

**MINUTES OF THE REGULAR
MEETING OF
THE BOARD OF DIRECTORS
OF
THE INLAND EMPIRE UTILITIES AGENCY*
WEDNESDAY, FEBRUARY 1, 2012
10:00 A.M.**

DIRECTORS PRESENT:

Michael Camacho, Vice President
Terry Catlin, President
Steven J. Elie, Secretary/Treasurer
Gene Koopman
Angel Santiago

STAFF PRESENT:

Thomas A. Love, General Manager
Craig Miller, Assistant General Manager
Martha Davis, Executive Manager of Policy Development
Patrick Sheilds, Executive Manager of Operations
Christina Valencia, Chief Financial Officer
Joshua Aguilar, Associate Engineer
Rosemary Alvarado, Supervising Contracts and Programs Administrator
Susan Barajas, Staff Internal Auditor II
Kathleen Baxter, Supervising Contracts and Programs Administrator
Chris Berch, Manager of Planning & Environmental Compliance
Andrea Carruthers, Community Outreach & Education Coordinator I
Tina Cheng, Budget Officer
JR Dira, Business Systems Analyst II
Sondra Elrod, Public Information Officer
Majid Karim, Deputy Manager of Engineering
Cameron Langner, Manager of Contracts and Procurement
Paddy Mwembu, Manager of Financial Planning
Craig Parker, Manager of Engineering
Ryan Shaw, Associate Engineer
Teresa Velarde, Manager of Internal Audit
April Woodruff, Board Secretary

OTHERS PRESENT:

Jean Cihigoyenette, Cihigoyenette, Grossberg & Clouse
John Bosler, Cucamonga Valley Water District
Lisa Hansen, Cadiz
Sandra Rose, Monte Vista Water District
Scott Slater, Cadiz
Kathy Tieg, Cucamonga Valley Water District

A regular meeting of the Board of Directors of the Inland Empire Utilities Agency* was held at the office of the Agency, 6075 Kimball Avenue, Bldg. A., Chino, California on the above date.

President Catlin called the meeting to order at 10:03 a.m., and he led the pledge of allegiance to the flag. A quorum was present.

President Catlin stated that members of the public may address the Board.

Ms. Kathy Tieg, Board President of Cucamonga Valley Water District (CVWD), stated that she was here a year ago expressing support on behalf of Cucamonga Valley Water District for the

rates that were proposed at that point – the recycled water and EDU. She stated that she is again before the IEUA Board, to say that CVWD does support the rate increases as proposed and as approved at the Policy meeting. She expressed her thanks for the efforts that IEUA has undertaken this past year - to continually look at reducing costs in all areas at IEUA. Ms. Tiegs stated that CVWD encourages the IEUA to continue on that path. She stated that the efforts of IEUA are definitely providing results. Ms. Tiegs stated that on behalf of CVWD, she would like to request that as we move forward with the rate increases, and as IEUA looks at capital projects to be undertaken, or implemented where construction has already occurred, that IEUA truly look at the benefit for the entire region and look at the cost effectiveness of those programs before proceeding. Ms. Tiegs thanked IEUA staff for their efforts, the Public Hearings, and workshops that gave everyone the opportunity to comment. She stated that IEUA staff did an outstanding job.

The Board thanked Ms. Tiegs for her public comment.

President Catlin asked if there were any changes/additions/deletions to the agenda. There were no changes/additions/deletions to the agenda.

CADIZ WORKSHOP

President Catlin stated that this item was purposely called a workshop to allow everyone, including the audience, an opportunity to comment or ask questions after the presentation.

President and General Counsel of Cadiz, Mr. Scott Slater gave a PowerPoint presentation on the Cadiz Valley Water Conservation, Recovery and Storage Project Overview and Update. He highlighted How it Works – Capture Water Before it Evaporates, CEQA Environmental Review Underway, DEIR Potential Impact Study Areas, DEIR Conclusions: saline migration less than 12,000 feet; no evidence that the springs are dependent on the deep alluvial groundwater system; significant subsidence is not expected; dry lakes do not pose a substantial risk of elevated dust levels. He also highlighted the Groundwater Stewardship Committee and Findings, CEQA Timeline, and Next Steps.

CONSENT CALENDAR

President Catlin asked if anyone wished to remove any item from the Consent Calendar. There was no one desiring to do so.

Upon motion by Director Santiago, seconded by Director Camacho, and unanimously carried:

M2012-2-1

MOVED, to approval of the Consent Calendar.

- A. The Board approved the minutes from the January 18, 2012, regular Board of Directors meeting.
- B. The Board approved:
 - 1. Check registers for the period of January 6, 2012 to January 19, 2012;
 - 2. Directors' Payroll for January 14, 2012;
 - 3. Employees' Payroll for January 13, 2012; and
 - 4. Wire Transfers/ACH Payments for the period of January 6, 2012 to January 19, 2012.

Continued...

M2012-2-1, continued.

C. The Board:

1. Accepted the work as performed by RC Foster, Inc. as complete under the construction contract for the Prado Lake Discharge Modifications, Project No. EN07010.04, and TP-1 SBS Pump Improvements, Project No. EN07006.04; and
2. Authorized the General Manager to execute the Notice of Completion.

D. The Board:

1. Approved the Amendment to the Recycled Water Irrigation Retrofit Projects Reimbursement Agreement No. 4600000241 with the Chaffey Joint Union High School District to add the Adult Alternative Education Center, Project No. PU06407.13 and Valley View High School, Project No. PU06407.07; and
2. Authorized the General Manager to finalize and executed the amendment.

ACTION ITEMS

REAL PROPERTY PURCHASE AND SALE AGREEMENT

General Manager Thomas A. Love stated that the Board is aware of this negotiation. He stated that this is an approximately 5 acre property located at the corner of El Prado Road and Flower Street in the City of Chino. He reported that staff has completed the negotiations and developed a purchase and sale agreement. Mr. Love stated that it does include provisions for retention of easements – the Agency has some pipelines from the RP-5 Solids Handling facility that goes along the south border of the property. He noted that this recommendation is consistent with prior discussions.

Upon motion by Director Elie, seconded by Director Koopman, and unanimously carried:

M2012-1-2

MOVED, to:

1. Accept the offer for the purchase of 5.21 acres of vacant land from the Carson Chino South, a California Limited Liability Company; and
2. Authorize the General Manager to execute all necessary documents for the subject property sale.

ADOPTION OF REGIONAL WASTEWATER AND RECYCLED WATER PROGRAM RATES FOR FISCAL YEARS 2012/12 THROUGH 2014/15

Chief Financial Officer Christina Valencia gave a brief overview of the Regional Wastewater and Recycled Water Program rates for Fiscal Years 2012/12 through 2014/15, and the process that lead to staff's recommendation that the Board adopt the rate resolutions. Ms. Valencia reported that the Agency began discussions back in October and met with the Regional Tech. In December, staff held a workshop that was attended by the IEUA Board, Regional Tech, and Regional Policy members. She stated that there was a great deal of discussion at the workshop and some recommendations made to staff – the key, which was to go back and look at the rates

and consider adoption of multi-year rates over a three year period, and in doing so, Director Koopman specifically asked staff to go back and look at the key assumptions that were the basis for the rates that were given to the member agencies back in June, and make sure that those rates that would be proposed would adequately support the Agency's O&M and replacement and repair costs over the three-year period. Ms. Valencia reported that staff went back to the Regional Tech Committee on January 12, 2012, with updated assumptions, as recommended by the Board and Committee at the workshop, and introduced the new rates. She stated that there was a lot of discussion and questions at the Tech meeting. Staff was asked to go back and reconsider certain recommendations, look at the Recycled Water Program more closely, especially with two of the projects that a being proposed going forward. She reported that the Committee deferred their recommendation for approval for one week, so they called a Special meeting on January 19, 2012. At that point, the Technical Committee did approve, by majority vote, to the two rates proposed by staff for 2012/13, 2013/14, and provisionally approved the rates for the third year. On January 26, the Policy Committee followed that recommendation and was consistent with their approval with the Regional Tech. She stated that the drivers and the objective for the proposed rates have not changed from the prior year. She stated that due to decreasing revenues and increasing costs, and since the Agency does not have full cost of service rates; staff had to dip into reserves a lot more than planned to supplement the shortfall.. She stated that the other result of that is a declining debt coverage ratio. Ms. Valencia stated that the recommended multi-year rates will not only have to adequately support the O&M and replacement costs over the three year period, but also raise the Agency's debt coverage ratio to 1.50x by 2013/14 and 1.70x by the third year. She stated that the benefits of the multi-year rates, aside from helping the Agency and its member streamline the budget process, will also improve the Agency's long-term financial planning and help sustain its AA rating, as well as provide access to the market should the Agency need to borrow money in the future to fund capital investment.. Ms. Valencia noted that even though the proposed rates are still not full cost of service rates, they will help the Agency replenish a portion of the reserves, and achieve the targeted debt coverage ratios.

General Manager Thomas A. Love noted that Chief Financial Officer Christina Valencia and her staff have worked very hard and certainly deserve recognition for their efforts.

Director Santiago concurred with General Manager Thomas Love.

Director Elie stated that a lot of what was said today, was a review for the Board members, and it a lot easier for the Board to make a decision, due to the efforts of Chief Financial Officer Christina Valencia and her staff keeping the Board fully advised as this process progressed. He stated that no one wants to be in the position of raising rates ever, and most certainly, now is not the greatest time to have to do that, but a year ago, it was quite clear that raising rates will have to be revisited this year. He stated that the Agency is being very proactive in setting the rates for three years, and are being protective of the assets of the Agency as a whole and all the member agencies as well, yet giving people clarity on where the Agency thinks it's going to go, which remaining flexible if some reason the economy rebounds. Director Elie recognized and thanked staff for all the efforts and the challenges that have been met in completing a rate proposal by February 1st. He stated that it is remarkable.

Director Koopman commented that one of the big drivers for the increase is that the Agency did not increase the rate last year, and the debt service coverage. He noted that even with these rate increases the three-year total will hopefully get the Agency to a debt coverage ratio of only 1.70, which is still below Moody's median for comparable AA rated agencies. He noted that the chances of decreasing the third year rate amount are fairly slim considering the Agency's ongoing cost containment efforts

General Manager Thomas A. Love stated that staff will provide a periodic review on the financial metrics and drivers to the Regional Tech and Policy Committees and the IEUA Board, twice a year between July/August, and January/February, as requested by Committee members.

Upon motion by Director Elie, seconded by Director Koopman, and unanimously carried:

M2012-2-3

MOVED, to adopt the following rate resolutions for the Regional Wastewater and Recycled Water Programs, for Fiscal Years 2012/13 through 2014/15:

1. Rate Resolution 2012-2-2 for the monthly EDU (Equivalent Dwelling Unit) volumetric rate:

Effective July 1, 2012 increase from the current rate of \$11.14 per EDU to \$12.39 per EDU for FY 2012/13,
Effective July 1, 2013 increase from the FY 2012/13 rate of \$12.39 per EDU to \$13.39 per EDU for FY 2013/14, and
Effective July 1, 2014 increase from the FY 2013/14 rate of \$13.39 per EDU to \$14.39 per EDU for FY 2014/15.

RESOLUTION NO. 2012-2-2

RESOLUTION OF THE BOARD OF DIRECTORS OF THE INLAND EMPIRE UTILITIES AGENCY*, SAN BERNARDINO COUNTY, CALIFORNIA, ESTABLISHING SERVICE RATES FOR IMPROVEMENT DISTRICT "C" FOR FISCAL YEAR 2012/13 THROUGH YEAR 2014/15 (For full text, see Resolution Book)

2. Rate Resolution 2012-2-3 for the EDU connection fee rate:

Effective July 1, 2012 increase from \$4,766 per EDU to \$4,909 per EDU for FY 2012/13,
Effective July 1, 2013 increase from the FY 2012/13 rate of \$4,909 per EDU to \$5,007 per EDU for FY 2013/14, and
Effective July 1, 2014 increase from the FY 2013/14 rate of \$5,007 per EDU to \$5,107 per EDU for FY 2014/15.

RESOLUTION NO. 2012-2-3

RESOLUTION OF THE BOARD OF DIRECTORS OF THE INLAND EMPIRE UTILITIES AGENCY*, SAN BERNARDINO COUNTY, CALIFORNIA, ESTABLISHING THE REIMBURSEMENT PAYMENT FOR FISCAL YEAR 2012/13 THROUGH YEAR 2012/15 (For full text, see Resolution Book)

3. Rate Resolution 2012-2-4 for the Recycled Water Direct Sale rate and Recycled Water Recharge Sale rate:

Direct Sale rate:
Effective July 1, 2012 increase from the current rate of \$115 per AF to \$155 per AF for FY 2012/13,
Effective July 1, 2013 increase from the FY 2012/13 rate of \$155 per AF to \$215 per AF for FY 2013/14, and
Effective July 1, 2014 increase from the FY 2013/14 rate of \$215 per AF to \$290 per AF for FY 2014/15.

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M2012-2-3, continued.

Recharge Sale rate:

Effective July 1, 2012 increase from the current rate of \$145 per AF to \$195 per AF for FY 2012/13,

Effective July 1, 2013 increase from the FY 2012/13 rate of \$195 per AF to \$255 per AF for FY 2013/14, and

Effective July 1, 2014 increase from the FY 2013/14 rate of \$255 per AF to \$335 per AF for FY 2014/15.

RESOLUTION NO. 2012-2-4

RESOLUTION OF THE BOARD OF DIRECTORS OF THE INLAND EMPIRE UTILITIES AGENCY*, SAN BERNARDINO COUNTY, CALIFORNIA, ESTABLISHING RATES COVERING THE SALE OF RECYCLED WATER FOR FISCAL YEAR 2012/13 THROUGH YEAR 2014/15 (For full text, see Resolution Book)

INFORMATION ITEMS

LEGISLATIVE UPDATE

Executive Manager of Policy Development Martha Davis stated that there is nothing to report at this time.

PROPOSED DIVISION BOUNDARY REDISTRICTING WORKSHOP

Manager of Planning & Environmental Compliance Chris Berch provided Redistricting scenarios 6, 7, and 8, based on comments and recommendations from the Board members. Discussions ensued regarding the different scenarios, and it was determined that a Special Board Workshop be scheduled to further discuss the boundary redistricting.

GENERAL MANAGER'S REPORT

The General Manager's Report was received and filed by the Board.

General Manager Thomas A. Love reported that Manager of Fiscal Management Michael Chung approached the Chino Basin Desalter Authority (CDA) over an issue in the Agency's reimbursement of labor charges and a maximum burden rate of 70 percent. Mr. Love reported that Mr. Chung worked with CDA General Manager and Technical Committee members to remove the maximum limit and allow IEUA to charge the actual burden rate for labor charges, consistent with the O&M Agreement between IEUA and the CDA, beginning July 1, 2012. Mr. Love reported that the interest rate on the Agency's variable rate debt has gone up to 0.07% from 0.06% the previous week. He also reported that last week, he and the Manager of Human Resources Gina Hillary met with the IEUA represented labor groups for an annual meet and greet. Mr. Love reported he spoke to the Hispanic Chamber of Commerce on how to do business with IEUA, consistent with Small Business Outreach efforts. He said it was well attended. He met with Celeste Cantu of SAWPA for their annual meeting to discuss SAWPA's planning activities for 2012. He also met with several member agencies to discuss water softeners ordinances and the rate proposal.

Assistant General Manager Craig Miller updated the Board on the MET replenishment comment letter, which IEUA staff is working on, and will have the Board review and comment; which will be forwarded to the Chino Basin Watermaster for review.

BOARD OF DIRECTORS' REQUESTED FUTURE AGENDA ITEMS

There were no Board requested future agenda items.

DIRECTORS' COMMENTS

Director Santiago recognized and thanked staff for their diligent efforts in handling the rate budget process.

President Catlin commented that he attended the Aquifer Recharge Conference on January 30 and 31. He reported that Executive Manager of Policy Development Martha Davis was a keynote speaker who spoke on Groundwater Management and Increased Aquifer Recharge in the Delta Plan Policy Recommendations. He stated that it was a great, well-attended conference, with many interesting topics.

CLOSED SESSION

The Board went into closed session at 11:15 a.m., A. PURSUANT TO GOVERNMENT CODE SECTION 54956.9(a) – CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION: (1) IEUA vs. Mr. Anthony Maglica, Case No. RCV098354; (2) Chino Basin Municipal Water District vs. City of Chino, Case No. RCV51010; (3) Taisei-T&K Joint Venture vs. IEUA, Case No. CIVRS 914130; (4) Martin vs. IEUA, Case No. CIVRS 1000767; (5) IEUA vs. Ontario Redevelopment Agency, Case No. CIVRS1100454; (6) Dezhm vs. IEUA, Case No. CIVRS 1109761; (7) IEUA vs. Ontario Redevelopment Agency, Case No. CIVRS1110390 . B. PURSUANT TO GOVERNMENT CODE SECTION 54956.9 – CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION: Two (2) cases, C. PURSUANT TO GOVERNMENT CODE SECTION 54956.8 – CONFERENCE WITH REAL PROPERTY NEGOTIATOR (1) Property: 4 acres on El Prado Road; Negotiating Parties: Carson Companies; Under Negotiation: Price and Terms of Purchase

The meeting resumed at 12:05 p.m. and General Counsel, Jean Cihigoyenette, stated that the below-mentioned matters were discussed in Closed Session, and the Board took the following actions:

Regarding Conference with Legal Counsel – Existing Litigation:

Taisei-T&K Joint Venture vs. IEUA, Case No. CIVRS 914130

IEUA vs. Ontario Redevelopment Agency, Case No. CIVRS1110390

The Board took no reportable action.

Regarding Conference with Legal Counsel – Existing Litigation:

IEUA vs. Mr. Anthony Maglica, Case No. RCV098354

Chino Basin Municipal Water District vs. City of Chino, Case No. RCV51010

Martin vs. IEUA, Case No. CIVRS 1000767

IEUA vs. Ontario Redevelopment Agency, Case No. CIVRS1100454

Dezhm vs. IEUA, Case No. CIVRS 1110390

The Board did not discuss this item.

Regarding Conference with Legal Counsel – Anticipated Litigation:

One (1) case

The Board took no reportable action.

Regarding Conference with Legal Counsel – Anticipated Litigation:

One (1) case

The Board did not discuss this item.

Regarding Conference with Property Negotiator

Property: 4 acres on El Prado Road
Negotiating Parties: Carson Companies
Under Negotiation: Price and Terms of Purchase

The Board did not discuss this item.

With no further business, President Catlin adjourned the meeting at 12:06 p.m.

Secretary

APPROVED: FEBRUARY 15, 2012