

MINUTES

ADJOURNED REGULAR MEETING OF THE

BOARD OF DIRECTORS

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MAY 12, 1998

42931 The Board of Directors of The Metropolitan Water District of Southern California met in Adjourned Regular Meeting on the third floor of the building located at 350 South Grand Avenue in the City of Los Angeles, State of California, on Tuesday, May 12, 1998.

The Meeting was called to order by Chairman Foley at 11:04 a.m.

42932 The Meeting was opened with an invocation by Senior Assistant to the General Manager Gilbert F. Ivey.

42933 The Pledge of Allegiance to the Flag was given, led by Director Claude A. "Bud" Lewis.

42934 Secretary Murph called the roll. Those answering present were: Directors Abdo, Bannister, Barbosa, Barker, Blake, Brick, Castro, Dymally, Fellow, Foley, Forbes, Freeman, Grandsen, Hansen, Herman, Hill, Huntley, King, Krauel, Kwan, Lewis, Mason, Mayér, McCauley, McMurray, Miller, Moret, Morris, Murph, Mylne, O'Neil, Owen, Pace, Parker, Peterson, Rez, Stanton, Tinker, Wein, Witt and Wright.

Those not answering were: Directors Coughran, Frahm, Gastelum, Gilbert, Kosmont, Krieger, Luddy, Rascon (entered 11:52 a.m.), Troxel, and Webster.

The Chair declared a quorum present.

42935 Chairman Foley inquired if there were any additions to the agenda. There being none, the Chair declared only those matters listed on the agenda would be considered.

42936 Chairman Foley invited members of the public to address the Board on matters within the Board's jurisdiction. No member of the public responded.

42937 There being no objection, the Chair ordered the reading of the Minutes of the Meeting held March 10, 1998, dispensed with, a copy having been mailed to each Director.

Director Pace moved, seconded by Director Blake and carried, approving the foregoing Minutes as mailed.

42938 Chairman Foley announced the next workshop on Governance to be led by John Carver will be held on May 26, 1998, at 8:30 a.m. in Conference Room 311 at California Plaza, wherein the Board will be looking at a Policy Model to fit Metropolitan's needs.

42939 Chairman Foley gave an update on Senator Ayala's bill (SB 1885) regarding Metropolitan's governance issues. The Chair referred to his letter of May 7, 1998, to Senator Ayala which was sent after discussions with the Senator. Senate Bill 1885 would reduce the membership of the Board to 27 from the current 51 members. However, the Chair stated Senator Ayala would postpone his bill in its current form so a two-year study could be conducted by a commission consisting of one appointee from each agency of Metropolitan. The commission would then make its recommendation to the Legislature, and if Metropolitan failed to implement the findings of the commission, then Senator Ayala's original bill would take effect and Metropolitan would be reduced to a 27-member Board.

Following a discussion on Senate Bill 1885, General Counsel Taylor stated Metropolitan's position is to oppose the bill, but at the present time the Chairman was only bringing the Board up to date with his discussions with Senator Ayala. Depending on the action taken by the Senator, the Board will then have the opportunity for a more detailed discussion and to take a definitive action. Mr. Taylor stated that was the reason Agenda Item 8-13 was deferred.

42940 Chairman Foley reported the Special Nominating Committee is expected to meet the week of May 25 to begin its consideration of recommendations to the Board, and he is, therefore, appointing Director Hill to fill the vacancy on that committee.

Director Barker moved, seconded by Director Kwan and carried, approving the appointment of Director Hill to the

Special Nominating Committee for the term ending February 28, 2000, due to the retirement of E. Thornton Ibbetson from the Board.

Chairman Foley requested the Special Nominating Committee to consider the matter of Metropolitan's representatives to the Colorado River Board.

42941 General Manager Wodraska reported that an extensive presentation on Colorado River matters was made at the Plenary Session meeting yesterday. He stated revisions are continually being made to the draft California 4.4 Plan. Mr. Wodraska mentioned that for the June Board Meeting, he will be bringing pending letters on the proposals for the Cadiz, Hayfield, and Coachella exchange programs which would be dry-year options that would give Metropolitan the ability to store Colorado River water in California groundwater basins. He stated the Colorado River supply remains in good condition with respect to where we are in the matter of rainfall in the watershed and from an operational standpoint. He commented on the informative tour taken by some Board members to view the habitat for endangered species in the Lower Basin.

42942 Regarding the San Diego County Water Authority/Imperial Irrigation District (San Diego/IID) water transfer matter, General Manager Wodraska stated an extensive briefing was also made at the Plenary Session. In this regard, he reported that the Governor's office, through Chief of Staff George Dunn, is now participating in the discussions, and that the technical staff of both Metropolitan and San Diego held a meeting with Mr. Dunn. Mr. Wodraska stated that an outstanding issue still remaining is the definition of availability in the Colorado River Aqueduct, and that San Diego is insistent upon a structure where they can be guaranteed that their water will ride in the aqueduct during certain periods of time. Metropolitan has taken the position based on hydrology, that if space is available, that is how the system should be managed. Another difference of opinion is the cost and its escalation under the Kennedy framework.

General Manager Wodraska also reported that Kern County Water Agency has sent a letter to San Diego regarding the possibility of a small portion of Kern County's State Water Project entitlement becoming a part of a potential solution to the water supply issues between San Diego and Metropolitan.

Mr. Wodraska informed the Board that an analysis has not been completed with regard to the State Water Project issues, and that the wheeling issues still remain. He will keep the

Board apprised on the progress of the deliberations between all the parties involved.

42943 Chief of Communications Maloy stated that the item on pending legislation will appear on the agenda for the next few months while the Legislature is still in session to give Metropolitan an opportunity to discuss major issues. He reported that negotiations are continuing on the Ayala bill (SB 1885) and the Thompson bill (AB 1919).

Following comments on the Ayala bill, Director Freeman moved that Metropolitan instruct its lobbyist not to advance any ideas until the Board has had a chance to consider and decide a position on the fundamental features of the bill--the voting requirements of the commission, and whether or not Metropolitan agrees to the "trigger mechanism" in the bill. No second to the motion was made.

42944 The Chair reported that Agenda Items 7-3, 7-4, 8-11, and 8-13 have been deferred; Agenda Items 7-7, 7-9, and 7-11 are withdrawn from the Consent Calendar; and Agenda Items 8-1, 8-2, 8-4, 8-5, 8-6, and 8-8 have been added to the Consent Calendar.

Director Pace moved, seconded by Director Morris and carried, and the Board approved the Consent Calendar Items, M.I. 42945 through M.I. 42957, as follows:

42945 Authorized the General Manager to enter into an agreement with Price Waterhouse LLP and Rand Corporation, not to exceed \$600,000, for consulting services to facilitate the development of a new strategic plan, as set forth in the General Manager's letter dated April 28, 1998, and as revised in the committees.

42946 Adopted Resolution 8581 which is mandated by the State Office of Emergency Services and Federal Emergency Management Agency in order to receive reimbursement for damages resulting from the El Niño storms of 1998, as set forth in the General Manager's letter dated April 20, 1998, said Resolution entitled:

DESIGNATION OF APPLICANT'S AGENT RESOLUTION

42947 Authorized the General Counsel to amend the contracts with five law firms identified in the General Counsel's letter dated April 24, 1998, to extend the time period to represent Metropolitan in eminent domain and related litigation for the Inland Feeder Project for the duration of each assignment or

litigation and future Inland Feeder litigation assigned on or before December 31, 1999.

Directors Krauel, Lewis, Mason, Parker, and Tinker requested to be recorded as voting no.

42948 The Board (1) approved the appointment by the General Manager of Dawn Chin to the office of Executive Secretary pursuant to Administrative Code Section 6401, with the appointment to be effective on April 19, 1998; and (2) amended Section 6500 of the Administrative Code as set forth in Attachments A and B to the General Manager's letter dated April 6, 1998, to reflect the deletion of the Executive Secretary position from the schedule of unrepresented positions.

42949 Authorized Metropolitan to provide shop services to Ameron International Concrete and Steel Pipe pursuant to a \$230,000 service contract, subject to the contract being in form approved by the General Counsel, as set forth in the General Manager's letter dated April 16, 1998.

Director Abdo requested the record show she did not participate in the discussion of this item.

42950 Authorized Metropolitan to extend and increase the value of its existing service contract with the Orange County Water District from \$160,000 to \$360,000, subject to the contract amendment being in form approved by the General Counsel, as set forth in the General Manager's letter dated April 17, 1998.

42951 Ratified the General Manager's execution of the First Amendment to Agreement No. 13611 with Sloat Higgins and Associates, to increase payment by \$124,000 to a total of \$244,000 for a 12-month period, for consulting services related to State legislative and regulatory matters, as set forth in the General Manager's letter dated April 22, 1998.

Director Mason requested to be recorded as abstaining.

Directors Krauel, Lewis, Parker, and Tinker requested to be recorded as voting no.

42952 Ratified the General Counsel's filing of an appeal of the ruling on attorneys' fees and other costs to defendants in the wheeling rates validation action (Metropolitan Water District of Southern California v. All Persons Interested, Los Angeles Superior Court Case No. BC164076), as set forth in the General Counsel's letter dated April 24, 1998. (On the advice of counsel

handling Metropolitan's appeal of Judge Kay's wheeling decision, General Counsel appealed the decisions to protect Metropolitan's position by deferring payment until there is a ruling on the merits of the wheeling case. Should Metropolitan prevail on appeal, these fees would not be payable. Failure to appeal would require payment at this time.)

Director Mason requested to be recorded as abstaining.

Directors Krauel, Lewis, Parker, and Tinker requested to be recorded as voting no.

42953 Adopted **Resolution 8582** shown as Exhibit A to the General Manager's letter dated April 21, 1998, imposing a water standby charge on real property within the District's service area (excluding certain newly annexed areas) to which water is made available for any purpose by the District, whether the water is actually used or not, subject to exemptions as provided; said Resolution entitled:

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN
WATER DISTRICT OF SOUTHERN CALIFORNIA FIXING AND ADOPTING
WATER STANDBY CHARGES FOR FISCAL YEAR 1998-99**

42954 Re-authorized the General Manager to purchase up to \$75 million of Metropolitan bonds in the secondary market subject to the conditions described in the Detailed Report section of the General Manager's letter dated April 21, 1998; with this re-authorization to be effective on July 1, 1998, and will expire on June 30, 1999; and that if bonds are purchased the Pay-As-You-Go Fund would be used as the funding source.

42955 To construct the Arrowhead West Tunnel of the Inland Feeder Program, the Board awarded a construction contract in the amount of \$87,573,873 (Appropriation No. 15122) to Shank/Balfour Beatty, a joint venture, in accordance with Specifications No. 1357, as amended; and upon execution of the contract, authorized the rejection of all other bids, as set forth in the General Manager's letter dated April 21, 1998.

Directors Krauel, Lewis, Mason, Parker, and Tinker requested to be recorded as voting no.

42956 To provide post-design consulting services for the Arrowhead West Tunnel of the Inland Feeder Program, the Board authorized the General Manager to amend Agreement No. 4532 with Bechtel Corporation in the amount of \$9,750,000 for a total

agreement amount of \$29,800,000 (Appropriation No. 15122), as set forth in the General Manager's letter dated April 21, 1998.

Directors Krauel, Lewis, Mason, Parker, and Tinker requested to be recorded as voting no.

42956.1 To design and construct the Lake Mathews Drainage Water Quality Management Plan facilities, the Board authorized (1) Appropriation No. 15253 in the amount of \$33.9 million from the Pay-As-You-Go Fund to finance budgeted costs to complete Phase I of the program; (2) the General Manager to approve all work necessary to implement Phase I, except for competitively bid contracts involving an amount greater than \$250,000; and (3) the General Manager to apply for and execute a State Revolving Fund loan for up to \$45.9 million and to disperse funds for loan payments, as set forth in the General Manager's letter dated April 21, 1998.

42957 Authorized the General Manager to enter into an agreement with COMPASS Management and Leasing, Inc., for property management services at the new Headquarters in an amount not to exceed \$3,800,000 for two years, as set forth in the General Manager's letter dated April 24, 1998.

Director Krauel requested to be recorded as voting no.

42958 It is recommended that (1) the appointment of John (Jack) Maloy by the General Manager to the position of Chief of Communications be approved by the Board in accordance with Administrative Code Section 6401, such appointment not to exceed 24 months; and (2) the unrepresented Principal Legislative Representative classification be moved from salary grade 62 to 65 and that Administrative Code Section 6500 be amended as set forth in Attachments A and B to the General Manager's letter dated April 27, 1998, to reflect this change.

Director Mayér moved to revise part (1) of the above recommendation for Mr. Maloy's appointment not to exceed 12 months, and for the Board to reevaluate this appointment at the end of the 12-month period. The motion was seconded by Director Kwan.

The Chair called for a vote on Director Mayér's motion, which did not carry.

Director Blake then moved, seconded by Director Wright and carried, approving the recommendations set forth in the General Manager's letter dated April 27, 1998.

Directors Kwan and Mayér requested to be recorded as voting no.

Director Rascon took his seat at 11:52 a.m.

42959 It is recommended that the Board of Directors authorize Metropolitan to provide professional services for a fee to OMI, Inc., in an amount not to exceed \$240,000, pursuant to an agreement approved as to form by the General Counsel, as set forth in the General Manager's letter dated April 17, 1998.

Organization and Personnel Committee Chairman Wein reported that following discussion by the committee, a motion was approved to table this item for a month, but because of a timing situation, he would like the Board to discuss this item. Director Wein therefore moved, seconded by Director Freeman, that consideration be given to the Organization and Personnel Committee's motion to table this item for a month.

General Counsel Taylor advised the Board that under the rules, limited debate can take place on the motion and if the motion fails, then consideration of the item as set forth in the General Manager's letter can take place.

Following a discussion on the tabling of this item, the Chair called for a vote on the motion, which did not carry.

Director Hansen then moved, seconded by Director Morris, that the Board authorize Metropolitan to provide professional services for a fee to OMI, Inc., in an amount not to exceed \$240,000, pursuant to an agreement being in form approved by the General Counsel.

Following a discussion on the above motion, Director Freeman offered an amendment to the motion, requiring the staff to get approval of the Organization and Personnel Committee before signing an agreement. The motion was seconded by Director Krauel.

After further discussion on the amended motion, the Chair called for a vote. The amended motion did not carry.

The Chair then called for a vote on the original motion, which carried.

Directors Dymally, Krauel, Kwan, Lewis, and Tinker requested to be recorded as voting no.

Board Secretary Murph requested the record show she did not participate in the discussion of this item.

42960 Committee on Communications and Legislation Chairman Pace moved, seconded by Director Blake, authorizing the General Manager to amend Agreement No. 17592 with Burson-Marsteller to increase the maximum payable to an amount of \$300,000, for consulting services related to State legislative and regulatory matters, as set forth in the General Manager's letter dated April 24, 1998.

Director Krauel requested that the letter from the San Diego County Water Authority, dated May 12, 1998, regarding this item and others on the agenda, be made a part of the record.

The Chair called for a vote on the motion, which carried.

Director Mason requested to be recorded as abstaining.

Directors Castro, Dymally, Krauel, Lewis, Mayér, Parker, Rascon, and Tinker requested to be recorded as voting no.

42961 Budget and Finance Committee Chairman Blake moved, seconded by Legal and Claims Committee Chairman Rez and carried, authorizing the General Manager to bind \$75 million of liability insurance, in excess of a \$25 million self-insurance retention, with Insurance Company of Pennsylvania at a net premium of \$328,000 for fiscal year 1998-1999, as set forth in the General Manager's revised letter dated May 11, 1998.

42962 To complete the insurance premium deposits and administrative services for the Board approved Owner-Controlled Insurance Program (OCIP) and services for the Eastside Reservoir Project (ESRP) for the remaining years, Director Dymally moved, seconded by Director Hill and carried, authorizing the General Manager to (1) expend \$16,743,615 of previously appropriated funds to pay the insurance premium deposits for the remaining years of the ESRP OCIP; and (2) amend Administrative Agreement No. 4571 with Sedgwick/Dickerson adding \$1,751,000 from the existing appropriation to cover additional safety personnel and an additional shift of first aid services for a total OCIP

administrative cost of \$4,511,000 for the project, as set forth in the General Manager's letter dated April 28, 1998.

42963 Water Planning and Resources Committee Chairman Brick moved, seconded by Director Blake and carried, approving the proposed policy principles described in the General Manager's revised letter dated May 11, 1998, concerning the CALFED Bay-Delta Program.

42964 Legal and Claims Committee Chairman Rez moved, seconded by Water Planning and Resources Committee Chairman Brick and carried, authorizing the General Counsel to intervene and to take all actions necessary to protect Metropolitan's interests in the litigation entitled Natural Resources Defense Council, Inc. and League for Coastal Protection v. Toqo D. West, Jr., Secretary of the Army, and United States Army Corps of Engineers, United States Northern District Court Case Number 98-CIV-0560; and to minimize costs, Metropolitan would participate in a litigation group which has budgeted approximately \$25,000 as the entire cost for the group intervention, with each participant paying its proportional share, minimizing the cost to each, as set forth in the letter signed jointly by the General Manager and the General Counsel dated April 20, 1998.

Director King withdrew from the Meeting at 12:10 p.m.

42965 Director Dymally moved, seconded by Committee on Communications and Legislation Chairman Pace and carried, approving the recommendations set forth in the General Counsel's confidential letter dated May 4, 1998, regarding Eastside Reservoir groundwater mitigation matters and Assembly Bill 1834 (Thompson-Fallbrook); and proposal to settle groundwater disputes.

42966 The following listed communications were submitted for the information of the Board:

- a. Letter of the General Manager dated April 21, 1998, reporting on the operating data for the month of March.
- b. Letter of the General Counsel dated April 30, 1998, transmitting the activity report of the Legal Department for the month of April.
- c. Letter of the Auditor dated April 28, 1998, transmitting the activity report of the Audit Department for the month of April.

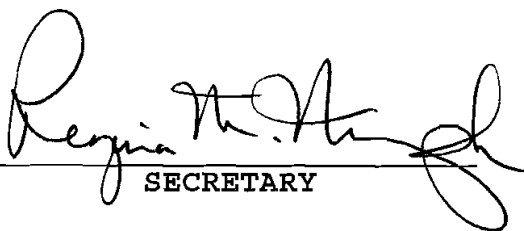
- d. Letter of the General Manager dated April 23, 1998, transmitting the Executive Financial Summary for the month of March.
- e. Letter of the General Manager dated April 21, 1998, transmitting the variance report for the quarter ending March 1998.
- f. Letter of the General Manager dated April 21, 1998, reporting on the MOU for the right-of-way within Bedford Canyon for the Central Pool Augmentation and Water Quality Program.
- g. Letter of the General Manager dated April 21, 1998, transmitting the Executive Summary for the Inland Feeder Quarterly Status Report for January through March 1998.
- h. Letter of the General Manager dated April 28, 1998, transmitting the Quarterly Project Status Report for the Eastside Reservoir Project for January through March 1998.
- i. Letter of the General Manager dated April 28, 1998, submitting the status report on Phase One of the Information Systems Strategic Plan for the period April 1, 1997 to March 31, 1998.
- j. Letter of the General Manager dated April 28, 1998, submitting the Fourth Annual Stewardship Report on Eastside Reservoir Project's Owner-Controlled Insurance Program.
- k. Letter of the General Counsel dated April 27, 1998, reporting on Proposition 226--Political Contributions; Employers; Labor Unions; Foreign Entities.
- l. Letter of the General Counsel dated April 27, 1998, reporting on Proposition 224--Government Cost Savings and Taxpayer Protection Amendment to California Constitution.

42967 Senior Executive Assistant to the General Manager Ivey provided an update on the progress of the new Headquarters Building. He reported on the May 21 inspection tour of the Headquarters taken by some of the Board members and the progress of construction since that inspection tour. The project remains on schedule and within budget.

42968 The letter of the General Manager regarding the 1998-99 Proposed Annual Budget, dated April 21, 1998, was received as a pending item and will be discussed at a later date.

42969 The letter of the General Manager regarding the implementation of Local Resources Program and Administrative Rules, dated April 28, 1998, was received as a pending item and will be discussed at a later date.

42970 At 12:17 p.m., there being no objection, Chairman Foley adjourned the Meeting to June 9, 1998, at 11:00 a.m.


REGISTRY


CHAIRMAN



San Diego County Water Authority

A Public Agency

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May 12, 1998

John V. "Jack" Foley, Chairman
Metropolitan Water District
of Southern California
P.O. Box 54153
Terminal Annex
Los Angeles, CA 90054

Re: May 12, 1998 Meeting of the Board of Directors
Agenda Items 7-11, 7-12, 7-13, 7-14

Dear Jack,

The above referenced items all relate to the provision of litigation, negotiation and lobbying services by outside consultants and attorneys for Metropolitan adverse to the interests of the San Diego County Water Authority. The purpose of this letter is to express opposition on behalf of the Authority and, to protest affirmative action by the Metropolitan Board of Directors on these continued expenditures, unless the Board concurrently adopts a policy whereby the Authority is exempted from paying any portion of the costs of these services. As you know, these services are being rendered for the purpose of asserting on behalf of Metropolitan a position adverse to the Authority (one of Metropolitan's member agencies) with respect to the pending transfer of conserved water from the Imperial Irrigation District to the Authority.

Agenda Item 7-11 involves amendment of an agreement with Burson-Marsteller, a Sacramento public relations and lobbying firm, to provide consulting services to assert Metropolitan's position regarding water transfers. Metropolitan, through Burson-Marsteller and others, has taken and continues to take positions adverse to the interests of the Authority, and its efforts to accomplish a historic transfer of conserved water from the Imperial Irrigation District. Revenues Metropolitan receives from the sale of water to the Authority should not be used to fund Metropolitan's efforts against the Authority.

Agenda Item 7-12 involves amendment of an agreement with Sloat Higgins and Associates. This firm also provides lobbying, legislative and strategic services to Metropolitan to oppose efforts to complete the water transfer. Further, Kevin Sloat is directly involved in negotiations on behalf of Metropolitan with the Authority over wheeling rates. Unless Metropolitan establishes the policy requested in this letter, the Authority will be paying approximately 25% of the fees to a firm representing Metropolitan and taking positions adverse to the Authority at the negotiating table.

MEMBER AGENCIES

CITIES

• Del Mar • Escondido • National City
• Oceanside • Poway • San Diego

COUNTY
• San Diego
• Imperial

IRRIGATION DISTRICTS

• Santa Fe • South Bay
• Jota

PUBLIC UTILITY DISTRICT
• Fullbrook

WATER DISTRICTS

• Helix • Otay
• San Diego
• Vallecitos

FEDERAL AGENCY
• Pendleton Military Reservation

MUNICIPAL WATER DISTRICTS

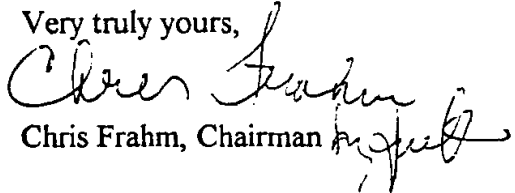
• Carlsbad • Ramona
• Olivenhain • Rincon del Diablo
• Padre Dam • Valley Center
• Rainbow • Yuma

Agenda Item 7-13 involves ratification of the General Counsel's filing of a notice of appeal of Judge Kay's decision to grant the Authority and others certain actual costs in the litigation initiated by Metropolitan, over the objection of the Authority, to validate its wheeling rates. Again, the Authority should not be required to pay the cost of lawyers to prosecute a suit by Metropolitan adverse to the interests of the Authority and against itself.

Finally, Agenda Item 7-14 involves the amendment of a contract with the law firm of O'Melveny & Myers. This firm was the trial counsel for Metropolitan in the wheeling suit at which Metropolitan took positions adverse to the interests of the Authority. This contract would permit the firm to provide continuing services to Metropolitan with respect to the transfer in other arenas. The Authority should not be required to pay any portion of the cost of services provided by this firm that may be used by Metropolitan to take positions adverse to the Authority.

If Metropolitan is not willing to establish a policy exempting the Authority from the cost of the services rendered by these consultants and attorneys, either through a direct credit against water sales and other charges, or through periodic reimbursements, then the Authority demands that it be provided with copies of all work product of these consultants at the same time as it is provided to Metropolitan. We also request that Metropolitan provide a free accounting of money spent to oppose the Authority's water transfer agreement with Imperial -- in the millions of dollars -- and reimburse us for the share that has been collected from our ratepayers. This would be well received as an act of good faith by Metropolitan pending the conclusion of this matter.

Very truly yours,


Chris Frahm, Chairman