

MINUTES
REGULAR MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
APRIL 9, 2002

44818 The Board of Directors of The Metropolitan Water District of Southern California met in Regular Meeting in the Board Room located in the building at 700 North Alameda Street in the City of Los Angeles, State of California, on Tuesday, April 9, 2002.

The Meeting was called to order by Chairman Pace at 10:10 a.m.

44819 The Meeting was opened with an invocation by Ronald C. Palmer, General Manager, Foothill Municipal Water District.

44820 The Pledge of Allegiance to the Flag was given, led by Director Betty H. Harris.

44821 Secretary Coughran called the roll. Those answering present were: Directors Abdo, Ashley, Ball, Bannister, Blake, Brick, Brown, Coughran, De Jesus, Edwards, Fellow, Foley, Harris, Hansen, Kwan, Lewis, Loveland, Mejia, Morse, Mylne, Owen, Pace, Rez, Stanton, Swan, Troxel, Wein, and Wright.

Those not answering were: Directors Castro (entered 10:17 a.m.), Grandsen, Herman, Luddy, Morris, Murray, Peterson (entered 10:56 a.m.), and Parker.

The Chair declared a quorum present.

44822 Director Edwards welcomed Herbert Stickney, former Director on Metropolitan's Board.

44823 At 10:14 a.m., the Chair called a public hearing to receive comments on the proposed standby charge for Annexation No. 77 to Calleguas Municipal Water District.

No members of the public responded; and after tabulation of the ballots was completed, and with no protests filed, the Chair closed the public hearing at 10:15 a.m.

44824 At 10:16 a.m., the Chair called a public hearing to receive comments on the proposed water standby charge for fiscal year 2002/03.

Chairman Pace invited interested parties to comment on the proposed water standby charge for fiscal year 2002/03. No members of the public responded. The Chair declared the public hearing closed at 10:16 a.m., stating that the Board's final action on the proposed charge is expected to take place at its regular monthly meeting on May 14, 2002.

44825 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction. No members of the public responded.

44826 There being no objection, the Chair ordered the reading of the Minutes of the Meeting of March 12, 2002, dispensed with, a copy having been mailed to each Director.

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

44827 Director Hansen moved, seconded by Director Blake and carried, authorizing a thirty-day leave of absence for Director Bonny L. Herman, commencing April 5, 2002.

44828 Director Blake moved, seconded by Director Stanton and carried, authorizing preparation of a Commendatory Resolution for former Director George E. Battey, Jr., who represented the City of Burbank.

Director Castro took his seat at 10:17 a.m.

44829 The Chair announced he has formed a work group with Director Castro and Vice Chairman Foley to discuss benchmarking for the four department heads reporting to the Board. The

purpose is to establish an evaluation process more in line with how the performance of executives are managed and rewarded at Fortune 1000 companies. An outside consultant will be hired to help in this endeavor, and it is the intent to have this work completed before the end of this fiscal year.

The Chair also stated he will be establishing a subcommittee of the Asset, Real Estate and Infrastructure Policy Committee, to be called the Diamond Valley Lake Recreation Development Subcommittee. The subcommittee will exist for about two years, and its purpose is to develop a policy for the development and operation of recreational facilities at Diamond Valley Lake.

44830 Chairman Pace reported that on March 15, 2002, in cooperation with the Western Center Foundation, Metropolitan hosted a dinner with city officials of Hemet, San Jacinto, and Riverside to celebrate the beginning of work on the museums for the Southern California Water Education Center and the Western Center. The architects and designers for the museums were introduced. On March 16 and 17 events were scheduled to celebrate the dedication ceremony of the Clayton A. Record, Jr. Viewpoint at Diamond Valley Lake. On April 3, at the request of Department of Water Resource Director Tom Hannigan, the Chairman participated in a Water Recycling Task Force to discuss water recycling, groundwater recovery, desalination, and water conservation. Due to conflicts in the Task Force schedule of meetings, Chairman Pace stated he would request Director John Morris to attend these meetings on behalf of Metropolitan.

Chairman Pace announced that the Chief Executive Officer's memorandum on perchlorate would be mailed to all Directors.

44831 Regarding the Colorado River, Bay-Delta and CALFED matters, and the summary of District activities, Chief Executive Officer Gastelum referred to his fiscal year 2001/02 Business Plan--Third Quarter Update signed April 3, 2002, which was distributed earlier.

Chief Executive Officer Gastelum reported on the Colorado River issues currently taking place. A critical period in time has now been reached where decisions on the Quantification Settlement Agreement (QSA) have to be made by the

United States Secretary of the Interior and state officials. All parties involved are engaged in discussions on how best to proceed. On the federal level, there is still proposed legislation. On April 11 Dennis Underwood, Vice President, Colorado River Resources, and representatives from San Diego County Water Authority, Coachella Valley Water District, and Imperial Irrigation District will meet with Senator Feinstein and possibly other federal officials to try and craft appropriate federal legislation to allow the transfer of water from Imperial to Coachella to go forward. On the state level meetings have been occurring with Senator Kuehl, discussing the transfer, the Salton Sea impacts that have been identified, and amendments to the fully protected species laws in California. Senator Kuehl currently has pending legislation regarding fully protected species and the California Endangered Species Act. There are concerns with this legislation by the "regulated community" and environmental organizations. Because of the time factor in order to facilitate the QSA by the end of this year, it is hoped that Senator Kuehl will consider legislation that only deals with the issues on the Colorado River relative to the transfer. Discussions are also taking place with Imperial regarding a fallowing program.

On the Bay-Delta and State Water Project matters, Chief Executive Officer Gastelum referenced the presentation given at the Water Planning, Quality and Resources Committee meeting yesterday by Timothy Quinn, Vice President, State Water Project Resources, on the status of CALFED, the Phase 8 negotiations, and the Monterey negotiations. Overall progress has been made, but the key point at this time is the federal legislation pending in Congress--the Calvert bill in the House and the Boxer-Feinstein bill in the Senate. The Metropolitan Directors, staff, and outside business organizations have held meetings with federal officials, impressing them with the urgency of CALFED legislation being passed this year. At a minimum the legislation should provide for authorization of the Record of Decision. Mr. Gastelum referred to his memo dated April 4, 2002, transmitting a white paper prepared by Vice President Quinn on the Environmental Water Account (EWA), a key point of the CALFED initiative. This paper explains why the EWA is not only important to Metropolitan but to water users throughout the state.

Relative to Metropolitan's activities, Chief Executive Officer Gastelum referred to his third quarter update. He identified the goals that were included in his business plan, which were approved by the Board. Those goals were covered under the Strategic Plan, the Colorado River, the State Water Project, and Business Management/Water Services. These goals are explained in detail in his report.

Regarding discussions taking place relative to evaluation of the four departments, Chief Executive Officer Gastelum acknowledged that beside his general goals, the Board is expecting more detailed reports on business metrics and the metrics of operational activities.

Vice Chairman Foley reported on activities of the Colorado River Board. He announced the passing on April 7, 2002, of Virgil Jones, chairman of the Colorado River Board of California, and trustee of Palo Verde Irrigation District. Vice Chairman Foley asked that today's Board Meeting be adjourned in memory of Mr. Jones. Mr. Jones was instrumental in the Palo Verde transfer with Metropolitan.

Vice Chairman Foley announced there is a prognosis for the River that shows a decline in storage at Lake Mead and Lake Powell and inflow into the River will be about 38 percent of average. It is expected that Metropolitan will have a full aqueduct for the upcoming year, and that River storage will be down to about 42 million acre-feet. As a result of the 1988 conservation agreement with Imperial, Metropolitan will receive almost 105,000 acre-feet of conserved water. Metropolitan's storage in Diamond Valley Lake is 680,600 acre-feet, which is 86 percent and the lake is expected to be full by the end of the year. On the lining of the Coachella Canal, Metropolitan is awaiting the final sign off by the director of the California Department of Fish and Game regarding mitigation requirements of the project.

44832 Regarding Legal Department activities, General Counsel Kightlinger referred to his activity report dated March 28, 2002, and his Business Plan and Objectives—Third Quarter Update, dated April 8, 2002. On Colorado River matters in regard to the fully protected species and the California Endangered Species Act (ESA), the Legal Department has spent a significant amount of time in the past month in Sacramento on these issues. This

has become an annual ritual where there is an effort to work some changes into the California ESA. The "regulated community" consisting of groups representing the interests of timber, housing, manufacturing, etc. versus the environmental groups have reached a point of stalemate in the California Legislature, and every year these bills get nowhere. However, these different groups have agreed that the state needs to move forward on Colorado River issues. Permits are required for some of the programs and both groups have been focusing on Colorado River matters as the vehicle that can push through their view of reform. Metropolitan is working closely with the Department of Fish and Game, as well as several authors' offices.

General Counsel Kightlinger also reported that Metropolitan is working with the Department of Water Resources (DWR) on a mediation taking place with Southern California Edison (SCE). During the recent energy crisis, in the contracts between DWR and SCE there was a significant amount of money that DWR had to pay to procure energy. During the same period SCE was not supplying the same amount of energy that DWR believes it was required to under the contracts. DWR maintains that SCE did not supply the energy so SCE could sell the energy elsewhere. This may have resulted in over \$100 million in additional expenses on energy costs to DWR, which rebounds to Metropolitan primarily. The mediation is set for later this month, but may be continued.

Besides apprising the Legal, Claims and Personnel Committee on administrative matters in the Legal Department, General Counsel Kightlinger reported that he has officially named two assistants—Sydney Bennion and Henry Barbosa. The department has also added a new attorney, Adam Kear, who passed the Bar recently and who formerly worked in the Planning Department and was on loan to the Legal Department in the past year.

44833 Chairman Pace announced that starting with the May meeting, the General Auditor and the Ethics Officer would update the Board on their monthly activities.

44834 The reports of the Standing Committees are as follows:

Chairman Pace reported the Executive Committee, at its meeting on March 26, authorized the preparation of a

commendatory resolution for former Director Battey, and approved Agenda Items 8-6, 8-7, and 8-8, all relating to annexations. Water Systems Operations Assistant Manager Rigdon gave a report on the status of Metropolitan's security guard service contract. He stated the current contract would be extended through the end of this fiscal year. The committee heard reports from the Subcommittee on Rules and Ethics, from the Ethics Officer, and from Vice Chairman Foley on activities of the Colorado River Board. Chief Executive Officer Gastelum provided the committee with an outline of his proposed goals and objectives for fiscal year 2002/03. The committee reviewed the Chief Executive Officer's evaluation and pay-for-performance and made a recommendation for the Board to consider at today's Board Meeting.

Asset, Real Estate and Infrastructure Policy Committee Vice Chairman Bannister reported the committee approved Agenda Item 8-2 and the recommendation for Site 2 in Item 8-1. Site 1 in Item 8-1 was tabled. The committee heard presentations on (a) the Request for Qualifications process to seek services of a firm to provide planning, entitlement and developer consultation services for the Diamond Valley Lake Recreation project; and (b) the Riverside County Integrated Plan, focusing on the potential impacts of the plan on Metropolitan's real property in western Riverside County. Review of the computer resources operating policy was deferred to the May agenda.

Budget, Finance and Investment Committee Chairman Castro reported the committee had a detailed discussion on the Asset Replacement Study. The committee heard an initial presentation on the 401(k) and 457 savings plans and will continue this discussion at an adjourned meeting scheduled for 10:00 a.m., Tuesday, April 16, 2002.

Communications, Outreach and Legislation Committee Chairman Fellow reported the committee heard a report on six proposed legislative water bonds in various stages of development, and voted to table any action on these until they had developed further (Agenda Item 9-3). Agenda Item 9-4, the California fully Protected Species issue (SB 482-Kuehl) was withdrawn from the agenda. A status report was given on Agenda Item 9-2, the proposed amendments to AB 2734 (Pavley) relating to water conservation. Chief Operating Officer Tait testified about the potential for a terrorist biochemical attack on water

supplies at a hearing for the House Committee on Government Reform. On March 21-22 Mary Nichols, Secretary of the Resources Agency, and Metropolitan's senior staff members toured three watershed projects. On April 6 Metropolitan hosted a water fair at Eliot Middle School in Altadena, attended by about 1,000 students and their families. On April 11 Metropolitan will host its 5th annual Student Water Forum, with 200 secondary students from 17 different high schools attending to debate water issues. Metropolitan's External Affairs staff won an award for its internal newsletter PeopleInteractive, which swept top honors in the annual Employee Newsletter competition by the League of American Communications Professionals. The legislative representatives in Washington, D.C. and Sacramento gave reports on current activities.

Engineering and Operations Committee Chairman Ashley reported the committee approved Agenda Items 8-9 and 9-1, and requested that Agenda Item 9-1 be added to the Consent Calendar. The committee heard reports on the Inland Feeder Program, the Desalination Research Innovative Partnership (DRIP), the Lake Mathews Outlet Facilities Project, and the Oxidation Retrofit Program at Jensen and Mills. Committee Chairman Ashley announced the Engineering and Operations inspection trip will take place on Wednesday and Thursday, May 22 and 23.

Director Peterson took his seat at 10:56 a.m.

Legal, Claims and Personnel Committee Chairman Owen reported the committee approved Agenda Items 8-3 and 8-4, and heard reports on the Diamond Valley Lake Recreation plan proposal and the MAPA negotiations in closed session.

Water Planning, Quality and Resources Committee Chairman Morse reported the committee heard reports on (a) the Bay-Delta and State Water Project matters, (b) activities to improve Lake Perris water quality and operations, (c) the 2002 Integrated Resources Plan update, and (d) the Water Surplus and Drought Management Plan update. Follow-up items were requested on issues related to perchlorate, potential storage options once existing storage is full, and Colorado River related environmental issues in Mexico.

Director Ball moved, seconded by Vice Chairman Foley and carried, and the Board approved the Consent Calendar Items, **M.I. 44835** through **M.I. 44843** as follows:

44835 Adopted the California Environmental Quality Act (CEQA) determination and (a) affirmed the Chief Executive Officer's determination that the 9.335 acres at La Sierra Avenue and Blackburn Road in Riverside County is surplus; (b) complied with Government Code Section 54222, Surplus Lands Act, by offering the property to prescribed public agencies at a sale price of its fair market value; (c) if the property is not purchased by a government entity with preferential rights, sell the subject property by open or exclusive listing under Administrative Code Sections 8245 or 8246, respectively, dependent upon the applicable disposition procedure; and (d) market the property for sale on the open market for its fair market value (preliminary estimate at \$100,000 less costs), as set forth in the letter signed by the Chief Executive Officer on March 25, 2002. (The committee tabled Item 1 relating to the 3.721-acre property on Arrow Highway in La Verne.)

44836 Adopted the CEQA determination and (a) authorized an increase of \$820,000 from \$1,948,000 to a total of \$2,768,000 in Appropriation No. 15336, No. 2, from the Construction Funds; and (b) delegated to the Chief Executive Officer the authority to award a competitively bid construction contract in an amount not to exceed \$2,000,000 for the revised Entry Court Improvement Project at the F. E. Weymouth Filtration Plant, as set forth in the letter signed by the Chief Executive Officer on March 18, 2002.

44837 Adopted the CEQA determination and authorized amendment of the agreement with Ellison, Schneider & Harris to increase the contract by \$100,000 for legal services relating to State Water Resources Control Board process, as set forth in the letter signed by the General Counsel on March 15, 2002.

Director Harris requested to be recorded as voting no.

Director Owen requested to be recorded as abstaining.

44838 Adopted the CEQA determination and authorized amendment of the contract with McCutchen, Doyle, Brown & Enerson to increase the maximum compensation from \$250,000 to \$375,000

for legal services in *San Diego County Water Authority v. Metropolitan Water District, et al.*, San Francisco Superior Court Case No. 320217 (Preferential Rights), as set forth in the letter signed by the General Counsel on March 15, 2002.

Directors Ball, Lewis, and Loveland requested to be recorded as abstaining.

44839 Adopted the CEQA determination and (a) granted conditional approval for Annexation No. 78 concurrently to Calleguas Municipal Water District and Metropolitan, conditioned upon receipt in full of annexation fee of \$166,028.40 to Metropolitan if completed by December 31, 2002, or if completed later, at the then current annexation charge rate; (b) approved Calleguas' proposed Plan for Implementing Water Use Efficiency Guidelines; and (c) adopted the Resolution of Intention to Impose Water Standby Charge (**Resolution 8808**) within the proposed annexation territory, substantially in the form of Attachment 3 to the letter signed by the Chief Executive Officer on February 27, 2002, said Resolution entitled:

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN
WATER DISTRICT OF SOUTHERN CALIFORNIA GIVING NOTICE OF
INTENTION TO IMPOSE WATER STANDBY CHARGES CONTINGENT UPON
ANNEXATION**

44840 Adopted the CEQA determination and adopted (a) **Resolution 8809** granting Calleguas Municipal Water District's request for approval of Annexation No. 76, Parcel A, concurrently to Metropolitan and Calleguas, conditioned upon approval by the Ventura Local Agency Formation Commission, and establishing Metropolitan's terms and conditions for this annexation; and (b) **Resolution 8810** to impose water standby charge at a rate of \$9.58 per acre or per parcel of less than one acre within the proposed annexation, as set forth in the letter signed by the Chief Executive Officer on March 18, 2002, said Resolutions entitled:

Resolution 8809 RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA CONSENTING TO CALLEGUAS MUNICIPAL WATER DISTRICT'S ANNEXATION NO. 76, PARCEL A, AND FIXING THE TERMS AND CONDITIONS OF SAID ANNEXATION TO THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Resolution 8810 RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FIXING AND ADOPTING WATER STANDBY CHARGE CONTINGENT UPON CALLEGUAS MUNICIPAL WATER DISTRICT'S ANNEXATION NO. 76, PARCEL A

44841 Adopted the CEQA determination and adopted (a) **Resolution 8811** granting Western Municipal Water District's request for approval of the 45th Fringe Area Annexation concurrently to Metropolitan and Western, conditioned upon approval by the Local Agency Formation Commission of Riverside County, and establishing Metropolitan's terms and conditions for this annexation; and (b) **Resolution 8812** to impose water standby charge at a rate of \$9.23 per acre or per parcel of less than one acre within the proposed annexation, as set forth in the letter signed by the Chief Executive Officer on February 27, 2002, said Resolutions entitled:

Resolution 8811 RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA CONSENTING TO WESTERN MUNICIPAL WATER DISTRICT'S 45TH FRINGE AREA ANNEXATION AND FIXING THE TERMS AND CONDITIONS OF SAID ANNEXATION TO THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Resolution 8812 RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FIXING AND ADOPTING WATER STANDBY CHARGE CONTINGENT UPON WESTERN MUNICIPAL WATER DISTRICT'S 45TH FRINGE AREA ANNEXATION

44842 Adopted the CEQA determination and authorized payment of American Water Works Association Research Foundation's (AWWARF's) Voluntary Research Subscription Program for fiscal year 2001/02, as set forth in the letter signed by the Chief Executive Officer on March 27, 2002.

44843 Adopted the CEQA determination and awarded a contract to L. H. Woods & Sons, Inc. in the amount of \$46,860,000 for construction of the Highland Pipeline of the Inland Feeder Program, as set forth in the letter signed by the Chief Executive Officer on April 3, 2002.

Directors Ball, Lewis, and Loveland requested to be recorded as abstaining.

44844 The Chair reported that Agenda Item 9-2, water conservation bill (AB 2734-Pavley), and Agenda Item 9-3, the legislative water bonds, have been tabled.

44845 The Chair reported that Agenda Item 9-4, the California fully Protected Species issue (SB 482-Kuehl) was withdrawn.

44846 The following communications were submitted to the Board for information:

- a. Status report for the Inland Feeder Project for the month ending February 2002, signed by the Chief Executive Officer on March 18, 2002.
- b. Status report on activities to improve Lake Perris water quality and operations, signed by the Chief Executive Officer on March 18, 2002.

44847 Following comments on the evaluation process and the performance of the Chief Executive Officer, Director Castro moved, seconded by Director Fellow and carried, approving the recommendation of the Executive Committee that Chief Executive Officer Gastelum performed at an "above expectations" level and has earned the full support of the Board and awarded him a \$60,000 increase in his flat rate salary to \$275,000, effective April 9, 2002, and a pay-for-performance payment of \$20,000, effective July 1, 2002; as set forth in the letter signed by the Chairman of the Board on March 27, 2002. The Chief Executive

Officer shall remain eligible for annual pay-for-performance awards.

Director Lewis requested to be recorded as abstaining.

44848 There being no objection, the Chair adjourned the Meeting at 11:10 a.m. in memory of Virgil Jones, chairman of the Colorado River Board of California, and trustee of the Palo Verde Irrigation District.

THOM COUGHRAN

SECRETARY

PHILLIP J. PACE

CHAIRMAN