

MINUTES OF REGULAR MEETING – NOVEMBER 9, 2009

The regular meeting of the Board of Directors of the Irvine Ranch Water District (IRWD) was called to order at 5:05 p.m. by President Reinhart on November 9, 2009 in the District office, 15600 Sand Canyon Avenue, Irvine, California.

Directors Present: LaMar, Reinhart, Matheis, Withes, and Swan.

Directors Absent: None.

Also Present: General Manager Jones, Assistant General Manager Cook, Director of Engineering and Construction Burton, Director of Finance Cherney, Director of Human Resources Wells, Assistant Secretary Savedra, Legal Counsel Arneson, Mr. Jim Reed, Mr. Bruce Newell, Ms. Beth Beeman, Ms. Kirsten McLaughlin, Mr. A.T. Kilani, Mr. Paul Weghorst, Mr. Bob Ohlund, and other members of the public and staff.

WRITTEN COMMUNICATION:

General Manager Jones reported that a letter was received today from Cake Energy of Reno, Nevada regarding its drying technology and turnkey proposal for the Michelson Water Reclamation Plant project which was placed before each Director.

ITEMS TOO LATE TO BE AGENDIZED – None

PRESENTATION:

General Manager Jones reported that Mr. Carl Ballard retired October, 2009 from the District after 33 years of dedicated and outstanding service. He read the resolution prepared by staff and presented it to Mr. Ballard. On MOTION by Swan, seconded and unanimously carried, THE FOLLOWING RESOLUTION WAS ADOPTED BY TITLE:

RESOLUTION NO. 2009-31

RESOLUTION OF THE BOARD OF DIRECTORS
OF IRVINE RANCH WATER DISTRICT COMMENDING
CARL BALLARD FOR HIS DEDICATED AND
LOYAL SERVICE TO THE DISTRICT

ORAL COMMUNICATION:

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 2, 4, 5, 7, C-8, C-9, 10, 12, 15, 16, and 17 will operate in accordance with the District's annual pumping plan. Wells 13, 14 and 18 will operate a portion of the week. Wells 1, 3, 6 and 11 will be off. The District's currently

planned pumping for November is 3,045 AF. 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), 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. Jones.

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 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. OCWD will continue to work with IRWD on the annexation issue to determine if a satisfactory arrangement can be developed with both parties. This was confirmed by Mr. Jones.

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 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. Jones.

CONSENT CALENDAR

In regard to item No. 6, Annual Board of Directors' Fees, Director Swan asked that this item be moved to the Action Calendar for discussion. There being no further comments, on MOTION by Reinhart, seconded and unanimously carried, CONSENT CALENDAR ITEMS 4, 5, 7 THROUGH 9 WERE APPROVED AS FOLLOWS:

4. MINUTES OF REGULAR BOARD MEETINGS

Recommendation: That the minutes of the October 26, 2009 Regular Board Meeting and the November 2, 2009 Adjourned Regular Board Meeting be approved as presented.

5. 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, Peer Swan and John Withers.

7. WATERWORKS BUSINESS PARK BUDGET INCREASE

Recommendation: That the Board authorize a budget increase to the Waterworks Business Park project (project no. 11117) in the amount of \$336,500 and approve an Expenditure Authorization in the amount of \$336,500 to complete the tenant improvements and provide for legal fees and brokerage commissions related to leasing efforts for the remaining eight units, and approve the payment of the 2009-2010 property tax assessment from the replacement fund in the amount of \$78,615.

8. DENTAL INSURANCE COVERAGE FOR 2010 CALENDAR YEAR

Recommendation: That the Board authorize the General Manager to extend the contract with ACWA Services Corp. for Delta DPOP Plan A with child and adult orthodontic coverage for the 2010 calendar year.

9. PROPOSED CONSUMER PRICE INDEX CHANGES TO SALARY GRADE SCHEDULE AND EMPLOYEE COST OF LIVING ADJUSTMENTS

Recommendation: That the Board approve of maintaining salary grade ranges at the December 1, 2008 levels, and to carry forward the 1.0% decrease in the Cost of Living Adjustment to employee salaries to the December 1, 2010 Cost of Living Adjustment, plus an additional reduction based on the District's investment return for the present value of the delayed salary adjustments.

ACTION CALENDAR

ANNUAL BOARD OF DIRECTORS' FEES

General Manager Jones reported that the current compensation for the Board of Directors is \$237.00 per meeting, not to exceed 10 meetings per month. Mr. Jones said that pursuant to Ordinance 1989-1, the Board's meeting compensation increases on January 1 of each year by 5%.

Director Swan said that this item was reviewed and declined by the Finance and Personnel Committee on November 3, 2009. On MOTION by Swan, seconded and unanimously carried, **THE BOARD DECLINED THE 5% SCHEDULED COMPENSATION INCREASE FOR CALENDAR YEAR 2010.**

QUAIL HILL COMMUNICATIONS TOWER MITIGATED NEGATIVE DECLARATION

General Manager Jones said that on item No. 10, there was a correction, and staff would like to amend its recommendation as follows: That the Board adopt the proposed Mitigated Negative

Declaration for the Quail Hill Communications Tower project and approve the project; direct staff to post and file a Notice of Determination, and submit payment for the Department of Fish and Game filing fee.

Mr. Jones said the Quail Hill Communications Tower is proposed to provide communications infrastructure for the Irvine Ranch Water District (IRWD) Supervisory Control and Data Acquisition (SCADA) Backbone Network. Mr. Jones said IRWD's SCADA Backbone Network was initially developed to support increasing amounts of data from the field radio telemetry system as IRWD expanded into the Coastal and Foothill regions. The SCADA Backbone Network currently consists of seven hilltop radio access points that collect data from individual facilities and then transmits the collected data to the Water Operations Center SCADA system. This existing network is experiencing communication issues related to transmission speed, signal strength, data quality, and the quantity of data being transmitted. Due to IRWD's large service area, staff relies heavily on the SCADA Backbone Network to remotely control and monitor pump stations, reservoirs, and chemical feed systems throughout IRWD's service area, including facilities located in the most remote areas of the District.

Mr. Jones said the proposed project is located on an existing IRWD easement at the Quail Hill Zone 4 Reservoir in the community of Quail Hill, City of Irvine, at the terminus of Luminous Lane. The proposed communications tower would be placed on a man-made hilltop berm surrounding the reservoir, adjacent to an existing antenna. This location was chosen primarily because it consists of previously disturbed, re-contoured terrain with a relatively high elevation and good line-of-sight to other components of the SCADA network.

A draft Mitigated Negative Declaration (MND) was circulated pursuant to CEQA. Only one comment letter was received. This letter provides no substantial issues or concerns with the project. The MND addressed the categories of impacts required under environmental review.

On MOTION by Swan, seconded and unanimously carried, THE BOARD ADOPTED THE PROPOSED MITIGATED NEGATIVE DECLARATION FOR THE QUAIL HILL COMMUNICATIONS TOWER PROJECT AND APPROVED THE PROJECT; DIRECTED STAFF TO POST AND FILE A NOTICE OF DETERMINATION, AND SUBMIT PAYMENT FOR THE DEPARTMENT OF FISH AND GAME FILING FEE AS AMENDED.

ASSET OPTIMIZATION – LAKE FOREST PROPERTY DEVELOPMENT FEE AND CONSULTANT VARIANCE REQUEST

General Manager Jones said in order to provide funding for costs committed in the Development Agreement between the District and the City of Lake Forest (City) staff is recommending an increase of \$847,500 to the 2009/10 Capital budget. The costs relate to the District's proportional share of design fees for the future sports park facilities and community center, as well as costs related to the formation of a Community Facilities District (CFD). The increase will also provide funding for additional consultant expenses required to complete the current phase of entitlement (Tentative Map and Area Plan approval), and to provide funding for related staff time and legal services.

Treasurer Rob Jacobson said that after more than five years of analyses, discussions and negotiations between certain landowners in the “Opportunity Study Area” (OSA) and the City of Lake Forest, the City approved an Environmental Impact Report, general plan amendment (GPA) and zoning changes for the OSA projects. In July 2008, the Board approved the related Development Agreement (DA), which was also approved by the City in 2008. Mr. Jacobson said included in the DA were certain Developer Impact Fee commitments from the District including its proportional share of design fees related to the City’s planned sports park and community center facilities, as well as funds required for the formation of a Financing District related to future CFD funding of developer improvements. To date, none of the funding commitments have been added to the project budget; although a portion of the design fees have been paid from the contingency allocated in the project budget. In addition to fee commitments to the City, third-party consulting expenses (site plan architecture, civil engineering, landscape architecture, etc.) related to current entitlement processing have exceeded the initial budget provided for in July 2008. The fee paid to the District’s entitlement consultant, Lewis Operating Group (Lewis), is a fixed amount to bring the property to tentative map approval status and is not impacted.

Mr. Jacobson said that Section 9.3 of the DA between the District and the City includes an agreement from the District to provide its proportional share of funding for “...design costs for the Sports Park and Community Center...” As was detailed in the information provided to the Board in July 2008, the terms of the DA provide for a total commitment from the District for design fees of \$400,712, with installment payments of 25% due upon the City’s initial request, and the balance paid quarterly over the remaining 15 months. The initial payment of \$100,178 was paid to the City in December 2008 and three quarterly payments of \$60,107 have been made since. The design fee commitment was referenced in the information provided to the Board as part of the DA approval; however, no capital budget increase or Expenditure Authorization request was included with the approval.

Mr. Jacobson said that pursuant to Section 9.4.2 of the DA, within 30 days of submitting its tentative map package to the City, the District was required to submit an application to the City to form a Financing District to provide for future CFD funding for the property. In response to the District’s request, and in accordance with the terms of the DA, the City has provided a budget for formation of the CFD which includes costs for bond counsel, financial advisement, tax consultation, appraisal, City staff hours and other related expenses. The cost for CFD formation based on the City’s proposal is estimated to be \$162,500, with an initial installment of \$60,000. Funds advanced by the District for CFD formation will eventually be eligible for reimbursement from bond proceeds. He said the District’s counsel for CFD issues related to the Lake Forest property, Hewitt O’Neil (O’Neil), has reviewed the proposed budget and believes that the costs are reasonable. O’Neil and the District’s counsel have also reviewed and provided comments on the City’s proposed Landowner Deposit Agreement. The proposed Landowner Deposit Agreement provides terms for use of the funds and a schedule for the additional funding requirements after the initial deposit.

Mr. Jacobson said that in July 2008, the Board approved an increase to the capital budget for the Lake Forest Property project (Project No. 11116) in the amount of \$1,240,000. The budget increase included \$980,000 for consulting fees and staff time for Lewis, as well as estimated third-party consultant fees of \$260,000 for preliminary design. Third-party consultants include the site plan architect (KTGY), civil engineer (Fuscoe), landscape architect (SiteScapes), legal (Hewitt &

O'Neil) and others that have provided services related to the continued entitlement process. Lewis estimates that remaining costs to complete the tentative map approval process for third-party consultants is \$207,115.

Director Swan said that this item was reviewed and approved by the Asset Management Committee on October 27, 2009. On MOTION by Swan, seconded and unanimously carried, THE BOARD APPROVED AN EXPENDITURE IN THE AMOUNT OF \$162,500 FOR A DEPOSIT TOWARDS THE FORMATION OF A FINANCING DISTRICT FOR DEVELOPER IMPROVEMENTS TO THE LAKE FOREST PROPERTY; APPROVED AN EXPENDITURE AUTHORIZATION FOR PROJECT NO. 11116 IN THE AMOUNT \$4,344,000; AUTHORIZED THE GENERAL MANAGER TO EXECUTE THE LANDOWNER DEPOSIT AGREEMENT WITH THE CITY OF LAKE FOREST IN SUBSTANTIALLY THE FORM ATTACHED; AND AUTHORIZED AN INCREASE TO THE 2009-10 CAPITAL BUDGET FOR PROJECT NO. 11116 FROM \$3,496,500 TO \$4,344,000.

PROPOSED DEBT RESTRUCTURING

General Manager Jones said recently that staff discussed strategies to restructure a portion of the District's variable rate debt portfolio by converting a portion to fixed rate debt. This is primarily driven by three factors: (1) bank letters of credit (required to support the District's variable rate debt) have quadrupled in price in the last year, and are in short supply even for very highly-rated credits, (2) municipal debt is at historically low fixed rates; and (3) there is a widespread belief that inflation is impending and that short-term interest rates will increase in the future as a result of the recent government economic stimulus. As a result of this and the potential for continuing market volatility, staff recommended that the District diversify some of its debt portfolio by converting a portion of it to fixed rate debt.

Director of Finance Cherney said that after reviewing various fixed rate structures with underwriters, staff recommends refunding the 1986 and 2008 COPs (\$99.8 million) as one fixed rate issue with generally the same principal amortization as the current issues and a 10-year call option. Refunding the COPs' issues will convert a small portion (19%) of the District's debt from variable rate mode to a fix rate mode at historically low interest rates, provide balance and diversification to the debt portfolio and reduce exposure to the bank letter of credit market. Should the District choose to redeem the bonds earlier than the call date, it can be accomplished by utilizing an "advanced refunding".

Ms. Cherney said that in combination with the portion of the existing debt portfolio that has been synthetically fixed using the fixed payer interest rate swaps, the District will have 57% fixed and 43% variable rate debt. She said that a Preliminary Financing Timeline prepared by staff assumes a closing in February 2010, which is in line with the expected time required to get ratings on the bonds. This is also a good time to reach the market due to an historical lack of supply at that time of the year. An Estimated Amortization Comparison reflects an expected average coupon rate of 4.34% and average yield of 3.07%.

Ms. Cherney said that staff requested and received proposals from Bank of America, Merrill Lynch, Goldman Sachs, Stone and Youngberg, Wells Fargo and Barclays to underwrite a

refunding of the 1986 and 2008 COPs from the variable rate mode to one issue in the fixed rate mode. Goldman Sachs provided a competitive fee proposal (\$3.29 per bond for a total takedown of \$341,500 assuming \$103 million par amount), as well as detailed analytics and recommendations pertaining to various restructuring options. She said that additionally, Goldman's proposal included assisting with preparation of presentation materials for the required rating agency review at no additional cost to the District.

Director Swan said that this item was reviewed by the Finance and Personnel Committee on October 6, 2009 and November 3, 2009. On MOTION by Swan, seconded and unanimously carried, THE BOARD DIRECTED STAFF TO PROCEED WITH THE STEPS NECESSARY TO REFUND THE 1986 AND 2008 COPS AND REISSUE COPS IN THE FIXED RATE MODE, APPROVED THE RETENTION OF GOLDMAN SACHS AS UNDERWRITER FOR THE REFUNDING BONDS, AND RETAIN ORRICK, HERRINGTON & SUTCLIFFE AND BOWIE, ARNESON, WILES & GIANNONE AS CO-BOND COUNSEL.

TOMATO SPRINGS AND ORCHARD HILLS BOOSTER PUMP STATIONS AIR COMPRESSOR MODIFICATIONS CONSTRUCTION AWARD

General Manager Jones said that the Tomato Springs and Orchard Hills Booster Pump Station (BPS) Air Compressor Modifications Project will provide a dedicated air compressor for the Domestic Water and Reclaimed Water BPSs at Tomato Springs and Orchard Hills.

The Tomato Springs Zone 4-6 BPS and Zone C-D BPS were constructed in 2005 to serve Zone 6 domestic and Zone D reclaimed water in the Portola Springs development area. The Orchard Hills Zone 3-5 BPS and Zone A-C BPS were constructed in 2008 to serve Zone 5 domestic water in the Orchard Hills area and Zone C reclaimed water in the Portola Hills area. Since each BPS site was constructed with one air compressor to serve both the domestic and reclaimed water pumps and surge tanks, there is a small possibility for a cross connection between the domestic water and reclaimed water systems through the common air compressor. To eliminate the cross-connection risk, the Tomato Springs and Orchard Hills Air Compressor Modifications Project will provide a new air compressor for the domestic water pump station, while the existing air compressor will be used to serve the reclaimed water pump station. The air compressor piping will be modified to definitively separate the domestic and reclaimed water systems.

In August 2009, Stantec, Inc. completed the design for the Tomato Springs and Orchard Hills Air Compressor Modifications Project. The project construction documents were sent to a select bid list of six contractors: Gateway Pacific Contractors, Inc., Pacific Hydrotech, Pascal & Ludwig Constructors, Schuler Engineering Corporation, SS Mechanical Corporation, and F.T. Ziebarth Company (Ziebarth). The bid opening was held on October 20, 2009; bids were not received from Gateway Pacific and Pascal & Ludwig. The apparent low bidder was Ziebarth with a low bid of \$116,100. The engineer's estimate was \$142,000. On MOTION by Swan, seconded and unanimously carried, THE BOARD AUTHORIZED THE ADDITION OF PROJECT 11456 FOR \$86,900 AND PROJECT 31456 FOR \$92,400 TO THE FISCAL YEAR 2009/10 CAPITAL BUDGET; APPROVED EXPENDITURE AUTHORIZATIONS IN THE AMOUNTS OF \$86,900 FOR PROJECT 11456 AND \$92,400 FOR PROJECT 31456; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A CONTRACT WITH F.T. ZIEBARTH COMPANY

FOR \$116,100 FOR THE TOMATO SPRINGS AND ORCHARD HILLS BPS AIR COMPRESSOR MODIFICATIONS, PROJECT NOS. 11456 AND 31456.

TUSTIN MARKET PLACE CATHODIC PROTECTION CONSTRUCTION AWARD

General Manager Jones said that cathodic protection was installed in 1996 on the 8-inch ductile iron domestic water pipeline serving the Tustin Market Place. The cathodic protection anodes are depleted and require replacement. The domestic water ductile iron pipeline serving Phase I of the Tustin Market Place was installed in 1989. Six failures occurred on the pipeline within the first seven years following its installation. An analysis of the failures was performed and it was concluded the failures were primarily a result of the “extremely aggressive” clay soils surrounding the pipe, improper installation of the polyethylene wrap and inadequate isolation. The cathodic protection system installed in 1996 consisting of fourteen sacrificial magnesium anode beds and anodes on the copper service lines. The pipeline has not experienced any failures since that time.

During annual monitoring, staff measured pipe to soil potential readings on the pipeline in the 200 to 650 millivolt range. The readings were much lower than the expected 850 to 1100 milivolts. Staff initiated a contract in April 2008 with Corrpro Companies to analyze the cathodic protection system. Corrpro Companies completed the analysis in July 2008. Their analysis showed the diminished protection was due to anode depletion and they recommended replacement. He said that staff initiated a variance to the Professional Services Agreement and Contract with Corrpro Companies in December of 2008 to complete the design of the cathodic protection system replacement. In April of 2009, staff contacted The Market Place Management (a division of the Irvine Company) for input on the design, construction and scheduling of the project. Their parking lot striping plan and trench repair details were incorporated into the project plans and specifications. In addition, the construction start date is scheduled for January 2010.

The Corrpro Companies completed the design in September 2009 and the project was advertised to a select list of three contractors. All three contractors attended the mandatory pre-bid meeting. On October 29, 2009, the bid opening was held, and all three contractors submitted responsive bids. The apparent low bidder is American Construction and Supply, Inc. with a low bid of \$218,841. The engineer’s estimate was \$249,220 for the base bid items. There being no further comments, on MOTION by Reinhart, seconded and unanimously carried, THE BOARD AUTHORIZED AN INCREASE TO THE FISCAL YEAR 200/10 CAPITAL BUDGET IN THE AMOUNT OF \$82,500, FROM \$279,600 TO \$362,100; APPROVED AN EXPENDITURE AUTHORIZATION IN THE AMOUNT OF \$324,700; AND AUTHORIZED THE GENERAL MANAGER TO EXECUTE A CONSTRUCTION CONTRACT WITH AMERICAN CONSTRUCTION AND SUPPLY, INC. IN THE AMOUNT OF \$218,841 FOR THE TUSTIN MARKETPLACE CATHODIC PROTECTION PROJECT 11381.

AMENDMENT NO. 2 TO AGREEMENT BETWEEN IRWD AND ORANGE COUNTY SANITATION (OCS) REGARDING OCS RESERVE REQUIREMENTS

General Manager Jones said in June 2009, the Board approved a Memorandum of Understanding (MOU) between Irvine Ranch Water District (IRWD) and Orange County Sanitation District

(OCSD) regarding the reserve policy requirements, methodology and funding of the District's share of OCSD's reserves. The substantive terms of the MOU have been incorporated into an amendment to the February 1986 agreement between IRWD and OCSD. Mr. Jones said that in the fall of 2007, OCSD made an informal demand on the District of approximately \$24.9 million, and through a variety of subsequent discussions with staff, the amount has increased to as high as \$27.7 million. The reserve requirement was calculated by OCSD by taking its total budgeted reserve for Fiscal Year 2008/09 in proportion to IRWD's or, alternatively, Revenue Area 14's (RA 14) percentage of equity in the Joint Works Treatment Facilities. Subsequent to receiving a demand from OCSD, staff met with senior executives at OCSD and proposed an alternative application of the reserve policies which addressed the uniqueness of RA 14 relative to the whole of OCSD.

Mr. Jones said that OCSD asserted that the reserve balance for RA 14 as of June 30, 2008 (the most recent accounting) was a negative \$6.0 million, but IRWD staff believed there was an internal accounting discrepancy at OCSD on depreciation that, if reconciled, would show that IRWD's reserve balance was substantially positive. Staffs at both agencies engaged and worked with the firm of Mayer Hoffman McCann L.P. (MHM), which also serves as both agencies' independent auditor. While MHM was completing its review of OCSD's cash accounting practices, staff from IRWD and OCSD were able to reach an agreement on the appropriate credit for the Main Street flume meter errors which were discovered in late 2007. That credit totaled \$12.6 million and staff agreed to include the credits for each year within MHM's overall cash accounting work.

Mr. Jones said MHM issued its findings on April 20, 2009. The "Independent Accountant's Report on Applying Agreed-Upon Procedures to Revenue Area 14 Cash Balances" concluded that IRWD staff's position on OCSD's internal accounting discrepancy was correct, and IRWD and OCSD staff concluded that the appropriate interpretation of the inter-agency agreements was to make use of "net book value" in the various equity calculations. This alone resulted in a \$7.8 million adjustment to RA 14's cash balances. MHM also discovered an error in how OCSD had accounting for an insurance reserve that resulted in a credit to RA 14's cash balances of \$2.9 million. Interest was recalculated on the cash adjustments, resulting in an additional credit to IRWD of \$6.6 million. Total adjustments to RA 14's cash balances were \$29.7 million in RA 14's favor, leaving a cash balance of \$24.1 million at OCSD as of June 30, 2008.

Mr. Jones said that based upon the above agreements and findings, staff prepared a Reserves MOU between the two agencies which the IRWD Board approved in June 2009. Legal counsel for OCSD preferred to formalize the MOU into an amendment to the February 1986 agreement between the agencies. Amendment No. 2 to Agreement between Irvine Ranch Water District and the Orange County Sanitation District (as Successor to County Sanitation District No. 14) Acquiring Ownership Interests, Assigning Rights and Establishing Obligations. In pertinent part, the amendment provides:

1. The parties agree to a methodology for which target reserves that IRWD is required to participate in and the calculations to support those reserves.
2. The parties agree that the MHM report, citing cash balances of \$24,151,766, is valid, and that the IRWD reserve requirement of \$11.0 million is fully funded. The parties agree to offset the remaining cash balance of \$13,151,766 on other invoices expected to be issued by OCSD to IRWD by June 30, 2009.

3. OCSD will pay IRWD interest at its prevailing annual rate of return.
4. The parties agree that OCSD will complete its annual reconciliation within 180 days after the close of each fiscal year end, including application of the updated equity percentages to the target reserve levels. Payment will be made by either party, as applicable, within 30 days after that to get the reserve level to the agreed-upon amount.
5. If OCSD changes its target reserve policies, the parties will meet and confer about the application of any new policies, in a manner consistent with the agreed-to methodology and in proportion to RA 14's ownership in OCSD.

Director Swan said that this item was reviewed and approved by the Finance and Personnel Committee on November 3, 2009. On MOTION by Swan, seconded and unanimously carried, **THE BOARD APPROVED AMENDMENT NO. 2 TO THE AGREEMENT BETWEEN IRVINE RANCH WATER DISTRICT AND THE ORANGE COUNTY SANITATION DISTRICT (AS SUCCESSOR TO COUNTY SANITATION DISTRICT NO. 14) ACQUIRING OWNERSHIP INTERESTS, ASSIGNING RIGHTS AND ESTABLISHING OBLIGATIONS SUBJECT TO NON-SUBSTANTIVE CHANGES AS MAY BE MADE BY THE DISTRICT'S GENERAL COUNSEL.**

GENERAL MANAGER'S REPORT

General Manager Jones reported on an issue related to the City of Irvine's discharge permit regarding the Selenium Cienega Project (Culver & Jeffrey undercrossing). The Regional Board TMDL for selenium to be adopted December 21st, however the schedule for adoption of a selenium TMDL has slipped. The City of Irvine is concerned they will be out of compliance by December 20th. IRWD is working closely to support the City to resolve this issue with a possible extension exemption from monetary fines. Another conference call meeting is scheduled Wednesday and Mr. Jones said he will continue to keep the Board informed on this issue.

DIRECTORS' COMMENTS

Director LaMar reported he attended the H2O Conference in Long Beach, MWDOC/OCWD Joint Planning Meeting, MWDOCs PAMO and Board meeting, ISDOC quarterly meeting, ACEC-Meet Your Elected Officials reception and stated he met with staff members and legislators in Sacramento relative to the Delta water legislation and water bond issues, which were approved.

Directors Withers reported he attended a NWRI Operations Committee meeting and LAFCO meeting.

Director Matheis expressed her interest in attending the Tustin Mayor's Thanksgivings Breakfast scheduled on November 19. She said she also attended the H2O 2009 Conference in Long Beach, ISDOC quarterly meeting, ACEC-Meet Your Elected Officials reception and the California Water Law Conference in Indian Wells.

Director Swan reported that he was a speaker at the Southern California Water Dialogue Meeting and attended the ACWA Water Management Meeting in Sacramento, MWDOC Water Policy Forum, Central Basin Water District meeting, WACO Meeting, and the Upper Newport Bay Sunset Celebration at the Muth Interpretive Center.

President Reinhart reported that he attended the WACO meeting.

ADJOURNMENT

There being no further business, President Reinhart adjourned the meeting at 6:17 p.m.

APPROVED and SIGNED this 23rd day of November, 2009.

President, IRVINE RANCH WATER DISTRICT

Assistant Secretary, IRVINE RANCH WATER DISTRICT

APPROVED AS TO FORM:

Legal Counsel - Bowie, Arneson, Wiles & Giannone