, Director of Water Resources Heiertz, Director of Wastewater Operations Posey, Director of Water Quality Hills, Director of Human Resources Wells, Ms. Kirsten McLaughlin, Mr. Paul Weghorst, Mr. Jim Reed, Mr. Bruce Newell, Mr. Yannick Gagne and Mr. Yves McGale of Aon Hewitt, 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 C-8 and C-9 will operate in accordance with the District's annual pumping plan. Wells, 1, 2, 3, 4, 5, 6, 7, 10, 11, 12, 13, 14, 15, 16, 17 and 18 will be off. This was confirmed by Mr. Cook, Interim 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. Cook.

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, 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. 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. 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. Cook.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED – None.

CONSENT CALENDAR

Director Reinhart made a correction on the agenda for Consent Calendar item No. 4. On MOTION by Reinhart, seconded and unanimously carried, CONSENT CALENDAR ITEMS 3 THROUGH 9 WERE APPROVED AS AMENDED:

3. MINUTES OF REGULAR BOARD MEETING

Recommendation: That the minutes of the August 22, 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, John Withers and Peer Swan.

5. REVISED PERSONNEL POLICIES AND PROCEDURES

Recommendation: That the Board adopt the following resolution by title:

RESOLUTION NO. 2011-40

RESOLUTION OF THE BOARD OF DIRECTORS OF IRVINE RANCH
WATER DISTRICT, RESCINDING RESOLUTION NO. 2011-28
AND ESTABLISHING REVISED PERSONNEL POLICIES
(FOR POLICY NOS. 38 AND 39)

6. RECYCLED WATER DECHLORINATION STATIONS FINAL ACCEPTANCE

Recommendation: That the Board accept construction of the Recycled Water Dechlorination Stations, project 30206 (1701); authorize the General Manager to file a Notice of Completion; and authorize the payment of the retention 35 days after the date of recording the Notice of Completion.

7. LAKE FOREST WELL NO. 2 DESTRUCTION AND DRILLING CONTRACT CHANGE ORDER AND FINAL ACCEPTANCE

Recommendation: That the Board authorize the General Manager to execute Contract Change Order No. 3 with Layne Christensen Company in the credit amount of <\$89,343.75>; accept construction of Lake Forest Well No. 2, project 11461 (1498); authorize the General Manager to file a Notice of Completion; and authorize the release of retention 35 days after filing of the Notice of Completion.

8. LOS ALISOS WATER RECYCLING PLANT LANDSCAPE AND IRRIGATION PROJECT – FINAL ACCEPTANCE

Recommendation: That the Board accept construction of the Los Alisos Water Recycling Plant Landscape and Irrigation Project, projects 20243 (2940) and 30134 (2915); authorize filing of a Notice of Completion; and authorize the payment of the retention 35 days after the date of recording the Notice of Completion.

9. STRAND RANCH WELL DRILLING AND CONSTRUCTION PROJECT – FINAL ACCEPTANCE

Recommendation: That the Board approve Final Change Order No. 4 in the amount of (\$768,440.80) for project 11289 (2812); accept the Strand Ranch Recovery Facilities Project - Drilling and Construction of Extraction Wells; authorize the General Manager to file a Notice of Completion for the work; and authorize the payment of the retention 35 days after the date of recording the Notice of Completion.

ACTION CALENDAR

2012 MEDICAL INSURANCE COVERAGE RENEWAL

Interim General Manager Cook reported that the District currently utilizes the CalPERS medical insurance program and receives premium rates each year in advance of open enrollment in October. For the 2012 calendar year, CalPERS notified the District of premium increases for each of the specific plans from which IRWD employees can choose, with an overall annual premium increase of 4.1 percent. He said IRWD will be retaining a consultant team to review the District's overall retirement and health benefits package to maximize value to the employees and develop an equitable cost sharing method to minimize increasing exposure to rising costs. The results of that study will not be developed in time to make adjustments to the 2012 medical

insurance benefits. As a result, staff recommends the District make adjustments to the employee contribution rates for the CalPERS medical plans in line with the increases announced for each individual plan. With the recommended adjustments to employee contributions and assuming similar plan enrollments as for 2011, the District's overall medical insurance costs will increase by 3.6% over FY 2010-11.

Mr. Cook said that given the scope and timing of the benefits study which is expected to get underway as open enrollment is beginning for the 2012 calendar year health benefits, staff recommends that only minor modifications be made to employee contributions at this time in percentages consistent with the increases announced for each plan.

Director of Human Resources Wells reported that there are a few notable plan design changes which have been made by CalPERS effective January 1, 2012. Under the PERS Care, PERS Choice and PERS Select Basic plans, a new value-based program will be introduced for three frequently used outpatient hospital procedures: colonoscopy, cataract surgery, and arthroscopy. She said that a maximum thresholds has been set for each whether the procedure is conducted at the site of care or at an ambulatory surgical center.

Director Swan reported that this item was reviewed and approved by the Finance and Personnel Committee on September 7, 2011. On MOTION by Reinhart, seconded and unanimously carried, **THE BOARD AUTHORIZED THE CONTINUANCE OF THE DISTRICT'S HEALTH CARE COVERAGE WITH CALPERS FOR THE CALENDAR YEAR 2012 AND APPROVED CHANGES IN EMPLOYEE CONTRIBUTION LEVELS AS RECOMMENDED.**

CONSULTANT SELECTION FOR EVALUATING POTENTIAL CHANGES TO RETIREMENT AND HEALTH BENEFITS

Interim General Manager Cook reported that on June 17, 2011, the Board approved a process for selecting consultants to develop and evaluate potential changes to IRWD's retirement and health benefits. As part of that process, the proposals from consultants interested in providing the requested services were evaluated; multiple rounds of interviews were conducted by both staff and the Finance and Personnel Committee.

Senior Director of Finance Cherney reported that the District received seven proposals in response to its Request for Proposal (RFP) for Evaluating Changes to IRWD's Retirement and Health Benefits Package. A Working Group was established to review the proposals and make recommendations for consultant selection to the Finance and Personnel Committee and to the Board. The Working Group consisted of the Interim General Manager, the Senior Director of Finance and Administrative Services, and the Director of Human Resources as well as two outside resources: the District's outside labor counsel from Payne & Fears and the Assistant City Manager from the City of Newport Beach.

Ms. Cherney said the list of consultants that submitted a proposal and summarized their scope of work included: Buck Consultants, Aon Hewitt, PFM, Bartel & Associates, Chang, Ruethenberg, Hanson Bridgett and Liebert Cassidy. She said that staff reviewed the list of consultants and

reviewed a preliminary list of interview questions with the Committee members, and the Committee provided input regarding additional questions to be asked during the interview.

Ms. Cherney said the Working Group interviewed the teams from Buck, Aon Hewitt, PFM, Chang Ruthenberg, and Hanson Bridgett. Based on the Working Group's evaluation of the proposals and the information obtained during the interviews, recommendations were presented to the Finance and Personnel Committee at its meeting on August 19, 2011. At that time, the Committee directed staff to set up interviews with the recommended team of Aon Hewitt and Hanson Bridgett. She said that on August 31, 2011, the Finance and Personnel Committee and staff met with representatives of Aon Hewitt and Hanson Bridgett. Both teams provided an overview of their respective proposed scopes of work and approaches, and how the teams would work together to provide the comprehensive study services that the District requires.

Ms. Cherney introduced the representatives from Aon Hewitt, Yves McGale and Yannick Gagne who then made a PowerPoint presentation to reveal some of their modeling tools that would be used for the actuarial analysis, financial impact modeling, and tools for identifying where changes would most impact the District's employees.

Mr. Yves McGale said he would act as the engagement manager and Mr. Yannick Gagne will oversee and manage the entire project, and the interaction between the consultants and Hanson Bridgett. He said, the project will be to review the district's existing retirement and health benefit package currently offered to employees through CALPers. He said that Aon Hewitt will look at the current program in detail with a particular focus on adequacy, what benefits are provided to the retirees and employees; sustainability from a financial point of view; and efficiency of delivery of benefits.

Mr. Yannick Gagne reported that Aon Hewitt has had public and private sector experience providing holistic view of retirement and health benefits trends and landscape; access to a large pool of consultants for broad spectrum of innovative ideas and validation; and lastly resources in the industry supporting plan design such as benchmarking database and interactive modeling tools.

Ms. Cherney reported that Aon Hewitt and Hanson Bridgett will continue to have several meetings with staff and has a scheduled preliminary project timeline in place beginning with a Board workshop meeting on October 7, 2011 to establish the board's objective setting for the project.

Director Swan reported that this item was reviewed and approved by the Finance and Personnel Committee on August 9, August 19, August 31 and September 7, 2011. Discussion followed and it was proposed by Director Swan that the recommendation be amended to increase the Operating Budget to \$335,000. On MOTION by Swan, seconded and unanimously carried, **THE BOARD APPROVED THE RETENTION OF AON HEWITT AND HANSON BRIDGETT TO EVALUATE POTENTIAL CHANGES TO THE DISTRICT'S RETIREMENT AND HEALTH PROGRAMS; APPROVED AN ADDITION OF \$335,000 TO THE DISTRICT'S FY 2011-12 OPERATING BUDGET, SUBJECT TO VARIANCES IN ACCORDANCE WITH PROCUREMENT POLICY; AUTHORIZED THE GENERAL MANAGER TO EXECUTE A**

PROFESSIONAL SERVICES AGREEMENT WITH AON HEWITT FOR AN AMOUNT NOT-TO-EXCEED \$150,000; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A PROFESSIONAL SERVICES AGREEMENT WITH HANSON BRIDGETT FOR AN AMOUNT NOT-TO-EXCEED \$50,000.

INTEREST RATE SWAP NOVATION FROM CITIBANK TO WELLS FARGO

Interim General Manager Paul Cook reported that during the recent letter of credit substitution process, Citibank, N.A. (Citi) requested the District consider novating (substituting) the three interest rate swaps with Citi as counterparty, and replace them with Wells Fargo Bank, N.A. as counterparty.

Senior Director of Finance Cherney reported that the District currently has three interest rate swaps with Citi as counterparty. During the recent letter of credit substitution, Citi requested that the District consider novating Citi with Wells Fargo on the three swap transactions. Citi is interested in novating its swap positions as part of a corporate initiative to strategically sell assets that reside in the Citi Holdings unit of Citibank. This novation would result in the District entering into a new International Swaps and Derivatives Association (ISDA) agreement with Wells Fargo with terms that are consistent with the existing Citi ISDA agreement. Wells Fargo is a higher rated counterparty than Citibank (Aa2/AA/AA- vs. A1/A+/A+), and Wells Fargo has agreed to increase the current collateral threshold requirement from \$15 million to \$50 million. The District will not be responsible for any legal expense or Financial Advisor expense (should one be required by Citi or Wells Fargo), as Citi and/or Wells Fargo will pay and expenses. She said Citibank is currently holding District collateral in the amount of \$8,416,629, which will be returned to the District when the agreement with Wells Fargo is executed.

Director Swan reported that this item was reviewed and approved by the Finance and Personnel Committee on September 7, 2011. On MOTION by Swan, seconded and unanimously carried THE BOARD APPROVED NOVATING THE CURRENT CITIBANK, N.A. INTEREST RATE SWAPS TO WELLS FARGO BANK, N.A.

STRAND RANCH GROUNDWATER RECOVERY PROJECT PIPELINE FACILITIES AND WELL EQUIPPING CONSTRUCTION AWARD

Interim General Manager Paul Cook reported that that IRWD is nearing completion of facilities at the Strand Ranch Integrated Banking Project in Kern County. Seven wells remain to be equipped and pipeline and Cross Valley Canal (CVC) turn-in facilities need to be constructed in order to extract and convey banked water.

Principal Water Research Manager Weghorst reported that IRWD and Rosedale-Rio Bravo Water Storage District (Rosedale) are partners in the Strand Ranch Integrated Banking Project (Project) with Rosedale operating the Project on behalf of IRWD. The purpose of the Project is to provide water supply reliability to IRWD, as well as to augment the recharge and recovery capacity of Rosedale's Conjunctive Use Program. Project facilities that have been constructed to date include 502 acres of recharge basins, two CVC turn-outs, two water supply channels, a

siphon under the Pioneer Canal and six new groundwater recovery wells. One well that existed at the time the District purchased the Strand Ranch has been rehabilitated and will also be incorporated into the Project. A total of seven wells need to be equipped. In addition, conveyance pipelines and three turn-ins to deliver recovered water to the CVC are required to be constructed. In July 2010, the Board approved a Professional Services Agreement with Kennedy/Jenks Consultants (KJC) to design these facilities.

Mr. Weghorst said on July 13, 2011, IRWD invited contractors to submit bids for equipping the seven wells and for the construction of conveyance pipelines and CVC turn-ins. The invited bidders were Pascal & Ludwig Constructors, SS Mechanical Corp., Gateway Pacific Contractors Inc., W.M. Lyles Co., Bakersfield Well & Pump Co., Wood Brothers Inc., Nicholas Construction, HPS Mechanical Inc., Specialty Construction, Inc. and Schuler Engineering Corp. Bids were received from Pascal & Ludwig Constructors, W.M. Lyles Co., Wood Brothers Inc., Nicholas Construction, HPS Mechanical Inc., and Specialty Construction, Inc. He said the low bidder was W.M. Lyles Co. in the amount of \$3,281,860, versus the engineers estimate for the project at \$4,700,000. He said that W.M. Lyles Co. recently worked as a subcontractor to Wood Brothers on IRWD's Stockdale West Recharge Facilities Project and staff has been satisfied with W. M. Lyles Co.'s past performance on this and other IRWD projects.

Mr. Weghorst said the project construction is to be completed within 325 days of the notice of award. Construction of the CVC turn-ins will not begin until February 2012. Early occupancy of the facilities on the north side of the CVC will occur in late April 2012. The entire project is expected to be completed in December 2012. He said staff is coordinating with Rosedale and the Kern County Water Agency (KCWA) in developing an agreement to construct the CVC turn-ins in the CVC right of way and to discharge water from the Project into the CVC. The terms of the agreement call for the turn-in facilities within the CVC right of way to become CVC facilities. IRWD's ownership of facilities will occur immediately beyond the CVC right of way on the Strand Ranch. The agreement also requires KCWA's review and approval of the designs for the CVC turn-ins. The design of the turn-ins has been closely coordinated with the KCWA and they have provided comments in several reviews. All comments and requirements provided by the KCWA have been incorporated into the designs for the Project.

Mr. Weghorst said the agreement will require that the quality of water from the Project to be discharged into the CVC must not alter the CVC's ability to meet the Department of Water Resources' (DWR) water quality criteria for acceptance of non-State Water Project water into the State Water Project. The Project wells have been designed and constructed taking these criteria into consideration and adequate blending capabilities have been incorporated into the designs for the pipelines and CVC turn-ins to ensure that water from the Project will not result in CVC violations to the DWR criteria.

On MOTION by Reinhart, seconded and unanimously carried, THE BOARD APPROVED AN EXPENDITURE AUTHORIZATION IN THE AMOUNT OF \$3,681,700 FOR PROJECT 11289 (2812); AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A CONSTRUCTION CONTRACT WITH W.M. LYLES CO. IN THE AMOUNT OF \$3,281,860 FOR WELL EQUIPPING AND CONSTRUCTION OF PIPELINE FACILITIES AND CVC TURN-INS.

GENERAL MANAGER'S REPORT

Interim General Manager Cook reported that this Saturday, September 17th the district will hold its 50th Anniversary Customer Appreciation event at the Michelson Operations Plant. A tree dedication will be made at the site and planted at a later date.

DIRECTORS' COMMENTS

Director Reinhart reported that he attended UWI annual conference. He suggested that UWI and SCWC join these agencies to lessen repeated information. He said he attended WACO and the WateReuse board meeting and symposium held in Arizona. He ask the board to save the date November 20 for the scheduled SCWC meeting with speaker Judge Wanger, who recently retired.

Director Swan reported that he attended the ACWA Finance Committee and Budge Committee Meetings. He stated that the ACWA staff is proposing to increase their dues, however the Financial committee is strongly against the increase and will recommend no increase be assessed. He reported he attended WACO and UWI conference. He also reported that a committee is currently planning ACWA's Regions 8-10 annual conference for October 19th and 20th.

Director Matheis reported that she attended the Irvine Valley College 9/11 Commemoration event. She said it was a brief ceremony presented by Chief Dave Maggert. She reported he gave a meaningful and uplifting address that was well attended by Orange County Fire Authority, Police and the Orange County sheriffs.

President LaMar reported that he attended ACWA's Federal Government Affairs meeting and the last day of legislation session in Sacramento. He also said ACWA is doing a good job with their federal efforts on the Clean Water Act guidelines that were proposed.

MEETING RECESS at 6:25 p.m.

Meeting was recessed to allow a meeting of the Commission of the Irvine Ranch Water District Joint Powers Agency to be held. Following such meeting of the Joint Powers Agency, the meeting of the Irvine Ranch Water District Board of Directors was reconvened.

CLOSED SESSION

President LaMar said that a Closed Session will be held with legal counsel relative to existing litigation - Government Code Section 54956.9(a) – SEMA Construction vs. the City of Tustin and City of Tustin vs. IRWD; and Public Employee Appointment/Employment - Government Code Section 54957. Title: General Manager.

The meeting was reconvened in Open Session. No action was reported from the closed sessions.

APPROVED and SIGNED this 12th day of September, 2011.

President, IRVINE RANCH WATER DISTRICT

Assistant Secretary IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone