

MINUTES OF REGULAR MEETING – FEBRUARY 13, 2006

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order by President Swan at 6:00 p.m., February 13, 2006 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

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

Directors Absent: None

Also Present: General Manager Jones, Assistant General Manager Cook, Director of Engineering Heiertz, Treasurer Loomis, Secretary Bonkowski, Legal Counsel Arneson, Ms. Beth Beeman, Ms. Deborah Cherney, Mr. Jim Reed, Dr. Tom Bishop, and other members of the public and staff.

WRITTEN COMMUNICATIONS: None

ORAL COMMUNICATIONS:

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 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 Mr. Jones, General Manager of the District.

With respect to the Orange County Basin Groundwater Conjunctive Use Program being coordinated by Municipal Water District of Orange County (MWDOC) and Orange County Water District (OCWD), the agencies participating are the cities of Anaheim, Westminster, Santa Ana, Buena Park, and Garden Grove, Yorba Linda Water District and Southern California Water Company. Contracts have been awarded by OCWD to Beylik Engineering and Bakersfield Well & Pump, Inc. to construct a total of eight wells. The well drilling is complete and it will take an additional 18 months to complete the wellhead facilities. OCWD released the Environmental Impact report in early January 2006. OCWD is required to have the wells operational by March 2008. Following well construction, each well will be owned by the individual participating agencies. This was confirmed by Mr. Jones.

ITEMS TOO LATE TO BE AGENDIZED – None

CONSENT CALENDAR

On MOTION by Matheis, seconded and unanimously carried, CONSENT CALENDAR ITEMS 3 THROUGH 6 WERE APPROVED AS FOLLOWS:

3. MINUTES OF BOARD MEETINGS

Recommendation: That the minutes of the January 23, 2006 Board of Directors' meeting be approved as presented.

CONSENT CALENDAR (CONTINUED)

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

Recommendation: Ratify/approve the meetings and events for Mary Aileen Matheis, Darryl Miller, Peer Swan and John Withers.

5. QUITCLAIM OF REAL PROPERTY

Recommendation: That the Board adopt the following resolution by title approving execution of the quitclaim deed to The Irvine Company, LLC.

RESOLUTION NO. 2006-6

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT
APPROVING EXECUTION OF THE QUITCLAIM DEED TO
THE IRVINE COMPANY, LLC

6. ESTABLISHING A REVISED POLICY ON BUSINESS EXPENSE REIMBURSEMENT, TRAVEL, MEETING ATTENDANCE, AND REPRESENTATION

Recommendation: That the Board adopt the following resolution by title rescinding Resolution No. 2003-47 and establishing a revised policy on business expense reimbursement, travel, meeting attendance, and representation.

RESOLUTION NO. 2006 - 7

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT
RESCINDING RESOLUTION NO. 2003-47 AND
ESTABLISHING A REVISED POLICY
ON BUSINESS EXPENSE REIMBURSEMENT, TRAVEL,
MEETING ATTENDANCE, AND REPRESENTATION

ACTION CALENDAR

AUDITOR SELECTION FOR FIVE-YEAR CONTRACT COMMENCING WITH FY 2005-06

General Manager Jones reported that the District's three-year contract with Conrad and Associates, L.P. expired with the conclusion of the audit and financial reporting for FY 2004-05. Mr. Jones said that staff decided to take the District's audit services to market in the form of a Request for Proposal for audit services. He said that following an evaluation of the proposals received, staff recommends the retention of Mayer Hoffman McCann P.C. (Conrad Government Services).

Controller Cherney reported that staff solicited proposals from 15 firms, and received proposals from Mayer Hoffman McCann (formerly Conrad and Associates), Caporicci & Larson CPAs,

and Vavrinek, Trine, Day, LLP. She said following a review of the proposals, even though Mayer Hoffman was not the lowest bid, they felt they were the best choice for the professionalism of the audit team, posed timing of audit hours, and other factors. The five-year agreement is expected to cost the District \$226,615 plus possible single audit fees not to exceed \$11,000 over the five-year period.

Director Matheis reported that this item was reviewed and approved by the Finance and Personnel Committee meeting on February 7, 2006. She said that the District was very satisfied with Conrad's past performance at the District. President Swan concurred with Ms. Matheis' comment. On MOTION by Matheis, seconded and unanimously carried, THE BOARD AUTHORIZED THE EXECUTION OF AN AUDITING CONTRACT WITH MAYER HOFFMAN MCCANN P.C., CONRAD GOVERNMENT SERVICES DIVISION FOR A FIVE-YEAR AGREEMENT FOR A TOTAL ESTIMATED COST OF \$226,615 AS SET FORTH IN THEIR PROPOSAL DATED JANUARY 25, 2006.

LAKE FOREST PROPERTY DEVELOPMENT – CONSULTANT SELECTION

General Manager Jones reported that staff recommends that the Board authorize the execution of a professional services agreement with Alvarez & Marsal Real Estate Advisory Services (A&M) to provide consulting services related to the proposed development multi-family rental units on the former LAWD headquarters property in Lake Forest.

Treasurer Loomis reported that staff has been working with Lewis Apartment Communities to structure a partnership agreement for the development of a multi-family project on the former LAWD headquarters site in Lake Forest. Mr. Loomis said that staff felt it would be beneficial to retain an independent consultant to ensure that any such agreement would be consistent with market conditions for similar transactions. He said that at the October 2005 Asset Management Committee meeting, the Committee approved retaining A&M to provide the District with an independent market analysis for the project and to assist in the preliminary phase of structuring a development agreement. A&M completed their initial scope and provided a report to the Committee at the January meeting. At that time, staff also requested that the Committee recommend to the Board the retention of A&M to provide additional services related to the project. The scope of work for additional services includes leading in the preparation of the draft summary of deal terms, actively participating in discussions and negotiations with the proposed developer, and assisting special legal counsel with document structure and review.

Director Withers reported that he and President Swan met with A & M at the Asset Management Committee on January 25, 2006 and that they were very impressed with the team. Following discussion, on MOTION by Withers, seconded and unanimously carried, THE GENERAL MANAGER WAS AUTHORIZED TO EXECUTE A PROFESSIONAL SERVICES AGREEMENT WITH ALVAREZ & MARSAL REAL ESTATE ADVISORY SERVICES FOR \$140,000 FOR CONSULTING SERVICES FOR THE PROPOSED DEVELOPMENT OF THE FORMER LAWD HEADQUARTERS PROPERTY.

ESTABLISHING CONNECTION FEES FOR LAMBERT RANCH AND OTHER POTENTIAL DEVELOPMENT AREAS

General Manager Jones reported that staff has reviewed the steps necessary to include Lambert Ranch as well as other areas of potential development areas within IRWD into improvement districts. Lambert Ranch consists of nine parcels totaling approximately 47 acres which, when developed, will include approximately 168 units. Capital requirements for the area are met by the facilities that have been built or are being built for improvement districts 150/250. Because the Lambert Ranch area is relatively small, staff is recommending that this area be annexed into improvement districts 150/250 and that a planning area be established to set a connection fee. This connection fee would include a component to capture the cost to buy-in to existing facilities and the current connection fees for improvement districts 150/250.

Mr. Christopher Smithson said that staff has considered various methods to determine a buy-in component that would be additive to the established connection fees in improvement districts 150/250. Staff recommends that the Board approve a method incorporating the avoided cost of general obligation tax revenues from these parcels back to 1978 and brings those taxes forward in today's dollars. This method results in a buy-in component of \$2,439 per dwelling unit that is additive to the existing connection fees. This method places Lambert Ranch on the same level of ownership as the undeveloped land adjacent to the property. An additional benefit is that the portion of the preferred method that exceeds the alternative may serve as a proxy component for the replacement fund. In this way, the buy-in generates ownership of existing facilities and the replacement fund.

Mr. Smithson noted an alternative method which used existing capital costs less outstanding debt service. The net capital component was then multiplied by the Lambert Ranch percentage of total improvement district demand and divided by the number of developable units. This method generated a buy-in cost of approximately \$2,004 per unit. He said there was no calculated buy-in to the replacement fund, and staff does not recommend utilizing this method.

Director Matheis reported that this item was reviewed and approved by the Finance and Personnel Committee meeting on February 7, 2006. On MOTION by Matheis, seconded and unanimously carried, THE BOARD APPROVED: (1) ESTABLISHING A PLANNING AREA OVER LAMBERT RANCH, (2) PREPARATION OF PROCEEDINGS FOR ANNEXING THE LAMBERT RANCH DEVELOPMENT INTO IMPROVEMENT DISTRICT 150/250, AND (3) APPROVING THE PROPOSED BUY-IN METHOD, (I.E. \$2,439 PER DWELLING UNIT THAT IS ADDITIVE TO THE EXISTING CONNECTION FEES) FOR ESTABLISHING CONNECTION FEES IN THE LAMBERT RANCH PLANNING AREA.

CONCENTRATE TREATMENT SYSTEM (CATS) CONSTRUCTION AWARD

General Manager Jones reported that staff recommends that Pascal and Ludwig Contractors be awarded the construction phase of the Concentrate Treatment System (CATS) for \$982,121. The system will allow IRWD to increase the recovery at the Deep Aquifer Treatment System from 92% to 98% by treating the concentrate with additional membranes.

Director of Engineering Heiertz reported that bids were received from Pascal and Ludwig Constructors, Schuler Engineering Corporation and SS Mechanical Corporation and that the bids from the pre-select contractors were very competitive with the bids ranging from \$982,121 to \$1,067,500. Mr. Heiertz said that the apparent low bidder was Pascal and Ludwig Constructors for \$982,121. The engineer's estimate was \$697,840. He noted the difference between the engineer's estimate and the bid amounts which was due to three line items relative to mechanical modifications, structural modifications, and electrical, telemetry and controls. He said that the engineer's revised estimate of \$965,470 was provided in the write-up.

Mr. Heiertz said that staff will be performing construction management services with assistance provided by Tetra Tech, Inc. during construction and startup of the CATS. Tetra Tech will provide mechanical, electrical inspection, and programming services along with engineering support. Staff negotiated a fee for these services, and is requesting approval of Variance No. 1 in the amount of \$65,180.

On MOTION by Withers, seconded and unanimously carried, A BUDGET INCREASE WAS AUTHORIZED FOR PROJECT 10543 BY \$570,800, FROM \$1,025,200 TO \$1,596,000; AN EXPENDITURE AUTHORIZATION FOR PROJECT 10543 FOR \$1,205,500 WAS APPROVED ;VARIANCE NO. 1 FOR CONSTRUCTION PHASE SERVICES WITH TETRA TECH IN THE AMOUNT OF \$65,180 WAS APPROVED; AND THE GENERAL MANAGER WAS AUTHORIZED TO AWARD A CONSTRUCTION CONTRACT TO PASCAL AND LUDWIG CONSTRUCTORS FOR \$982,121 FOR THE CONCENTRATE TREATMENT SYSTEM, PROJECT 10543.

GENERAL MANAGER'S REPORT

General Manager Jones reported on his presentation on the tiered rate structure at the League of Cities meeting on February 9, 2006. He reported on a Los Angeles Times article relative to the water firm Cadiz. He placed before each Director a copy of a response letter from Mr. Paul Hass relative to the District's fire protection connections and associated fees. He said that staff had responded to his inquiry, and would not be initiating further correspondence. He said that Assistant General Manager Cook represented the District on a Cox cable forum last week discussing water issues along with representatives from Santa Margarita Water District and El Toro Water District.

DIRECTORS' COMMENTS

Director Withers asked staff to send a letter of congratulations to the newly appointed General Manager of Metropolitan Water District, Mr. Jeffrey Kightlinger. He noted that the National Water Research Institute recently hired consultant Sheri Thorell to assist with fund raising advice for their proposed educational center. He said that this year he is serving as Vice Chairman on the Santa Ana Regional Water Quality Control Board. He suggested scheduling a meeting with Mr. Kightlinger the evening prior to a WACO meeting. He further reminder the Board of the City of Irvine's State of the City address scheduled for February 14, 2006.

Director Matheis reported on her attendance at a Urban Water Institute conference. She said she attended an Irvine Valley College Foundation reception that was well attended. She said that she and fellow Board members attended WACO on February 3, 2006. She suggested that the Board