

- **Board of Directors**
Legal, Claims and Personnel Committee

November 20, 2001 Board Meeting

8-5

Subject

Approve amendments of certain provisions of Metropolitan's Administrative Code relating to Savings Plans

Description

Metropolitan has established two savings plans (Savings Plans) for its employees (as defined under the respective Savings Plans). The Savings Plans were adopted by the Board in 1985 and were designed to attract and retain officers and employees by providing tax deferred elective contribution accounts and matching contribution accounts which will provide benefits on retirement, death, disability, separation from service or otherwise as permitted by law.

The Savings Plans are administered by the Chief Executive Officer, who has the power and authority to adopt rules and regulations for the administration of the Savings Plans. Pursuant to Sections 6771 and 6791 of the Metropolitan Water District Administrative Code, the Savings Plans may be amended, in whole or in part, at any time by order of the Board.

From time to time, Congress has made changes to provisions of the Internal Revenue Code affecting 401(k) savings plans, which in turn requires Metropolitan to amend its Savings Plans in order to maintain the tax advantaged treatment for its officers and employees. The amendments to the Savings Plans (**Attachment 1** and **Attachment 2**) bring them into compliance with changes resulting from passage of the 1996 Tax Act, together with legislative and regulatory changes, to Section 401(a) of the Internal Revenue Code. These changes have already been implemented by Metropolitan operationally. In general the amendments include: (i) adding a limit of \$150,000 on the amount of compensation taken into effect under the Savings Plans; (ii) applying a cost of living increase to the maximum contributions permitted under the Savings Plans; (iii) permitting direct rollovers from the Savings Plans to Individual Retirement Accounts or other qualified plans of a subsequent employer; and (iv) adding a requirement that Savings Plans benefits be distributed commencing at an employee's attainment of age 70 ½.

In Notice 2001-42, the Internal Revenue Service indicated that the amendment remedial period for savings plans desiring to preserve qualification under the Internal Revenue Code ends December 31, 2001. In the event the amendments are not adopted the Savings Plans will face disqualification, and officers and employees will not be entitled to the tax advantaged treatment afforded under Internal Revenue Code for qualified governmental plans.

Policy

The Chief Executive Officer will maintain the Savings Plans as qualified plans under Sections 401(a) and 401(k) of the Internal Revenue Code.

CEQA

The proposed action is not defined as a project under the California Environmental Quality Act (CEQA) because the proposed action involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA per Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

Approve the CEQA determination and approve amendments to the Savings Plans.

Fiscal Impact: \$0

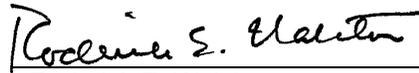
Option #2

Do not approve the amendments to Savings Plans.

Fiscal Impact: Unknown; Savings Plans may face disqualification.

Staff Recommendation

Option #1



Roderick E. Walston
General Counsel

10/18/2001

Date

Attachment 1 - Second Amendment to The Metropolitan Water District Of Southern California Savings Plan

Attachment 2 - Second Amendment to The Metropolitan Water District Of Southern California Savings Plan II

BLA #1382

SECOND AMENDMENT TO THE
METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA
SAVINGS PLAN

The Metropolitan Water District of Southern California Savings Plan (“the Plan”), which is contained in the provisions of the MWD Administrative Code, is hereby amended in the following respects, effective as of the dates indicated below:

1. Section 6762(j) is amended to read as follows:

General Manager.-General Manager shall mean the Chief Executive Officer of the District, or the Chief Executive Officer’s successors or designee(s).

2. Effective as of January 1, 1995, Section 6762(d) is amended to read as follows:

Compensation. –Compensation shall mean the total of all cash compensation payable by the District to or for the benefit of an Employee in return for services and any deemed compensation under Section 414(u)(7) of the Code. Compensation taken into account under the Plan shall not exceed \$150,000 for any Savings Plan Year, as adjusted for the cost of living. Effective as of January 1, 1997, Compensation shall also include any amount which is contributed by the Employer pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under Sections 125, 401(k), 402(e), 402(h) or 457 of the Code.

3. Effective as of January 1, 1997, Section 6762(e) is amended by substituting the words “415(b)(5)” for the words “415(b)(1)(B).”
4. Effective as of January 1, 1997, Section 6762(f) is amended by substituting the words “415(b)(5)” for the words “415(b)(1)(B).”
5. Effective as of January 1, 1997, Section 6765(c)(1) is amended by substituting the following parenthetical for the parenthetical in subsection A and by deleting the second sentence thereof:

(or, if greater, one fourth of the defined benefit dollar limitation set forth in Section 415(b)(1) of the Code as in effect for the Limitation Year).

6. Section 6765(c)(2) is amended by adding the following words in place of the word "the" at the beginning of the first sentence thereof:

Effective for Plan Years beginning before December 31, 1999, the

7. Section 6767 shall be amended to add two new subsections (g) and (h) to read as follows:

(g) Direct Rollovers. This Section applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Article, a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

The following definitions shall apply to this Section:

(1) Eligible Rollover Distribution: An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities) or any hardship distribution.

(2) Eligible Retirement Plan: An Eligible Retirement Plan is an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the Distributee's Eligible Rollover distribution.

However, in the case of an Eligible Rollover Distribution to the surviving spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

(3) **Distributee:** A Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's Surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the alternate payee under a qualified domestic relations order, as defined in section 414(p) of the Code, are Distributees with regard to the interest of the Spouse or former Spouse.

(4) **Direct Rollover:** A Direct Rollover is a payment by the Plan to the Eligible Retirement plan specified by the Distributee.

(h) **Required Distributions.** Effective January 1, 1987, all distributions shall be determined and made in accordance with the proposed regulations under Section 401(a) (9), including the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed regulations and in accordance with the following provisions:

(1) **Definitions.** The following definitions shall apply to this Section:

(a) **Applicable Life Expectancy:** The life expectancy (or joint and last survivor expectancy) calculated using the attained age of the Participant (or Designated Beneficiary) as of the Participant's (or Designated Beneficiary's) birthday in the applicable calendar year reduced by one for each calendar year which has elapsed since the date life expectancy was first calculated. If life expectancy is being recalculated, the Applicable Life Expectancy shall be the life expectancy as so recalculated. The applicable calendar year shall be the first Distribution Calendar Year, and if life expectancy is being recalculated such succeeding calendar year.

(b) **Designated Beneficiary:** Any individuals or legal entity designated to receive any benefit under this Plan upon the death of a Participant.

(c) **Distribution Calendar Year:** A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin.

(d) **Participant's Benefit:** The Account balance as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions or forfeitures allocated to the Account balance as of dates in the valuation calendar year after the Valuation Date and decreased by distributions made in the valuation calendar year after the Valuation Date. Notwithstanding the foregoing, if any portion of the minimum distribution for the first Distribution Calendar Year is made in the second Distribution Calendar Year on or before the Required Beginning Date, the amount of the minimum distribution made in the second Distribution Calendar Year shall be treated as if it had been made in the immediately preceding Distribution Calendar Year.

(e) **Required Beginning Date:** The Required Beginning Date of a Participant is the first day of April of the calendar year following the calendar year in which the later of retirement or attainment of age 70 1/2 occurs.

(2) **Required Distributions.** The entire interest of a Participant must be distributed or begin to be distributed no later than the Participant's Required Beginning Date.

(3) **Limits on Distribution Periods.** As of the first Distribution Calendar Year, distributions, if not made in one lump-sum payment, may only be made over one of the following periods (or a combination thereof):

(a) the life of the Participant; or

(b) the life of the Participant and a Designated Beneficiary; or

(c) a period certain not extending beyond the Life Expectancy of the Participant; or

(d) a period certain not extending beyond the joint and last survivor expectancy of the Participant and a Designated Beneficiary.

(4) Determination of Amount to be Distributed Each Year. If the Participant's interest is to be distributed in other than one lump-sum payment, the following minimum distribution rules shall apply on or after the Required Beginning Date:

(a) If a Participant's Benefit is to be distributed over: (i) a period not extending beyond the Life Expectancy of the Participant or the joint life and last survivor expectancy of the Participant and the Participant's Designated Beneficiary; or (ii) a period not extending beyond the Life Expectancy of the Designated Beneficiary, the amount required to be distributed for each calendar year, beginning with distributions for the first Distribution Calendar Year, must at least equal to the quotient obtained by dividing the Participant's Benefit by the applicable Life Expectancy.

(b) The amount to be distributed each year, beginning with distributions for the first Distribution Calendar Year shall not be less than the quotient obtained by dividing the Participant's Benefit by the lesser of: (i) the applicable Life Expectancy; or (ii) if the Participant's Spouse is not the Designated Beneficiary, the applicable divisor determined from the table set forth in Q&A-4 of Section 1.401(a)(9)-2 of the proposed regulations.

(c) The minimum distribution required for the Participant's first Distribution Calendar Year must be made on or before the Participant's Required Beginning Date. The minimum distribution for other calendar years, including the minimum distribution for the Distribution Calendar Year in which the Participant's Required Beginning Date occurs, must be made on or before December 31 of that Distribution Calendar Year.

(5) Other Forms. If the Participant's Benefit is distributed in the form of an annuity purchased from an insurance company, distributions thereunder shall be made in

accordance with the requirements of Section 401(a)(9) of the Code and the proposed regulations thereunder.

(6) Death Distribution Provisions

(a) Distribution beginning before death. If the Participant dies after distribution of his or her interest has begun, the remaining portion of such interest shall continue to be distributed at least as rapidly as under the method of distribution being used prior to the Participant's death.

(b) Distribution beginning after death. If the Participant dies before distribution of his or her interest begins, distribution of the Participant's entire interest shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death except to the extent that an election is made to receive distributions in accordance with (1) or (2) below:

(1) If any portion of the Participant's interest is payable to a Designated Beneficiary, distributions may be made over the life or over a period certain not greater than the Life Expectancy of the Designated Beneficiary commencing on or before December 31 of the calendar year immediately following the calendar year in which the Participant died.

(2) If the Designated Beneficiary is the Participant's surviving Spouse, the date distributions are required to begin in accordance with (1) above shall not be earlier than the later of: (i) December 31 of the calendar year immediately following the calendar year in which the Participant died; or (ii) December 31 of the calendar year in which the Participant would have attained age 70 1/2.

(c) If the Participant has not elected a form of distribution by the time of his or her death, the Participant's Designated Beneficiary must elect the method of distribution no later than the earlier of: December 31 of the calendar year in which distributions would be required to begin under this Section; or December 31 of the calendar year which contains the fifth anniversary of the date of death of the Participant.

(d) If the Participant has no Designated Beneficiary, or if the Designated Beneficiary does not elect a method of

distribution, distribution of the Participant's entire interest must be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(e) If the Surviving Spouse dies after the Participant, but before payments to such Spouse begin, the provisions of this Section shall be applied as if the Surviving Spouse were the Participant.

8. Section 6765 shall be amended to new subsection (f) to read as follows:

(f) Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with §414(u) of the Internal Revenue Code.

In all other respects, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Second Amendment to the Plan is adopted this ___ day of ___, 2001, effective as of the dates specified above.

Metropolitan Water District of
Southern California

By: _____
Its: Chief Executive Officer

SECOND AMENDMENT TO THE
METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA
SAVINGS PLAN II

The Metropolitan Water District of Southern California Savings Plan II (“the Plan”), which is contained in the provisions of the MWD Administrative Code, is hereby amended in the following respects, effective as of the dates indicated below:

1. Section 6782(j) is amended to read as follows:

General Manager.-General Manager shall mean the Chief Executive Officer of the District, or the Chief Executive Officer’s successors or designee(s).

2. Effective as of January 1, 1995, Section 6782(d) is amended to read as follows:

Compensation. –Compensation shall mean the total of all cash compensation payable by the District to or for the benefit of an Employee in return for services and any deemed compensation under Section 414(u)(7) of the Code. Compensation taken into account under the Plan shall not exceed \$150,000 for any Savings Plan Year, as adjusted for the cost of living. Effective as of January 1, 1997, Compensation shall also include any amount which is contributed by the Employer pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under Sections 125, 401(k), 402(e), 402(h) or 457 of the Code.

3. Effective as of January 1, 1997, Section 6782(e) is amended by substituting the words “415(b)(5)” for the words “415(b)(1)(B).”

4. Effective as of January 1, 1997, Section 6782(f) is amended by substituting the words “415(b)(5)” for the words “415(b)(1)(B).”

5. Effective as of January 1, 1997, Section 6785(c)(1) is amended by substituting the following parenthetical for the parenthetical in subsection A and by deleting the second sentence thereof:

(or, if greater, one fourth of the defined benefit dollar limitation set forth in Section 415(b)(1) of the Code as in effect for the Limitation Year).

6. Section 6785(c)(2) is amended by adding the following words in place of the word “the” at the beginning of the first sentence thereof:

Effective for Plan Years beginning before December 31, 1999, the

7. Section 6787 shall be amended to add two new subsections (g) and (h) to read as follows:

(g) Direct Rollovers. This Section applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Article, a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

The following definitions shall apply to this Section:

(1) Eligible Rollover Distribution: An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities) or any hardship distribution.

(2) Eligible Retirement Plan: An Eligible Retirement Plan is an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the Distributee's Eligible Rollover distribution. However, in the case of an Eligible Rollover Distribution to

the surviving spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

(3) **Distributee:** A Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's Surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the alternate payee under a qualified domestic relations order, as defined in section 414(p) of the Code, are Distributees with regard to the interest of the Spouse or former Spouse.

(4) **Direct Rollover:** A Direct Rollover is a payment by the Plan to the Eligible Retirement plan specified by the Distributee.

(h) **Required Distributions.** Effective January 1, 1987, all distributions shall be determined and made in accordance with the proposed regulations under Section 401(a) (9), including the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed regulations and in accordance with the following provisions:

(1) **Definitions.** The following definitions shall apply to this Section:

(a) **Applicable Life Expectancy:** The life expectancy (or joint and last survivor expectancy) calculated using the attained age of the Participant (or Designated Beneficiary) as of the Participant's (or Designated Beneficiary's) birthday in the applicable calendar year reduced by one for each calendar year which has elapsed since the date life expectancy was first calculated. If life expectancy is being recalculated, the Applicable Life Expectancy shall be the life expectancy as so recalculated. The applicable calendar year shall be the first Distribution Calendar Year, and if life expectancy is being recalculated such succeeding calendar year.

(b) **Designated Beneficiary:** Any individuals or legal entity designated to receive any benefit under this Plan upon the death of a Participant.

(c) **Distribution Calendar Year:** A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin.

(d) **Participant's Benefit:** The Account balance as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions or forfeitures allocated to the Account balance as of dates in the valuation calendar year after the Valuation Date and decreased by distributions made in the valuation calendar year after the Valuation Date. Notwithstanding the foregoing, if any portion of the minimum distribution for the first Distribution Calendar Year is made in the second Distribution Calendar Year on or before the Required Beginning Date, the amount of the minimum distribution made in the second Distribution Calendar Year shall be treated as if it had been made in the immediately preceding Distribution Calendar Year.

(e) **Required Beginning Date:** The Required Beginning Date of a Participant is the first day of April of the calendar year following the calendar year in which the later of retirement or attainment of age 70 1/2 occurs.

(2) **Required Distributions.** The entire interest of a Participant must be distributed or begin to be distributed no later than the Participant's Required Beginning Date.

(3) **Limits on Distribution Periods.** As of the first Distribution Calendar Year, distributions, if not made in one lump-sum payment, may only be made over one of the following periods (or a combination thereof):

(a) the life of the Participant; or

(b) the life of the Participant and a Designated Beneficiary; or

(c) a period certain not extending beyond the Life Expectancy of the Participant; or

(d) a period certain not extending beyond the joint and last survivor expectancy of the Participant and a Designated Beneficiary.

(4) Determination of Amount to be Distributed Each Year. If the Participant's interest is to be distributed in other than one lump-sum payment, the following minimum distribution rules shall apply on or after the Required Beginning Date:

(a) If a Participant's Benefit is to be distributed over: (i) a period not extending beyond the Life Expectancy of the Participant or the joint life and last survivor expectancy of the Participant and the Participant's Designated Beneficiary; or (ii) a period not extending beyond the Life Expectancy of the Designated Beneficiary, the amount required to be distributed for each calendar year, beginning with distributions for the first Distribution Calendar Year, must at least equal to the quotient obtained by dividing the Participant's Benefit by the applicable Life Expectancy.

(b) The amount to be distributed each year, beginning with distributions for the first Distribution Calendar Year shall not be less than the quotient obtained by dividing the Participant's Benefit by the lesser of: (i) the applicable Life Expectancy; or (ii) if the Participant's Spouse is not the Designated Beneficiary, the applicable divisor determined from the table set forth in Q&A-4 of Section 1.401(a)(9)-2 of the proposed regulations.

(c) The minimum distribution required for the Participant's first Distribution Calendar Year must be made on or before the Participant's Required Beginning Date. The minimum distribution for other calendar years, including the minimum distribution for the Distribution Calendar Year in which the Participant's Required Beginning Date occurs, must be made on or before December 31 of that Distribution Calendar Year.

(5) Other Forms. If the Participant's Benefit is distributed in the form of an annuity purchased from an insurance company, distributions thereunder shall be made in

accordance with the requirements of Section 401(a)(9) of the Code and the proposed regulations thereunder.

(6) Death Distribution Provisions

(a) Distribution beginning before death. If the Participant dies after distribution of his or her interest has begun, the remaining portion of such interest shall continue to be distributed at least as rapidly as under the method of distribution being used prior to the Participant's death.

(b) Distribution beginning after death. If the Participant dies before distribution of his or her interest begins, distribution of the Participant's entire interest shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death except to the extent that an election is made to receive distributions in accordance with (1) or (2) below:

(1) If any portion of the Participant's interest is payable to a Designated Beneficiary, distributions may be made over the life or over a period certain not greater than the Life Expectancy of the Designated Beneficiary commencing on or before December 31 of the calendar year immediately following the calendar year in which the Participant died.

(2) If the Designated Beneficiary is the Participant's surviving Spouse, the date distributions are required to begin in accordance with (1) above shall not be earlier than the later of: (i) December 31 of the calendar year immediately following the calendar year in which the Participant died; or (ii) December 31 of the calendar year in which the Participant would have attained age 70 1/2.

(c) If the Participant has not elected a form of distribution by the time of his or her death, the Participant's Designated Beneficiary must elect the method of distribution no later than the earlier of: December 31 of the calendar year in which distributions would be required to begin under this Section; or December 31 of the calendar year which contains the fifth anniversary of the date of death of the Participant.

(d) If the Participant has no Designated Beneficiary, or if the Designated Beneficiary does not elect a method of

distribution, distribution of the Participant's entire interest must be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(e) If the Surviving Spouse dies after the Participant, but before payments to such Spouse begin, the provisions of this Section shall be applied as if the Surviving Spouse were the Participant.

8. Section 6785 shall be amended to new subsection (f) to read as follows:

(f) Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with §414(u) of the Internal Revenue Code.

In all other respects, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Second Amendment to the Plan is adopted this ___ day of ___, 2001, effective as of the dates specified above.

Metropolitan Water District of
Southern California

By: _____
Its: Chief Executive Officer