

MINUTES OF REGULAR MEETING – APRIL 14, 2008

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order at 6:07 p.m. by Director Reinhart on April 14, 2008 in the District office, 15600 Sand Canyon Avenue, Irvine, California. Due to the absence of President and Vice President, Director Reinhart was appointed acting Chairman.

Directors Present: Reinhart, Swan and Withers

Directors Absent: Matheis and Miller

Also Present: General Manager Jones, Assistant General Manager Cook, Director of Engineering Heiertz, Assistant Board Secretary Savedra, Legal Counsel Arneson, Ms. Debby Cherney, Mr. Christopher Smithson, Mr. Rob Jacobson, Ms. Beth Beeman, Mr. Jim Reed, Mr. Carl Ballard, Mr. Mike Hoolihan, Mr. Terry Loomis, Mr. Jim Carter, Mr. Bruce Newell 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 currently, wells C-8, C-9, 10, and 18 are in operation in accordance with the District's annual pumping plan. The District's planned pumping for April is 1,800 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 Golden State Water Company. Contracts were awarded by OCWD to Layne Christensen Company and Bakersfield Well & Pump, Inc. to construct a total of eight wells. OCWD has reported that the project has been finalized, and that issuance of a Notice of Completion was approved by the OCWD Board of Directors on March 19, 2008. Metropolitan Water District has given notice to OCWD that it will begin extracting a portion (i.e. 20,000 acre feet) of its 50,000 acre-feet in storage beginning in fiscal year 2008/09. This was confirmed by Mr. Jones.

Relative 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. This was confirmed by Mr. Jones. He also reported that staff is in contact with OCWD to provide alternative pumping scenarios on their groundwater model.

Relative 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. This was confirmed by Mr. Jones.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED: None

WORKSHOP

PROPOSED FISCAL YEAR 2008/09 OPERATING BUDGET AND RATE IMPACTS

General Manager Jones said the proposed Operating Budget for Fiscal Year 2008/09 has been developed by staff and the proposed budget and associated assumptions have been reviewed by the Finance and Personnel Committee on March 4, March 24 and April 1, 2008. Mr. Jones said the proposed operating budget for Fiscal Year 2008/09 is \$101.4 million. He said that public notice of this workshop was given by publication in the Register on April 7, 2008.

Using a PowerPoint presentation, Mr. Christopher Smithson reported on the overall operating expense budget. He said at the March 24 and April 1 meetings, the Finance and Personnel Committee recommended the following minor changes to the budget which have been included by staff: Reduce repairs and maintenance by \$50,000 to capitalize a strainer replacement; matching the untreated water rate increase with the increase proposed by MWDOC, setting the untreated rate at \$441 per acre foot, and adjusting the native water rate accordingly; and increase the replacement surcharge component by \$0.15 to \$0.40 to reach a total contribution of \$6.9 million.

Mr. Smithson said that the District's proposed FY 2008/09 Consolidated Operating Budget totals \$101.4 million, representing a \$6.6 million or 6.97% increase over the Fiscal Year 2007/08 Operating Budget. He said that one of the major areas affected by this increase corresponds directly to cost increases imposed by external entities over which the District has little or no control. These uncontrollable cost increases comprise \$3.4 million, or 51% of the total budget increase, leaving the remaining \$3.2 million or 49% increase attributable to controllable costs.

Mr. Smithson said the increase in the fixed sewer service charge for FY 2006/07 included a component to fund the existing users' portion of replacement projects. This component was expected to grow each year at a rate established by the Board to minimize potential "rate shock" for future capital replacement needs. In addition, a component has been added to provide a portion of the funding for enhancement capital costs. The user/replacement rate component added to the sewer service charge for a typical residential customer is proposed to increase from \$3.05 to \$3.45 for FY 2008/09. The reason the increase is limited to the sewer system rate component is due to the disparity in fund balances between the water and sewer systems, and the projected magnitude of sewer replacement costs in the future. The proposed increase will generate an additional \$700,000 and increase the annual replacement fund contribution from \$6.2 million to \$6.9 million for FY 2008/09.

Mr. Smithson said staff has added an enhancement component to both the water and sewer fixed service charge in FY 2008/09 based on Board direction from the July 16, 2007 Board Workshop. The added component is \$0.15 on the fixed service charge of both systems and it will generate \$373,000 and \$346,000 for the treated water and sewer systems, respectively.

Mr. Smithson said that staff had reviewed costs and revenues for the treated water system, the untreated water system and the sewer system which included reclaimed water irrigation. He then reviewed the proposed changes to the water and wastewater rates for the Irvine Ranch rate area, Santiago County rate area, and the Los Alisos rate area recommended for Fiscal Year 2008/09. Using charts, Mr. Smithson provided comparison of IRWD's proposed water rates to current rates in neighboring agencies.

Mr. Smithson said that the second workshop would be held on April 28, 2008. Mail notification to residents meeting Proposition 218 requirements would be mailed May 1, 2008.

CONSENT CALENDAR

Following comments by Director Swan on item #6, On MOTION by Withers, seconded and unanimously carried, CONSENT CALENDAR ITEMS 4 THROUGH 8 WERE APPROVED AS FOLLOWS:

4. MINUTES OF BOARD MEETING

Recommendation: That the minutes of the March 31, 2008 Board Meeting be approved as presented.

5. APPROVE BOARD OF DIRECTORS' ATTENDANCE AT MEETINGS AND EVENTS

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

6. MWDOC DANA POINT OCEAN DESALINATION PROJECT

Recommendation: Based upon the projected unit cost and limited reliability benefits to the IRWD service area relative to other currently proposed projects, staff recommends that the District not participate in the proposed Dana Point project. However, due to the reliability benefits the project will potentially provide to other South Orange County MWDOC member agencies, staff recommends supporting the project by assisting MWDOC, South Coast Water District, and other participants in obtaining additional state and federal funding for the project and assisting with technical service and potential operational support as requested by the lead agency, South Coast Water District.

7. ASSET OPTIMIZATION – SAND CANYON OFFICE PROJECT – RETENTION OF PROJECT MANAGER

Recommendation: That the Board approve the retention of Newport Real Estate Services to provide project/construction management services for Phase 1 of the Sand Canyon Office Project in an amount not to exceed \$148,500.

8. ASSET OPTIMIZATION – WATERWORKS WAY BUSINESS PARK –
RETENTION OF REAL ESTATE BROKER

Recommendation: That the Board approve the retention of Voit Commercial Brokerage to provide marketing/leasing services related to the Waterworks Way Business Park with terms consistent to those in the proposed fee schedule.

ACTION CALENDAR

PURCHASE OF AUCTION RATE SECURITIES AND VARIABLE RATE DEMAND
OBLIGATIONS

General Manager Jones said at the March 31, 2008 Board meeting, staff was authorized to invest in municipal auction rate securities (ARS) and variable rate demand obligations (VRDOs) under specified criteria and to liquidate existing fixed-income securities expeditiously to fund such investments. He said staff has purchased \$51.7 million of ARS and VRDOs, and has liquidated \$34.2 million of securities and used proceeds of other matured securities to fund these purchases.

Mr. Loomis said that following the Board action on Monday, March 31, 2008 directing staff to invest in municipal ARS and VRDOs, staff contacted five of the District's existing brokers to explain the new investment program and to request listings of available securities that met the Board-approved criteria:

- Insured VRDOs or ARS.
- Issuers must be California enterprise districts (e.g., water, sewer, power, etc.).
- AA- or better underlying ratings on the issuers.
- Issues must be revenue bonds, not general obligation (GO) bonds.
- Prefer larger blocks of securities (\$5 million or more), but will consider smaller amounts.

Mr. Loomis said to provide a broad coverage of the two markets, staff also contacted other major brokers active in these markets and set up accounts with Lehman Brothers and Merrill Lynch. In order to further facilitate identifying eligible issuers, staff contacted the rating agencies to determine if they could provide information on California issuers with AA- or better ratings and received lists from Standard & Poors and Fitch of California that identified water and sewer agencies with ratings of AA- and higher.

Mr. Loomis said that staff has contacted the brokers on a daily basis and reviewed listings of available securities. Staff also has independently researched many of the issuers to determine if they were enterprise districts and had the requisite AA- or better underlying rating. This was necessary as the brokers' listings could not distinguish enterprise districts and generally only had the ratings on the bond issue, which reflected the insurer's ratings.

Mr. Loomis said that since the March 31 Board meeting, staff has put in six bids totaling \$100.0 million on ARS, and has been successful in receiving \$50.0 of securities from three issuers at an initial average rate of 4.42%. On the most recent \$20.0 million bid for ARS that were issued by the Sacramento Regional County Sanitation District, staff did not receive any bonds as our bid rate of 5.0% was equal to the rate at which the existing holders were willing to keep the bonds.

Mr. Loomis said on April 2, staff purchased \$1.7 million of a weekly VRDO with a 4.5% yield issued by Metropolitan Water District. Since that time, no other VRDOs have been available that meet the Board-approved investment criteria. He said these purchases were funded by available monies from maturing securities and the sale of \$34.2 million of securities in the fixed-income portfolio. Given the limited supply of VRDOs and the uncertainty of how many ARS might be received in the auction process, staff has sold existing securities only as necessary to complete the successful purchases of the VRDOs and ARS.

Mr. Loomis said staff has investigated the possibility of buying our own ARS, notwithstanding that a large portion (\$160 million) of them are outside the Board-approved investment guidelines because they are both unrated and general obligation (GO) debt.

Mr. Loomis said while the State of California, the Securities and Exchange Commission and the Internal Revenue Service very recently have taken actions to make it possible under certain conditions to buy our own bonds, there are several factors that limit this as a viable option at this time as follows:

- The bond documents need to be amended and certain disclosure materials prepared, both of which require Board approval;
- The insurance companies must provide their consent to the amended bond documents;
- Co-bond counsel need to negotiate with the broker-dealers on the form of opinions they will require; and
- There must be a two-business day notice after Board approval before the District could bid on its own debt.

Mr. Loomis said based on these requirements and perfect timing, staff could only be in a position to bid on our GO issues on April 18, leaving only one week before the scheduled redemptions on April 25. Any savings from purchasing our bonds for a one week period would be partially offset by the costs associated with the work effort, and if the third parties do not respond timely, the District would have paid the additional fees and costs with no upside benefit.

Mr. Loomis said based on staff's experience and discussions with brokers over the past two weeks, there is a very limited amount of available securities that meet the Board's approved criteria and provide a substantially higher yield than traditional investment securities. Staff believes there are several reasons for this as follows:

- Many of the ARS issues that meet our criteria have formula-driven maximum rates based on short-term taxable or tax-exempt indexes, so as interest rates have come down, so have their maximum rates;
- There are more investors in the market trying to take advantage of the higher rates, which has pushed rates down somewhat;
- There is less supply available in the markets due to bond refundings;
- Existing bond issues that have been called but not yet refunded now have a "put" for liquidity purposes, so rates have been driven downward; and
- In the VRDO market, investors are looking past the insurers' credit ratings and focusing on the underlying ratings, as we are doing. Consequently, many investors are continuing to hold these securities as long as the yields are high.

Mr. Loomis said that staff continues to believe that the basis of the Board's criteria is appropriate, but there also are some potential adjustments that would expand the number of eligible securities while maintaining reasonable credit standards and increasing yields.

Mr. Loomis said staff is recommending Board approval of the following adjustments to the criteria with regard to purchasing ARS and VRDOs as follows:

1. Allow the purchase of ARS and VRDOs from all California issuers that have an underlying rating of AA- or better.
2. Allow the purchase of ARS and VRDOs that have an underlying credit rating of at least A- or equivalent or have not been assigned any underlying rating, but at least one other outstanding debt issue of the issuer has an underlying credit rating of at least AA- or equivalent.
3. Allow the purchase of ARS and VRDOs that have an underlying credit rating of at least A- or equivalent or have not been assigned any underlying rating, but have been called for redemption.

Mr. Loomis said while there is no guarantee that staff will be successful in purchasing ARS and VRDOs at the higher yields, staff believes these adjustments will provide a greater range of investment opportunities within reasonable credit standards. In any case, staff will continue to aggressively research and identify eligible ARS and VRDOs for investment opportunities and expeditiously convert the portfolio as directed by the Board.

A motion was made and seconded to adopt staff's recommendation. Mr. Loomis responded to questions concerning the limited availability of insured VRDOs, related to the put feature. Director Swan proposed, as an amendment to the motion, that the criteria modifications be made and that in addition, certain of the issuers in the available- securities listing in the agenda materials be specifically included along with the recommended parameters, to further expand the range of opportunities. Director Swan asked whether any of the factors limiting the ability of IRWD to acquire its own ARS might be mitigated if Bardeen Partners or another of IRWD's affiliated entities were to do so. Legal Counsel Arneson said she would need to review whether this might reduce any of the limiting factors such as Board-approved securities disclosure. Acting Chairman Reinhart said staff should be authorized to do this only if it is legally possible, and that staff should proceed with caution.

On MOTION by Swan, seconded and unanimously carried, STAFF AND LEGAL COUNSEL WERE DIRECTED TO DETERMINE IF IT IS FEASIBLE FOR ONE OF IRWD'S AFFILIATED NON-PROFIT ENTITIES TO PURCHASE IRWD'S ARS, AND IF SO, STAFF WAS AUTHORIZED TO DO SO; AND THE FOLLOWING RESOLUTION WAS ADOPTED BY TITLE, AS REVISED TO ADD INVESTMENTS IN VRDOs AND ARS OF WEST BASIN MUNICIPAL WATER DISTRICT, CHINO BASIN DESALTER, ANAHEIM, EL DORADO IRRIGATION DISTRICT, ELSINORE VALLEY MUNICIPAL WATER DISTRICT AND SACRAMENTO SUBURBAN WATER DISTRICT.

RESOLUTION NO. 2008-17

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

SOUTH ORANGE COUNTY EMERGENCY INTERTIE AGREEMENT

General Manager Jones said IRWD has been participating in discussions with water agencies servicing south Orange County to work out the details of how emergency supplies of water could be conveyed through IRWD facilities to improve the system reliability in South County. Mr. Jones said that a draft agreement has been prepared that provides for the South County agencies to buy the required capacity in the IRWD system and reimburse IRWD for various new intertie facilities to insure that up to 30 cfs of water supply is available in an emergency.

Director of Engineering Heiertz said MWDOC has been studying the abilities of its member agencies to maintain a continuous supply of high-quality water to its retail customers. Of concern has been system reliability, which is manifested by failure events requiring recovery times of 3 to 30 days, and supply reliability, which addresses extreme failure events requiring long recovery times as well as a prolonged drought. Mr. Heiertz said retail water agencies in south Orange County must rely primarily on the MWD transmission mains and surface storage reservoirs and are, therefore, at significantly great risk from infrastructure failure.

Mr. Heiertz said several south Orange County water agencies have developed a multi-phased approach for addressing water reliability issues in South County. Phase A, which is already complete, focused on implementing a short-term Emergency Service Program that accommodates limited emergency flows from the IRWD system to the Regional Transmission Main and the Aufdenkamp Pipeline. In Phases B, C and D, IRWD will complete the permanent intertie facilities.

Mr. Heiertz said the intent of the Phase A was to address the immediate reliability needs of South County retail agencies. By utilizing existing infrastructure and constructing minimal new facilities, these agencies are more prepared to accommodate the outages MWD has planned for the coming years, as well as certain limited short-term outages. Highlights of the next phases include:

- Utilizing and paying for capacity in existing IRWD facilities, specifically the Dyer Road Wellfield (DRWF) and transmission mains which do not require construction of any new wells or pipelines;
- Reimbursing IRWD for past upsizing costs;
- Constructing a new intertie pump station between the existing IRWD system and the Joint Regional Transmission Main (JTM), the Aufdenkamp Transmission Main (ATM) and Allen McColloch Pipeline (AMP);
- IRWD making a firm commitment of emergency water supply until 2030; and
- IRWD not exceeding its current net annual pumping quantities resulting in no net impact on the groundwater basin.

Mr. Heiertz said that upon completion of the facilities, IRWD would convey water from the DRWF as a “contractor” to MWDOC, and MWDOC would then sell the “emergency water” to the South County agency(s) in need. IRWD will be reimbursed for the water by MWDOC at the MWDOC rate, as well as any operational expenses. MWDOC will then determine its costs and pass them on to the beneficiary agency(s). The next step in this process is execution of an agreement between IRWD and the participating South County agencies. The agreement will include purchase of capacity in the DRWF facilities based on firm flow commitment and the depreciated value of the facilities. This item was reviewed and approved by the Engineering and Operations Committee on March 20, 2008. There being no further discussion, On MOTION by Withers, seconded and unanimously carried, THE BOARD AUTHORIZED THE PRESIDENT TO EXECUTE THE SOUTH ORANGE COUNTY IRVINE RANCH WATER DISTRICT INTERCONNECTION PROJECTS PARTICIPATION AGREEMENT SUBJECT TO FINALIZATION OF NEGOTIATIONS WITH THE SOUTH COUNTY AGENCIES AND SUBJECT TO NON-SUBSTANTIVE CHANGES APPROVED BY THE GENERAL MANAGER AND LEGAL COUNSEL.

SOUTH ORANGE COUNTY INTERCONNECT PHASES B, C, AND D PROJECT
MITIGATED NEGATIVE DECLARATION

General Manager Jones said water agencies in south Orange County rely primarily on imported water supply from the Metropolitan Water District of Southern California (MWD). In an effort to address vulnerability during outages for south Orange County water agencies, Irvine Ranch Water District (IRWD) is proposing to implement Phases B, C, and D of the South Orange County Interconnect Project. The South Orange County Interconnect Project would convey excess supply within IRWD’s water system to South County water agencies in the event of a planned or emergency outage of the MWD imported water supplies.

Director of Engineering Heiertz reported in an effort to address vulnerability during outages for South County water agencies, the Municipal Water District of Orange County (MWDOC) completed a study entitled “Interconnection of the Irvine Ranch Water District Water System to the South Orange County Water Transmission System” in July 2006. The intent of the study was to identify means for conveying excess supply within IRWD’s water system to the South County water agencies in the event of a planned or emergency outage of the MWD-imported water supplies. Available supply was identified within IRWD’s Dyer Road Well Field and three imported water connections in varying capacities depending on time of year, condition of the groundwater basin, and demand within IRWD’s water system. A maximum of 30 cubic feet per second (cfs) was identified as available for conveyance to South County water agencies during the 25-year period that was analyzed. The report identified three total phases (later separated into four phases) for the IRWD Interconnection Project, which consists of Phase A, connections to the Joint Transmission Main (JTM) and Aufdenkamp Transmission Main (ATM); Phase B, construction of a permanent pump facility to boost excess supply from IRWD’s Zone 1 and Zone 4; Phase C, increased pumping capacity at the existing Zone 3 to 4 Pump Station and connection to the Allen-McColloch Pipeline (AMP); and Phase D, connection to South County Pump Station. Phase A facilities were completed in November 2007. IRWD is now proposing to implement Phases B, C, and D of the IRWD Interconnect Project.

Mr. Heiertz said that Phase B new pump station would be located at IRWD's Zone 1 Reservoir in the City of Irvine. Phase C modifications to IRWD's Zone 3-4 Booster Pump Station and interconnection pipe between IRWD Zone 4 system to the OC-72 AMP turnout would be located in the City of Irvine, with the interconnection pipe between the AMP and South County Pump Station located in the City of Lake Forest. Phase C would also consist of piping and appurtenances between the existing AMP pipeline and the South County Pump Station in the City of Lake Forest. Phase D would consist of construction of approximately 7,400 linear feet of pipeline to the South County Pump Station within the cities of Irvine and Lake Forest.

Mr. Heiertz said no new water supply would be made available as a result of the project. Construction of the project is estimated to begin in 2008. Construction of the facilities is scheduled to be completed by 2010. This item was reviewed and approved by the Engineering and Operations Committee on March 20, 2008. On MOTION by Withers, seconded and unanimously carried, THE BOARD CERTIFIED THE MITIGATED NEGATIVE DECLARATION SOUTH ORANGE COUNTY INTERCONNECT PROJECT; DIRECTED STAFF TO PROCESS AND COMPLETE THE STATUTORY ADMINISTRATIVE RECORD NECESSARY TO MEET THE REQUIREMENTS UNDER THE CALIFORNIA ENVIRONMENTAL QUALITY ACT UPON CERTIFICATION; AND DIRECTED STAFF TO POST AND FILE A NOTICE OF DETERMINATION WITH A DEPARTMENT OF FISH AND GAME FILING FEE.

GENERAL MANAGER'S REPORT

General Manager Jones reported that AB 2882 unanimously passed by a 64 to 1 margin and will go to the Senate floor. He said that the Orange Park Acres Mutual Water Company (OPAMWC) shareholders meeting was held April 10, 2008, and the consolidation with IRWD was approved, and, following the completion of the conditions in the OPAMWC agreement for filing the merger, the merger and annexation would become effective on June 1, 2008.

DIRECTOR'S COMMENTS

Director Swan reported he attended an Orange County Business Council workshop and an SAWPA meeting. He said the May 2 WACO meeting has been cancelled due to the OC Summit being held the same date and time.

Director Withers reported that there is an upcoming meeting of the Independent Special District Selection Committee to fill one of the LAFCO special district representative's seat, whose term is expiring.

ADJOURNMENT

There being no further business, acting Chairman Reinhart adjourned the meeting at 7:30 p.m.

APPROVED and SIGNED this 28th day of April, 2008.

President, IRVINE RANCH WATER DISTRICT

Assistant Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel – Bowie, Anson, Wiles & Giannone