

MINUTES OF REGULAR MEETING – SEPTEMBER 24, 2007

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order at 6:00 p.m. by President Reinhart on September 24, 2007 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: Withers, Miller (arrived at 6:20 p.m.), Swan, Reinhart, and Matheis

Directors Absent: None

Also Present: General Manager Jones, Assistant General Manager Cook, Acting Director of Engineering Malloy, Secretary Bonkowski, Legal Counsel Arneson, Mr. A. T. Kilani, Ms. Mary Ann Brown, Mr. Bruce Newell, Mr. Mike Hoolihan, Mr. Rob Jacobson, Ms. Fiona Sanchez, 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 it was her understanding that currently wells 1, 2, 3, 4, 5, 6, 7, C-8 and C-9, 10, 11, 12, 13, 14, 15, 16, 17, and 18 are in operation in accordance with the District's annual pumping plan. The District's planned pumping for September is 4,700 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 (MWD OC) 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 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 Mr. Jones.

With respect to the OCWD annexation of certain IRWD lands, OCWD released the Environmental Impact Report (EIR) in early January 2006. The extended comment period for the EIR closed March 17, 2006, and OCWD is now completing the response to comments. On January 17, 2007, the OCWD Board approved proposed terms and conditions for annexation and directed staff to prepare an annexation agreement for OCWD and IRWD approval. On April 11, 2007, a draft annexation agreement was submitted to OCWD's Water Issues Committee with the recommendation to transmit to IRWD for review and consideration. A meeting of the OCWD/IRWD Ad Hoc Committee was held on July 6, 2007 to discuss a proposal by IRWD for advancing the construction of replenishment facilities in conjunction with the annexation. The follow-up meeting that was scheduled for August 3, 2007 was cancelled at the request of OCWD. To date, OCWD has not asked IRWD to reschedule this meeting. It is unclear if the OCWD Board will elect to take action on the EIR and annexation agreement. A Closed Session was held on August 13, 2007 during a regular IRWD Board meeting relative to one or more potential cases concerning the annexation to OCWD. No action was reported

in Open Session from this meeting. On September 18, 2007, staff met with representatives and legal counsel from both OCWD and the City of Anaheim to discuss the annexation agreement. On September 19, 2007, staff received notice of an OCWD Board workshop being held today at 4:00 p.m. relative to the annexation with both Director Miller and General Manager Jones in attendance. This was confirmed by Mr. Jones.

ITEMS RECEIVED TOO LATE TO BE AGENDIZED: None

CONSENT CALENDAR

Director Swan asked that under Item No. 10, RECOMMENDATIONS FOR ACWA COMMITTEE APPOINTMENTS FOR THE 2008/09 TERM, that his nomination for Groundwater Committee nomination be replaced with Electricity Committee. On MOTION by Swan, seconded and unanimously carried (Miller absent), CONSENT CALENDAR ITEMS 3 THROUGH 13 WERE APPROVED AS AMENDED.

3. RATIFY/APPROVE BOARD OF DIRECTORS' ATTENDANCE AT MEETINGS AND EVENTS

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

4. MINUTES OF BOARD MEETING

Recommendation: That the minutes of the September 10, 2007 meeting be approved as presented.

5. AUGUST 2007 FINANCIAL REPORTS

Recommendation: Receive and file the Treasurer's Investment Summary Report and the Monthly Interest Rate Swap Summary for August 2007; and approve the August 2007 Summary of Wire Transfers and ACH payments in the total amount of \$6,997,572.87 and the August 2007 Warrants Nos. 282673 through 283601, Workers' Compensation distributions and voided checks in the total amount of \$15,242,147.86.

6. STRATEGIC MEASURES' DASHBOARD

Recommendation: Receive and file.

7. QUITCLAIM OF REAL PROPERTY

Recommendation: That the Board adopts the following resolution by title approving execution of the quitclaim deed to Clover Von Karman Corporation, Von Karman Michelson Corporation, Maguire Properties-18301 Von Karman, LLC, and Crescent Irvine, LLC.

RESOLUTION NO. 2007 –32

RESOLUTION OF THE BOARD OF DIRECTORS OF
IRVINE RANCH WATER DISTRICT
APPROVING EXECUTION
OF THE QUITCLAIM DEED TO CLOVER VON KARMAN
CORPORATION, VON KARMAN MICHELSON CORPORATION,
MAGUIRE PROPERTIES-18301 VON KARMAN, LLC,
AND CRESCENT IRVINE, LLC

8. RESOLUTION COMMENDING RICHARD “DICK” DIAMOND FOR HIS SERVICE TO THE DISTRICT

Recommendation: That the Board adopts the following resolution by title commending Richard “Dick” Diamond for his dedicated and loyal service to the District.

RESOLUTION NO. 2007 – 33

RESOLUTION OF THE BOARD OF DIRECTORS
OF IRVINE RANCH WATER DISTRICT COMMENDING
RICHARD “DICK” DIAMOND FOR HIS DEDICATED AND
LOYAL SERVICE TO THE DISTRICT

9. INTERIM AGRICULTURAL WATER PROGRAM REDUCTION PLAN

Recommendation: That the Board directs staff to submit the Interim Agricultural Water Program Reduction Plan to MWDOC to be incorporated into MWDOC’s overall service area plan to MWD, and directs staff to continue evaluating conversion projects to reduce agricultural demand on imported supplies.

10. RECOMMENDATIONS FOR ACWA COMMITTEE APPOINTMENTS FOR THE 2008/2009 TERM

Recommendation: That the Board directs staff to submit the list of ACWA Committee appointment nominees for the 2008/09 term to the Association of California Water Agencies prior to the September 26, 2007 deadline.

11. ACWA REGION 10 ELECTIONS FOR THE 2008/2009 TERM

Recommendation: That the Board supports the candidates selected by the ACWA Region 10 Nominating Committee.

12. ALLOCATION-BASED CONSERVATION RATE STRUCTURE – PROPOSED LEGISLATION

Recommendation: That the Board adopts the following resolution by title supporting and endorsing a legislative proposal to create a voluntary, incentive-based, and allocation-

based conservation rate structure program, and requests that ACWA sponsor/support such a measure at its 2007 annual planning meeting.

RESOLUTION NO. 2007- 34

RESOLUTION OF THE BOARD OF DIRECTORS OF THE IRVINE
RANCH WATER DISTRICT, ORANGE COUNTY, CALIFORNIA
IN SUPPORT OF A LEGISLATIVE PROPOSAL TO CREATE A VOLUNTARY
ALLOCATION-BASED CONSERVATION RATE STRUCTURE PROGRAM

13. ADMINISTRATIVE CLAIM FOR DAMAGES

Recommendation: That the Board receives the claim for damages from Carla Saucedo without action.

ACTION CALENDAR

IRVINE DESALTER PROJECT – MANGANESE REMOVAL FACILITIES BUDGET, EXPENDITURE AUTHORIZATION AND CONSULTANT SELECTION

Mr. Steve Malloy reported that the Irvine Desalter Project (IDP) Potable Treatment Plant (PTP) includes five wells and that water quality testing during startup showed that the manganese levels had risen, and that well flow rates had also changed. Mr. Malloy said that with the current manganese levels, PTP product water would exceed the Department of Public Health's (DPH) secondary standard of 50 ug/l manganese. He said that as a temporary measure, Well 107 (highest manganese level) has been shut down, the PTP raw water blending flows were reduced, and chemicals added to reduce manganese crystallization. He said that it is important to provide manganese removal facilities to allow the plant to run at full capacity and to alleviate these operational issues.

Mr. Malloy said that staff issued a Request for Proposal (RFP) seeking professional engineering services to a select group of five engineering consultants with experience on similar projects. He said that staff received written proposals from Carollo, EarthTech, Kennedy/Jenks, Malcolm Pirnie, and Tetra Tech. Staff reviewed and ranked the proposals based on the consultants' teams, project approaches and relevant experience. Staff selected Tetra Tech based on the strength and experience of its project team, project approach and comprehensive understanding of the scope of work.

Director Withers reported that this item was reviewed and approved by the Engineering and Operations Committee on September 18, 2007. Following discussion, on MOTION by Withers, seconded and unanimously carried (Miller absent), **THE BOARD AUTHORIZED AN INCREASE TO THE FY 2007/08 CAPITAL BUDGET FOR PROJECT 10376 BY \$1,600,000, FROM \$36,672,000 TO \$38,272,000; APPROVED AN EXPENDITURE AUTHORIZATION FOR PROJECT 10376 FOR \$959,000; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A PROFESSIONAL SERVICES AGREEMENT WITH TETRA TECH, INC. FOR \$192,800.**

Director Miller arrived at 6:20 p.m.

RESTAURANT RETROFIT AGREEMENT WITH ACCUTEMP

The Metropolitan Water District of Southern California (Metropolitan) selected IRWD's Restaurant Retrofit Package Program to receive an Enhanced Conservation Program (ECP) grant in the amount of \$39,250. General Manager Jones said that in November 2006, the Board approved IRWD's co-funding of \$137,500 for this project. Mr. Jones said that a Request for Proposal (RFP) was sent to vendors to participate in the program, and staff received one response from AccuTemp Products, Inc. (API). He said that staff reviewed the proposal and found that it met the requirements for this program.

Director Withers left the meeting at 6:30 p.m.

Director Matheis said that this item was reviewed and approved by the Water Resources Policy and Communications Committee on September 17, 2007. On MOTION by Matheis, seconded and unanimously carried (Withers absent), **THE BOARD AUTHORIZED AN INCREASE TO THE FY 2007/08 OPERATING BUDGET OF \$114,500 FROM UNALLOCATED PENALTY REVENUES AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A PROFESSIONAL SERVICES AGREEMENT WITH ACCUTEMP PRODUCTS, INC. IN AN AMOUNT NOT TO EXCEED \$214,250.**

STRAWBERRY FARMS GOLF CLUB ASSIGNMENT OF LEASEHOLD INTEREST

Treasurer Loomis reported that on April 18, 2007, Sand Canyon LLC, the leasehold owner of Strawberry Farms Golf Club, notified the County of Orange and IRWD that it had entered into a "Purchase and Sale Agreement" with Jamison Properties, Inc. to sell its leasehold interest and certain other assets related to Strawberry Farm Golf Club (SFGC). Mr. Loomis said that the purchase price is \$18 million and includes the leasehold interest, all buildings and improvements, intangible property and inventory.

Mr. Loomis said that Jamison Properties and DeCinces Properties have negotiated a form of Management Agreement for DeCinces Properties to manage and operate SFGC. Based on discussions with IRWD's golf course consultant and special legal counsel, staff believes that the termination without cause provision of the Management Agreement, if exercised, would result in extremely high compensation to DeCinces Properties that is not found in the marketplace. He said that staff believes this compensation may represent additional value of the SFGC leasehold interest that should be properly accounted for and allocated in the overall sale of the leasehold interest to Jamison Properties.

Mr. Loomis said that to protect the rights of the County and IRWD to receive an Assignment Fee under certain conditions in accordance with the Lease, staff and DeCinces properties have agreed that the following provisions would apply to any fee paid to DeCinces Properties, if it were terminated without cause: 1) Any termination fee paid during the first five years will allow DeCinces Properties a priority payment of a one-year management fee. The amount of the remaining termination fee will be split 50% to DeCinces Properties and 50% to the County/IRWD, 2) During years six to 10 of the Management Agreement, the terms will be the same as above, except DeCinces Properties will receive a priority payment equal to two years of a Management Fee, and 3) After 10 years, DeCinces Properties will receive 100% of any Termination Fee.

Mr. Loomis said that in the Purchase and Sale Agreement (PSA) between Sand Canyon and Jamison Properties, the \$18 million purchase price was allocated to Personal Property, Intangible Property and Real Property categories. He said that the County retained a certified public accounting firm to review the allocation of the purchase price contained in the PSA. The net effect of the report and subsequent adjustments was to reduce Sand Canyon's original \$1,180,919 allocation to Personal Property to \$939,919. In addition, Sand Canyon and Jamison Properties assigned a value of \$250,000 to the Intangible Property category. The report also includes several suggestions to improve the administration of the lease with respect to capital and business property costs, determination of the "Net Sales Price" related to lease assignments, intangible assets and costs, and accounting for gift certificates which the County and IRWD will pursue with the new assignee.

Mr. Loomis said that the County's Internal Audit Department conducted a special purpose review of SFGC's records and documents to ensure that no additional monies were due to the County/IRWD prior to consideration of the assignment of the leasehold interest. Based on the prior audits conducted in 2003 through 2006, and the special purpose review, the conclusion was that no additional monies are due.

Mr. Loomis said that in the County's "Consent to Assignment of Lease", there are provisions for Jamison Properties to acknowledge its acceptance of the Lease and the clarifications made to the Lease over time through audits and other dealings with Sand Canyon.

Mr. Loomis said that Jamison Properties appears to be well-qualified financially and operationally to assume the leasehold interest in SFGC. The County and IRWD staffs are proposing that the President of Jamison Properties, Mr. David Y. Lee, provide a five-year personal guaranty to secure the LLC's obligations under the Lease, including the payment of rent.

Mr. Loomis said that the County sent a letter to Sand Canyon confirming Sand Canyon's on-going obligation to comply with existing environmental requirements for protection of on-site mitigation areas and native habitat areas, including associated wildlife.

Mr. Loomis said that the County prepared a "Consent to Assignment of Lease" that is in substantially final form. It is anticipated that the "Consent to Assignment of Lease" will be submitted to the County Board of Supervisors for consideration on October 2, 2007.

Director Swan said that this proposed assignment of the Lease to Jamison Properties was reviewed and approved the Asset Management Committee on September 12, 2007. On MOTION by Swan, seconded and carried (Withers absent), THE BOARD APPROVED THE TERMS OF THE "CONSENT TO ASSIGNMENT OF LEASE" IN SUBSTANTIALLY THE FORM PRESENTED AND DIRECTED THE GENERAL MANAGER TO NOTIFY THE COUNTY OF ORANGE OF THIS ACTION.

ACQUISITION AND ANNEXATION OF THE ORANGE PARK ACRES MUTUAL WATER COMPANY

Using a PowerPoint presentation, General Manager Jones provided an Orange Park Acres Mutual Water Company (OPAMWC)/Irvine Ranch Water District (IRWD) acquisition overview. Mr. Jones discussed the mechanism to transition agencies into financial parity. He provided a system overview of the OPAMWC's two supply sources, the 1 MG concrete storage tank, the five hydro-pneumatic pump stations, and the 14.7 miles of pipeline in varying condition. He discussed the water supply improvements, including removing the existing 1 MG storage tank from service, interconnecting OPAMWC system with IRWD's 5 MG tank, and upgrading the existing 700 GPM well system. He said the distribution system improvements include replacing the 1929 riveted steel pipeline, adding pressure reducing stations as necessary to protect the existing system, and performing general system modifications, i.e. hydrants, valves, etc.

Mr. Jones provided an overview of the acquisition balance (buy-in) estimated at \$9,086,200. He discussed the stock valuation including the balance sheet method commonly used by California's Public Utilities Commission and the calculation and methodology peer reviewed by the District's consultant which would result in \$579.94 value approved for presentation to the stockholders by the OPAMWC Board.

Mr. Jones discussed the key terms and conditions of the annexation and acquisition agreement including the effective date, the initial 20% water rate and meter charge reduction, establishment of acquisition balance assets/liabilities, and the creation of a management advisory committee. He then reviewed the proposed schedule for the acquisition, including the LAFCO approval process and the OPAMWC shareholder approval. Director Swan suggested a joint effort to get proxies from the stockholders. Mr. Jones discussed the issues and approaches relative to sewer service. Following discussion, staff was asked to agendaize an item at the next OPAMWC Board meeting to discuss an OPAMWC support statement in the proxy solicitation recommending a vote in favor of the merger. Mr. Jones said that a future workshop will be held on sewer service issues, including the preparation of a Master Plan.

On MOTION by Miller, seconded and unanimously carried (Withers absent), THE BOARD APPROVED AND AUTHORIZED THE PRESIDENT TO EXECUTE THE ANNEXATION AGREEMENT WITH ORANGE PARK ACRES MUTUAL WATER COMPANY AS PRESENTED, AND ADOPTED THE FOLLOWING RESOLUTION BY TITLE:

RESOLUTION NO. 2007-35

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
IRVINE RANCH WATER DISTRICT MAKING APPLICATION
TO THE LOCAL AGENCY FORMATION COMMISSION FOR
THE ANNEXATION OF TERRITORY (ANNEXATION NO. 28
TO IRVINE RANCH WATER DISTRICT

GENERAL MANAGER'S REPORT

General Manager Jones reported that the Governor called a special session to provide time for the development of a comprehensive water infrastructure bond package. He said that two bills were introduced, SB3xx (Cogdill, Ackerman) and 2xx (Perata, Machado, Steinberg). Following discussion on both bills, staff will prepare a letter of support for SB3xx and emphasize that conveyance is a high priority. Mr. Jones recognized Mr. Paul Cook for his extraordinary efforts with the OPAMWC annexation and Mr. Mike Hoolihan for his valuation efforts. He also thanked Mr. Bruce Williams, President of OPA, for his leadership.

DIRECTORS' COMMENTS

Director Swan reported that he will attend the annual IRWD picnic and Coastkeepers' dinner this Saturday. He said that he was filling in for Ms. Sandra Jacobs at the ACWA Region X Board meeting in Sacramento on September 27 and 28. He also said that he attended the Southern California Dialog meeting, MWDOC Board and Committee meeting, SAWPA, OCBC Infrastructure meeting, and Region X Surface Storage & Delta Summit in Carlsbad along with a tour of the Poseidon plant.

Director Matheis reported on her attendance at the Region X Surface Storage & Delta Summit in Carlsbad as well as the Colorado River Symposium in Santa Fe, New Mexico.

Director Miller reported on his attendance at the OCWD Board workshop today. He said that staff was directed to work with IRWD staff on the OCWD annexation. He also said that Assistant General Michael Markus was appointed to General Manager of OCWD.

President Reinhart said that he attended the OCBC Infrastructure meeting as well as the ACWA Region X Surface Storage & Delta Summit in Carlsbad. He further said that he and Mr. Paul Jones attended a LAFCO-facilitated process on the MWDOC MSR.

CLOSED SESSION

President Reinhart said that two Closed Session items would be held with legal counsel as follows: 1) PUBLIC EMPLOYEE DISCIPLINE/DISMISSAL/RELEASE (Government Code Section 54957), and 2) INITIATION OF LITIGATION (Government Code Section 54956.9(c) – involving one or more potential cases concerning the annexation to OCWD.

OPEN SESSION

Following the Closed Session, the meeting was reconvened with Swan, Matheis, and Reinhart present. President Reinhart said that there was no action to report from either Closed Session item.

On MOTION by Swan, seconded and unanimously carried (Withers and Miller absent), THE BOARD AUTHORIZED THE GENERAL MANAGER TO IMPLEMENT THE FOLLOWING ORGANIZATIONAL CHANGES: ELIMINATE TWO BUDGETED POSITIONS; UPGRADE SEVEN BUDGETED POSITIONS; RECLASSIFY ONE POSITION; TRANSFER AND UNDER FILL ONE POSITION; OVERFILL ONE POSITION; ADD THREE BUDGETED POSITIONS; AND ADOPT THE FOLLOWING RESOLUTION BY TITLE:

RESOLUTION NO. 2007- 36

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
IRVINE RANCH WATER DISTRICT RESCINDING
RESOLUTION NO. 2007-12 AND ESTABLISHING
REVISED SCHEDULE OF POSITIONS AND SALARY
RATE CHANGES

ADJOURNMENT

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

APPROVED and SIGNED this 8th day of October 2007.

President, IRVINE RANCH WATER DISTRICT

Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone