

MINUTES OF REGULAR MEETING – SEPTEMBER 26, 2005

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order by President Miller at 6:08 p.m., September 26, 2005 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

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

Directors Absent: None

Also Present: General Manager Jones, Director of Engineering Heiertz, Treasurer Loomis, Assistant District Secretary Mumenthaler, Legal Counsel Arneson, Assistant General Manager Cook, Controller Slack, Public Affairs Director Beeman, Water Resources Director Diamond, Mr. Carl Ballard, Mr. Wayne Posey, Mr. Mark Tettermer, Mr. Michael Hoolihan, Mr. Jeff Stanearth, Mr. Chuck Borkman, Mr. Rob Jacobson, Mr. Dave Ferguson, and Mr. Sat Tamaribuchi from the Irvine Company and other members of the public and staff.

COMMUNICATIONS TO THE BOARD

Written: None

Oral: 1) 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 as of September 26, 2005, All wells are off except C-8 and C-9 at the DATS treatment facility to take advantage of the Metropolitan Water District (MWD) in-lieu program offered through the Orange County Water District (OCWD). This was confirmed by General Manager Jones.

With respect to the Orange County Basin Groundwater Conjunctive Use Program being coordinated by Municipal Water District of Orange County (MWDOC) and (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 General Manager Jones of the District.

ITEMS TOO LATE TO BE AGENDIZED - None

WORKSHOP – SOUTH ORANGE COUNTY EMERGENCY GROUNDWATER SERVICE

President Miller stated that we were presenting a workshop this evening on the South Orange County Emergency Groundwater Service. There has been a lot of effort put into this by Karl Seckel from MWDOC as well as MWDOC staff, IRWD staff and some directors meetings as well. We will have an opportunity to review this program and ask any questions that board members might have.

General Manager Jones reported that staff has been working with MWDOC, OCWD, and the retail agencies, both representatives in North County and then the agencies who would potentially participate in South County to look at a project to convey emergency supplies of water through IRWD facilities and improve the water supply situation in South County both from a system reliability and emergency supply standpoint. The talks have progressed into looking at a two phase project. The first phase relates to failure events requiring recovery times ranging from 3 to 30 days of various facilities. Phase 2 is a program that would look at long term reliability needs. General Manager Jones stated that Karl Seckel is representing MWDOC and Greg Heiertz will give a brief overview and a status of that work and what our expectations are in terms of schedule and items that we would be bringing to the board.

Director of Engineering Heiertz stated that he would focus on the Phase 1 portion of the project. We have a Phase 1 project that we can implement in the next couple of years. We have been working with MWDOC and OCWD and the South County agencies that would be the beneficiaries of the water reliability project (El Toro, Laguna Beach County, Moulton Niguel, Santa Margarita, South Coast, Trabuco Canyon water districts and the cities of San Clemente and San Juan Capistrano). These are the agencies that would receive water through the IRWD interconnections. Moulton Niguel and Santa Margarita represent 70% of the demand. There are two categories of reliability; the first one is system reliability and that is primarily what we are talking about in Phase I. System reliability refers to failure events that require relative brief recovery times ranging from 3 to 30 days. MWDOC is also looking at supply reliability for South County and these are the more extreme events that require long recovery times or prolonged imported supply curtailment due to drought. But in Phase I we are focusing on system reliability. South County agencies rely primarily on MWD so one way that we can bring some system reliability to South County is to get more interconnectivity to the groundwater basin that the North County agencies rely on. There is a significant shortfall in needed capacity under different outage scenarios in South County. By 2010 for a 7 day planned outage of the Diemer Plant which is something that occurs regularly, typically every winter, there is a 60 cfs, about 800 acre feet shortfall. In 2025 this will grow to 92 cfs about 1300 acre feet shortfall. The objectives of our Phase 1 water emergency service project is to enhance the supply reliability by utilizing existing water infrastructure and interconnections and construct a minimum of new facilities. The facilities we are proposing to build will be owned and operated by IRWD. South County agencies would purchase capacity in emergency water storage and conveyance facilities that were constructed and would reimburse IRWD for our cost of upsizing facilities and would also participate in a buy-in cost as well.

The intent is not to make a profit off of this system. Initially IRWD can provide about 50 cfs on a more or less seasonal basis. As we approach build-out more and more of our capacity is spoken for by our own existing customers and the new customers that come on the system by 2025. By 2025 in the event of a Diemer Plant outage, we will only be able to supply 23 cfs to South County without some kind of Phase 2 or Phase 3 project. The Phase 2 emergency project is necessary to handle that growth over time and make sure we can keep enough water flowing south.

Director of Engineering Heiertz reviewed the different roles of the project participants. IRWD is the supplier of the emergency water and will design and construct the facilities to convey to South County. We will contract to supply that water capacity to the participating agencies and stipulate the limits of water that we can supply under various seasonal and operational circumstances. IRWD will

own and operate all the facilities that we construct. South County agencies would coordinate new facilities so that they could receive the water, purchase capacity, and compensate IRWD for the emergency water that they receive. Mr. Heiertz also discussed the Priority One Projects (2004-209) and Priority Two Projects (2010-2025) for the proposed system reliability improvements.

Mr. Heiertz explained the cost categories, the next steps and the proposed implementation schedule. MWDOC has retained Tetra Tech to provide a preliminary design report for \$160,000. That cost is being shared by the South County agencies (\$100,000) and MWDOC (\$60,000). When going into final design and construction, a reasonable cost sharing formula will be finalized.

Mr. Jones reported that the process is moving very well and commended MWDOC for continuing to facilitate and point the participants toward a conclusion.

CONSENT CALENDAR

On MOTION by Director Reinhart seconded and unanimously carried, CONSENT CALENDAR ITEMS 4 THROUGH 9 WERE APPROVED AS FOLLOWS:

4. APPROVAL OF BOARD OF DIRECTORS' ATTENDANCE AT MEETINGS AND EVENTS

Recommendation: Approve the meetings and events for Darryl Miller, Mary Aileen Matheis, Peer Swan, Doug Reinhart, and John Withers.

5. STRATEGIC MEASURES DASHBOARDS

Recommendation: Receive and file.

6. NOMINATIONS FOR PRESIDENT AND VICE PRESIDENT OF ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA)

Recommendation: That the Board adopt a resolution to support the nomination of Mr. Glen Petersen for the position of vice president of ACWA.

RESOLUTION NO. 2005- 29

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
IRVINE RANCH WATER DISTRICT
SUPPORTING THE NOMINATION OF GLEN PETERSON
AS VICE PRESIDENT OF THE ASSOCIATION OF
CALIFORNIA WATER AGENCIES

7. STATE LEGISLATIVE UPDATE

Recommendation: That the Board take a watch position on AB 590, AB 1126, ACA15, SB 53, SB 1099 and SCA 12.

8. AUGUST 2005 FINANCIAL REPORTS

Recommendation: That the Board receive and file the Treasurer's Investment Summary Report and the Monthly Interest Rate Swap Summary for August 2005; and approve the August 2005 Summary of Wire Transfers and ACH payments in the total amount of \$10,478,434.34 and the August 2005 Warrants Nos. 262730 through 263538 in the total amount of \$7,065,921.54.

9. SAND CANYON RESERVOIR OUTLET STRUCTURE PIPE REPLACEMENT

Recommendation: That the Board add project 30278 to the FY 2005/06 Capital Budget for \$51,700 for the Sand Canyon Reservoir Outlet Structure Pipe Replacement Project.

ACTION CALENDAR

PLANNING AREA 1, PORTOLA PARKWAY CAPITAL FACILITIES

General Manager Jones reported that capital domestic and recycled water facilities are needed in Portola Parkway between Culver Drive and Sand Canyon Avenue as part of the Northern Sphere and Planning Area (PA 1) development by Irvine Community Development Company (ICDC). We would like to add a project to the capital budget, adjust the capital budget for two projects and adjust expenditure authorizations to fund additional design costs.

Director of Engineering Heiertz reported that original budgets for various projects in Planning Area 1 were established before the proposed design costs were received. The budget adjustments are to reflect the actual design and construction costs of the projects. In the case of Zone 5 facility to serve PA 1, the costs could not be accurately defined until the location was finalized, so those costs are substantially different than what was originally planned. After these budgets are adjusted, they will be used to fund supplemental reimbursement agreements with the Irvine Company to build actual pipelines to serve the PA 1 development.

Director Reinhart said that the Engineering Committee reviewed this item and recommended approval. On MOTION by Director Reinhart and seconded and unanimously carried, APPROVE THE ADDITION OF PROJECT 30276 TO THE FY 2005/06 CAPITAL BUDGET FOR \$834,900; AUTHORIZE BUDGET INCREASES FOR PROJECT 10782 BY \$2,311,500, FROM \$2,278,200 TO \$4,589,700, AND PROJECT 30782 BY \$11,000, FROM \$401,500 TO \$412,500; APPROVE EXPENDITURE AUTHORIZATIONS FOR PROJECT 10782 FOR \$127,300, PROJECT 30178 FOR \$11,000, PROJECT 30276 FOR \$88,000, AND PROJECT 11611 FOR \$39,600 TO FUND ADDITIONAL DESIGN COSTS AND ACCOUNT FOR ESTIMATED ADDITIONAL CONSTRUCTION COSTS FOR THE DOMESTIC AND RECYCLED WATER LINES IN PORTOLA PARKWAY, BETWEEN CULVER DRIVE AND SAND CANYON AVENUE.

SAN JOAQUIN RESERVOIR ACCESS ROAD AND RESERVOIR LINER REPAIR

General Manager Jones reported that portions of three access points and two access roads at the San Joaquin Reservoir are in need of repair. Age, heavy construction traffic, and storm water erosion have damaged several sections of the main access road and the chemical delivery access road. The asphalt concrete reservoir liner is also showing signs of damage. This reservoir was empty for many

years and this should not be unexpected once the reservoir and liner were re-watered that you might have some cracking along the joints between the sections of the liner. We are asking that a capital budget item be established and approve an expenditure authorization and also retain a sole source design engineering firm LaBelle Marvin to complete an analysis and finalize the recommendations for repair of the asphalt. LaBelle Marvin is an expert in asphalt linings so they will look at both the roads and the reservoir lining.

Director of Engineering Heiertz reported that basically the project breaks down to three areas. The Ford access road which is the main ingress/egress road to the reservoir facilities has sustained damage during this most recent winter storms, undermining of the roadway and gullies; damage at the front gate; and also a need to upgrade drainage of the road to prevent damage in the future. The estimated cost for the repairs is \$75,000. Chambord access road is an alternative access to the facility and also has experienced some erosion and raveling along the edges of the road and needs drainage work to prevent future damage. The cost of repairs for Chambord is estimated to be \$50,000. The expansion and contraction of the clay liner underneath the asphalt protection in the reservoir has caused some distress particularly the joints between the asphalt panels. We need to do some crack repair and patching of the reservoir for a cost of \$65,000 to \$100,000. We are asking for budget approval to do that work and also hire LaBelle Marvin under the General Manager's authority to do a design for each of these three areas.

Director Peer Swan stated that during the storms last year the road was under water and covered with debris. This will be a good fix.

Director Reinhart reported that the Engineering Committee spent some time reviewing this item. Ford access road is the main road to the reservoir and used for resident tours and should be improved to become an all weather road. It is felt that Chambord road repair is warranted and should also be kept viable during all weather periods. The Committee felt that the reservoir liner issue is due to the fact that clay under the liner was dry for a several years and now has water applied to it and is causing the cracking and as staff has indicated a routine issue that needs to be addressed. We recommend approval. On MOTION by Director Reinhart, seconded and unanimously carried, **AUTHORIZETHE ADDITION OF PROJECT 30277 TO THE FY 2005/06 CAPITAL BUDGET FOR \$299,200 FOR THE SAN JOAQUIN RESERVOIR ACCESS ROAD AND RESERVOIR LINER REPAIR PROJECT.**

RATTLESNAKE AND SAND CANYON RESERVOIRS SAMPLING ACCESS FACILITIES – CONSTRUCTION AWARD

General Manager Jones reported that this project is both for Rattlesnake and Sand Canyon Reservoirs upgrades to the sampling access facilities that involve construction of slip-resistant concrete walkway/stairway to both reservoirs for weekly water sampling. This item is a construction award and asked that Mr. Heiertz report on this item.

Director of Engineering Heiertz said that this is a safety related item. We send people to the reservoirs on a weekly basis to conduct water quality sampling. This water sampling is required by the National Pollutant Discharge Elimination System (NPDES) permit that allows us to put water in the reservoirs. The areas where the employees are required to go are unimproved; they tend to be

muddy, slippery and it is difficult to load equipment on the boats and to launch the boats. We want to provide concrete ramps, walkways, and handrails for the personnel that do the work at both the reservoirs. We requested Jacobson Helgoth Consultants to provide a design for this project. We went out to bid with the design and received four bids with the low bidder being Southland Construction for \$310,000. The engineer's estimate was \$335,000. Mr. Heiertz reported that we had no previous experience with Southland Construction, so we conducted an extensive reference check. The references were excellent from previous clients. Staff feels confident in recommending the contract be awarded to Southland Construction.

President Miller stated that since this item was a construction award, it had not been reviewed by a committee. On MOTION by Director Matheis, seconded and unanimously carried, AUTHORIZE A BUDGET INCREASE FOR PROJECT 30132 BY \$316,800, FROM \$176,000 TO \$492,800; APPROVE AN EXPENDITURE AUTHORIZATION FOR \$359,700; AND AUTHORIZE THE GENERAL MANAGER TO AWARD A CONTRACT WITH SOUTHLAND CONSTRUCTION FOR \$310,000 FOR THE RATTLESNAKE AND SAND CANYON RESERVOIRS SAMPLING ACCESS FACILITIES PROJECT.

NON-CONFORMING POTABLE WATER USE

General Manager Jones reported that this item was discussed at the August 22, 2005 Board meeting and requested the Board to consider two resolutions that would result in us having the ability to increase potable water rate for a potential recycled water customer that under extreme cases elected not to use recycled water. The Board asked several questions and asked staff to look into and respond to several issues. We did so and took the item back to the Water Resources Policy and Communications Committee on September 12, 2005. The intent of this item is to respond to those questions and Exhibit "B" provides a copy of the issues raised by the Board and the responses to those issues.

General Manager Jones focused on four areas initially discussed. That is financial incentives, other rationales that we would consider for not using recycled water, the overall process that is used, and the number of customers that this would potentially apply to. First question that was raised was what financial incentive programs that we have in place to compel potential recycled water users to convert. That is provided in two areas. First irrigation customers receive a 10% reduction in rate that we did adopt several years ago, an alternative rate for industrial or base loaded customers that provides a 40% discount on their water rate as an incentive because they are base loaded customers that take water at about the same rate during the winter. In addition, the Board authorized \$250,000 on an annual basis of penalty revenue to be used as grants for recycled water conversion grants. We have used these for Royalty Carpets for example for some of their conversion costs and again to provide staff another tool to approach recycled water customers and help make the conversion of recycled water as easy as possible and provide them an immediate financial benefit.

A second question that was raised was what other rationale we would consider to be viable excuses for customers not using recycled water. One of the things that were noted is that we can refer to Section 13550 an analogous provision of the Water Code that has three areas that allow a customer to provide justification for not using recycled water instances where the use is ordered. Those

include water quality, cost, public health and water rights. Focusing on the cost question, one of the issues that came up about business impacts is the potential negative perception of a product used or made with recycled water. Staff analyzed that question; we believe it falls under the cost category. For example, a bottled water manufacturer would not be required to use recycled water because that could certainly damage the marketability of their product; that is the type of thing that we would consider in this process. We would certainly ask the customer to provide a rationale and then that would be considered through our process.

The third question was regarding the process. We do have a very extensive customer development program and we offer various financial incentives, we try to minimize the customer costs for doing engineering analyses and other things necessary to provide conversions and what we would then resort to only if a customer refused to the talk to the District is potentially considering this non-conforming potable water rate. In that process, the first thing we do is to contact the Board, the Water Resources Committee, where we have the opportunity to review the specific circumstances of this case. We then use multiple communications in writing with the customer and request the customer engage with us and explain why they are not considering the use of recycled water. And through all these steps we would have clear communications with the Board with no surprises in the process. The first step before any negative letter would be sent out, it would be coordinated with the Water Resources Committee and staff would make every effort to contact and engage the customer ahead of time.

The fourth question that came up was the number of customers; I do not have a specific list. The requested list was asked for subsequent to the board packet going out. The customers are spread in a number of reports, in fact we are in the process of updating those reports, to get a more precise number, but we estimate about 176 potential sites. About 90 in IBC and 84 in the City of Lake Forest that need to be characterized and broken down.

In summary, I think we have a very balanced proposal on the table to consider applying a higher water rate. It is not a punitive step and would be used very infrequently and only after all effort is made to engage the customer in a positive manner. In the extraordinary cases where it would apply, we have a very good appeal process that includes before starting the process going through Board, through the Water Resources Committee and then an appeal process through the General Manager and the Board which I think ensures a fair and reasonable consideration of the customer's position. The exhibits in your packet provide the responses to the issues that the Board requested and we also included for your consideration, the resolutions to revise the rules and regulations and also adopt the changes to the schedule of rates and charges to incorporate the non-conforming potable water use for this purpose. Vice President Matheis stated that there were enough protections and the appeal process was addressed in the Committee meeting and I support the Committee's position.

Director Swan stated that he continues to feel uncomfortable about the process, even though there are many appeal processes and a lot of protection. It still means that a plant manager or general manager of a facility has to come to the District and go through a process where a lot of his time is committed to dealing with another level of bureaucracy. He stated that people are evaluating if they are going to have facilities in our service area and this might be the one thing that helps with their decision to change locations. Director Swan wanted to know who the 176 customers are that could be affected by the rate and who we are targeting. Certainly, when we adopted our rate structure, the

budget base ascending block rate structure, we went through many months putting that together. I am fine with landscaping portion and most of Lake Forest is probably landscape customers. The industrial business operators will not understand all of the safeguards that are in place to protect them prior to penalty. Director Swan stated that he was uncomfortable and not ready to vote at this time and requested a target list be prepared by staff.

President Miller wanted to respond to a couple of Director Swan's concerns. It is not a regulation and not a bureaucracy; it is actually an offer to reduce cost. That offer would be 40% reduction in water cost and should be attractive providing it meets the criteria and there is an explainable return of investment with that industry. Moulton Niguel Water District has the same program and has only threatened to use it once and ever since that one time it has not been questioned or countered by industrial type users. I see this is a fair process, not something punitive. We need to be creative, very fair and work with potential customers on all the nuances of development of recycled water use with them.

Director Withers stated the key to this process at the proper time will be to work with the chambers or business councils and proactively present presentations to groups that will listen. This is an important part of our water resource management and we owe it all the customers to get this done with the appropriate safeguards.

Director Reinhart stated that he is favor of the regulation and implementing it with the safeguards that are in place. I trust the Committee that will be monitoring this program and to direct staff in the manner we want them to move forward.

President Miller stated that it would be inappropriate not to have this policy in place at the beginning of the program. On MOTION by Matheis, seconded and carried (4-1) with Swan voting no, THE FOLLOWING RESOLUTIONS WERE ADOPTED BY TITLE:

RESOLUTION NO. 2005-30

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT, ORANGE COUNTY CALIFORNIA
RESCINDING RESOLUTION NO. 2003-39
AND ESTABLISHING REVISED RULES AND REGULATIONS
OF THE IRVINE RANCH WATER DISTRICT
FOR WATER, SEWER, AND RECYCLED WATER,
NATURAL TREATMENT SYSTEM SERVICE
AND EXHIBITS THERETO

RESOLUTION NO. 2005 – 31

RESOLUTION OF THE BOARD OF DIRECTORS OF IRVINE
RANCH WATER DISTRICT, ORANGE COUNTY, CALIFORNIA
RESCINDING RESOLUTION NO. 2005-20 AND ADOPTING
CHANGES TO THE SCHEDULE OF RATES AND CHARGES AS
SET FORTH IN EXHIBIT “B” TO THE RULES AND
REGULATIONS OF IRVINE RANCH WATER DISTRICT
FOR WATER, SEWER AND RECYCLED WATER,
NATURAL TREATMENT SYSTEM SERVICE
AND EXHIBITS THERETO

GENERAL MANAGER’S COMMENTS

General Manager Jones reported that he was invited to speak on the NTS project and selenium at the Regional Water Quality Control Board meeting being held at the Orange County Sanitation District on Friday, September 30, 2005.

DIRECTORS’ COMMENTS

Director Reinhart informed the Board that South Orange County Wastewater Authority Executive Committee met and subsequently met with Tom Rosales and developed a contract with him to be approved by the full board in October to replace David Caretto at the first of the year.

Director Swan announced that his son was married last week and that Carl Ballard’s daughter was married in early September. He planned to attend meetings at MET on Wednesday; Urban Water Management Plan Workshop and California Dialogue Group – Water Transfers. He met with Larry Agran to discuss the Great Park and Mr. Agran was very interested in HOW the San Joaquin Wildlife Sanctuary came together and operations of sanctuary. He attended the Crystal Cove Alliance event.

Vice President Matheis reported she would be hosting a fall resident tour on October 8. She reminded the Board members of Ron Linsky’s Celebration of Life event on October 15 and that she was attending the Colorado River Symposium held in Santa Fe, New Mexico on September 28-30, 2005.

President Miller reported that he attended the WateReuse Annual Symposium in Denver, Colorado. Last year 350 attended, 600 attended the symposium this year. WateReuse Association is a very well respected organization. President Miller also reported that he will be the Chair for the 2006 Annual Symposium to be held in Hollywood, California. Also reported that he has serving for the District on the AB 2717 Landscape Task Force and they have prioritized the top 12 action items. Top priority “Urban water suppliers (wholesalers and retailers) should adopt water conserving rate structures as defined by the Task Force”.

President Miller stated that a Closed Session would not be held.

ADJOURNMENT

There being no further business, President Miller adjourned the meeting at 7:40 p.m.

APPROVED AND SIGNED this 10th day of October 2005.

President, IRVINE RANCH WATER DISTRICT

Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel – Bowie, Arneson, Wiles and Giannone