

MINUTES

REGULAR MEETING OF THE
BOARD OF DIRECTORS

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MAY 14, 2002

44849 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, May 14, 2002.

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

44850 The Meeting was opened with an invocation by Father Scott Santarosa, S.J., Vice President of Development, Verbum Dei High School.

44851 The Pledge of Allegiance to the Flag was given, led by Director David D. De Jesus.

44852 Secretary Coughran called the roll. Those answering present were: Directors Abdo, Ball, Bannister, Brick, Brown, Castro, Coughran, De Jesus, Edwards, Fellow, Foley, Harris, Hansen, Herman, Kwan, Lewis, Luddy, Morse, Morris, Murph, Murray, Mylne, Owen, Pace, Parker, Peterson, Rez, Stanton, Swan, Wein, and Wright.

Those not answering were: Directors Ashley, Blake, Grandsen, Loveland, Mejia, and Troxel.

The Chair declared a quorum present.

44853 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction.

Comments in opposition to the Cadiz Groundwater Storage and Dry-Year Supply Program from environmental and economic standpoints were heard from the following:

Nancy Burnet Kent, resident of Glendale
Teresa Brady, Alliance for Democracy
Jane Kelly, director of California Public Citizen
John Earl, resident of Huntington Beach
Faramarz Nabavi, board member, Southern California Americans for Democratic Action
Judith Kaluzny, resident of Fullerton
Bruce Campbell, resident of Los Angeles
William Korthoff, resident of Pomona
Hans Siegenthaler, San Fernando Valley Greens, Northridge
Donald G. Tollefson, resident of Encino
Ceil Sorensen, Alliance for Democracy
Vangie Oberschlake, resident of Orange
David Czamanske, Sierra Club

44854 There being no objection, the Chair ordered the reading of the Minutes of the Meeting of April 9, 2002, dispensed with, a copy having been mailed to each Director.

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

44855 Chairman Pace presented to Board Secretary Coughran a pin for his five years of service on Metropolitan's Board, representing the city of Santa Ana.

44856 Chairman Pace presented to Director Castro a pin for his five years of service on Metropolitan's Board, representing Central Basin Municipal Water District and the City of Los Angeles.

44857 Director Hansen moved, seconded by Director Murph and carried, authorizing preparation of a Commendatory Resolution for former Director Henry S. Barbosa, who represented Three Valleys Municipal Water District.

44858 Director Ball moved, seconded by Director Murph and carried, authorizing a 60-day leave of absence for Director Grandsen, commencing May 1, 2002.

44859 The Chair stated that at last month's meeting he announced the establishment of a Diamond Valley Lake Recreation Development Subcommittee to develop a policy for the development and operation of recreational facilities at Diamond Valley Lake. After reviewing the scope of the Boating Regulation Special Committee, and with similar interests and duties of the subcommittee, the Chair announced he is combining the duties of both committees into one called Diamond Valley Recreation Special Committee, which will report to the Executive Committee.

Members of this new committee are:

Phillip J. Pace, Co-Chair	Helen Z. Hansen
Glen D. Peterson, Co-Chair	George I. Loveland
Wyatt L. Troxel, Vice Chair	Willard H. Murray, Jr.
Marion V. Ashley	James M. Rez
James H. Blake	George Wein
Timothy F. Brick	Bill D. Wright
David D. De Jesus	William G. Luddy, Ex Officio
Anthony R. Fellow	John V. Foley, Ex Officio
Ted Grandsen	Thom Coughran, Ex Officio

The first meeting of this new committee will take place on Tuesday, May 28, 2002 at 9:30 a.m.

The Chair also announced that Board Secretary Coughran will be added as an ex officio member to all committees in which he is not a current member.

44860 Chairman Pace reported that the Board officers, along with the Chairs and Vice Chairs of the standing committees, participated in a trip to Washington, D.C. on April 23-25 to advance Metropolitan's legislative agenda. They met with a number of members of Congress to discuss Representative Calvert's CALFED bill that is making its way through Congress and the California 4.4 Plan. Metropolitan also hosted a reception for Congressman Steve Horn and encouraged him to seek an extension for the 1997 desalination legislation.

44861 Regarding the Colorado River, Bay-Delta and CALFED matters, and the summary of District activities, Chief Executive Officer Gastelum referred to his activity report signed May 8, 2002, which was distributed earlier.

Chief Executive Officer Gastelum reported on Colorado River issues. Regarding the Cadiz groundwater storage program, it was expected that a Record of Decision (ROD) would have been signed by the Bureau of Land Management (Bureau) by this time. The Bureau has advised us that a decision should be issued anytime now. Mr. Gastelum attributed the delay to an attempt by the Bureau to relate the issue of native groundwater extraction to the recharge rate. From comments made by the public testifying today, there is a great deal of public concern about that, and the Bureau is seeking, with the assistance of United States Geological Service, to try and address this issue.

Chief Executive Officer Gastelum stated that now is the time for Metropolitan to reemphasize its conservation efforts because of the current driest period in Southern California in many years. As a result, Metropolitan is expecting increased demands on its system. Meetings are scheduled with the member agencies to review their conservation efforts and to get the message out within the agencies' existing organizational frameworks. There will be more advertisements on the need to conserve water.

On CALFED matters, this is a critical week in Washington, D.C. for the bill sponsored by Senators Feinstein and Boxer on CALFED legislation. It is essential that that bill go forward; and if it does not, the prospects of CALFED legislation this year are seriously impaired. The Board will be kept apprised of the status of this legislation.

On the Palo Verde Irrigation District program, the EIR is now out and as reported in the news media, relatively minor environmental impacts have been identified. Metropolitan anticipates going forward with this program, but there will be a need for additional discussions about the third-party impacts that may occur in the Palo Verde Valley as the result of the program.

44862 Regarding Legal Department activities, General Counsel Kightlinger referred to his activity report dated April 30, 2002, which was distributed earlier. Mr. Kightlinger reported that the Legal Department will be hosting one of its member agency counsel dinners on June 10, 2002 after the committee meetings. The program will include a discussion on the original *Arizona v. California* case. The main speakers are Justice Shirley Hufstedler, Seth Hufstedler, Burt Gindler, and Tom Stetson, who all began their careers working on this case. Deputy General Counsel Mark Blake who has worked on finance matters has accepted a position with the City of San Francisco and will be leaving the Legal Department. Assistant General Counsel Sydney Bennion was awarded the 2002 Litigation Award from the County Counsels' Association for her work on *Whitmore v. County of Shasta* while she was at the County of Los Angeles.

Regarding the energy market, General Counsel Kightlinger reported that Metropolitan is working with the Department of Water Resources (DWR) to arbitrate with Southern California Edison over potential over-billing practices that occurred in the recent electrical energy crisis. The amount alleged is over \$100 million, some of which will redound to Metropolitan through its payments to the State Water Contractors. The Legal Department is working very closely with DWR and the State Attorney General's office in pursuing that arbitration.

On April 18 San Diego County Water Authority filed a notice of appeal in the preferential rights case. The Legal, Claims and Personnel Committee will be apprised of the briefing schedule once the record is prepared.

Due to the challenge of the permit issued for use of aquatic pesticides by the State Water Resources Control Board (SWRCB), Metropolitan intervened in the *Waterkeepers of Northern California v. State Water Resources Control Board, et al.* case since Metropolitan also uses these pesticides in its reservoirs and waterways to control algae blooms. A settlement was worked out with the plaintiffs and the SWRCB in which it will pursue some monitoring and study-type programs. Metropolitan contributed \$10,000 for plaintiff's attorney's fees to help resolve this matter.

44863 Interim General Auditor Kozlow referred to his monthly report dated April 30, 2002, which was distributed earlier. Mr. Kozlow reported on two items that reflected improvements on audit methods that have improved the efficiency of the audit process and also provided a better perspective on control process at Metropolitan. The first item related to the Inland Feeder Project where the Audit Department commenced a new style report called the Report Card. The Audit Department will review the Inland Feeder Project through the end of 2007 when the project is expected to be complete. The review will focus on the entire project management process, from management and control of individual contracts, through to reporting to the Board and posting to the General Ledger. This will make for a more efficient audit process and afford the Audit Subcommittee and the Board a better understanding of how this entire project is controlled.

Mr. Kozlow also reported that a process, risk and control mapping review audit technique has been developed. This is a technique used to map a process flow, identifying the risks and corresponding controls in that process.

44864 Ethics Officer Anderson referred to her monthly report dated April 2002, which was distributed earlier. Ms. Anderson reported that she has held meetings with some Directors and the Executive Staff within the organization in order to dialog and develop an ethics program for Metropolitan. On April 10 a workshop titled "Ethics and the Public Officials" was conducted at the Association of California Water Agencies in San Francisco.

44865 The reports of the Standing Committees are as follows:

Chairman Pace reported the Executive Committee, at its meeting on April 16, authorized the preparation of a commendatory resolution for former Director Barbosa, and approved the formation of the new Diamond Valley Lake Recreation Subcommittee (subsequently combined with the Boating Regulation Special Committee and now called Diamond Valley Recreation Special Committee). The Chair stated that he, Vice Chairman Foley, and Director Castro are developing a new performance appraisal process for the department heads that report directly to the Board. Board Executive Officer Ivey is coordinating this work and is in the process of contacting various professionals

who have expertise in evaluating the performance and award metrics for Fortune 1000 firms.

The Executive Committee also heard reports from the Subcommittee on Rules and Ethics, from the Ethics Officer who provided an overview regarding the "revolving door policy" when dealing with employment issues, and from Director Wright on activities of the Colorado River Board.

Asset, Real Estate and Infrastructure Policy Committee Chairman Peterson reported the committee approved Agenda Item 8-4. The committee received presentations from the two potential planning firms for the planning, entitlement and developer consultation services for the Diamond Valley Lake Recreation project. The committee also heard presentations on (a) the Riverside County Integrated Plan, focusing on the potential impacts of the Multi-Species Habitat Conservation Plan; (b) all the major components of the Information Technology Strategic Plan; and (c) the Infrastructure Reliability and Protection Plan, focusing on the assessment of infrastructure that encompasses a Capital Investment Plan for future repair and rehabilitation.

Budget, Finance and Investment Committee Chairman Castro reported the committee unanimously approved Agenda Item 9-1 and requested that it be added to the Consent Calendar. The committee had a detailed discussion on the 401(k) and 457 savings plans and requested the Chief Executive Officer to provide biannual reports in June and December of each year to the committee regarding the plans. The item relating to the asset replacement funding methodology and guidelines for intended use of unreserved fund balances will be brought back to the committee at its June meeting.

Communications, Outreach and Legislation Committee Chairman Fellow reported the committee approved Agenda Items 8-2 and 8-3, and 9-6 and 9-8 with recommended amendments. Committee Chairman Fellow requested Items 9-6 and 9-8 be added to the Consent Calendar. The legislative representatives in Washington, D.C. and Sacramento gave reports on current activities.

Engineering and Operations Committee Vice Chairman Murray reported the committee approved Agenda Item 8-1. The

committee heard reports on (a) the Inland Feeder Program, (b) the Chlorine Containment Program, (c) the completion of Diamond Valley Lake reservoir activities, and (d) the Capital Investment Plan.

Legal, Claims and Personnel Committee Chairman Owen reported the committee heard reports on (a) diversity, (b) Metropolitan's Business Outreach Program, (c) the Bay-Delta litigation cases, (d) the case of *Soboba Band of Mission Indians v. Metropolitan*, and (e) the General Counsel's budget for fiscal year 2002/03.

Water Planning, Quality and Resources Committee Vice Chairman Wright reported the committee approved Agenda Items 9-3, 9-4, and 9-5 and requested that they be added to the Consent Calendar. The committee heard reports on (a) the Bay-Delta and State Water Project matters, (b) the Quantification Settlement Agreement--Program EIR, (c) the 2002 Integrated Resources Plan update, and (d) an update on perchlorate activities.

44866 Director Swan requested that Agenda Item 8-4 be taken off the Consent Calendar for separate discussion. Director Edwards requested that Agenda Item 8-3 also be taken off the Consent Calendar for explanation.

Director Swan moved, seconded by Director Edwards and carried, and the Board approved the Consent Calendar Items, **M.I. 44867 through M.I. 44874** as follows:

44867 Adopted the California Environmental Quality Act (CEQA) determination and authorized purchase of a lattice crane for \$517,433 for the Desert Unit in fiscal year 2001/02 budget, as set forth in the letter signed by the Chief Executive Officer on April 22, 2002.

44868 Adopted the CEQA determination and approved funding of the Community Partnering Program for discretionary community activities, not to exceed \$650,000 for fiscal year 2002/03, as set forth in the letter signed by the Chief Executive Officer on April 29, 2002.

Director Herman requested to be recorded as abstaining.

44869 Adopted the CEQA determination and **Resolution 8813** to impose and extend a water standby charge for fiscal year 2002/03, as set forth in the letter signed by the Chief Executive Officer on April 22, 2002, 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 2002/03**

44870 Adopted the CEQA determination and authorized an increase in the Honeywell contract from \$2.5 million to \$7.9 million through June 2004 to allow the use of the previously board funding and potential grant and member agency funding, as set forth in the letter signed by the Chief Executive Officer on April 22, 2002.

44871 Adopted the CEQA determination and authorized the Chief Executive Officer, with the approval of the General Counsel, to enter into an agreement based on the Program Term Sheet attached to the letter signed by the Chief Executive Officer on April 22, 2002, for the Phase 1 - Long Beach Conjunctive-Use Storage Project with Central Basin Municipal Water District and the city of Long Beach as representatives of the five sponsoring agencies.

Directors Hansen and Morse requested to be recorded as abstaining.

44872 Adopted the CEQA determination and authorized the Chief Executive Officer to enter into the proposed Interim Surplus Guidelines Implementation Agreement with the Southern Nevada Water Authority and in a form approved by the General Counsel, as set forth in the letter signed by the Chief Executive Officer on April 30, 2002.

44873 Adopted the CEQA determination and expressed support for (a) AB 2734 water conservation bill (Pavley) with recommended amendments to include exempting single family homes, adding language to address agriculture conservation measures, and indicating that meters installed will be read and the information used for billing purposes; and (b) SB 1385 (Brulte) which requires that the Department of Parks and Recreation consider water conservation measures in place when awarding

grants under Proposition 40 for the acquisition and development of parks, recreation lands and facilities, as set forth in the letter signed by the Chief Executive Officer on May 8, 2002, and as revised by the Communications, Outreach and Legislation Committee with the above amendments. The committee requested staff to pursue getting language added to SB 1385 to cover agricultural conservation measures.

44874 Adopted the CEQA determination and authorized the Chief Executive Officer to work in support of each of the authors of CALFED reauthorization legislation and to pursue bipartisan support for final language this year that includes Metropolitan's interests as outlined in Attachment 1 to the letter signed by the Chief Executive Officer on May 9, 2002, and which does not include problematic provisions such as the Westlands Water District's assurance language.

44875 Chief Executive Officer reported that the \$100,000 sponsorship for the Water for the West Foundation (Foundation) is in conjunction with the commemoration of the 100-year anniversary of the Bureau of Reclamation (Bureau). The Foundation is a non-profit organization formed to recognize the significant achievement of the Bureau during the past 100 years. A centennial celebration is scheduled for June 17, 2002 at Hoover Dam. With this contribution, Metropolitan will obtain ongoing educational opportunities. The Bureau currently does not have a presence in the western United States similar to the presence Metropolitan is proposing at the museum at Diamond Valley Lake. Metropolitan has indicated to the Bureau and the Foundation that its long-term interest is to leverage this relationship to be able to form a partnership with the Bureau to bring their information and programs on a rotating basis to the museum facility. Much of the discussion at the commemoration will be on the dams that the Bureau has built, but the future of the Bureau will focus on desalination, recycling, and conservation programs. The Bureau has worked closely with Metropolitan and its member agencies; and with the education component of this relationship, Metropolitan will have closer ties with the Bureau, particularly in the area of desalination and our long-term educational programs. Of the \$100,000 sponsorship, the Foundation is allocating \$25,000 to the Bureau's 100-year anniversary event, and \$75,000 will be dedicated to educational programs in the western United States.

Director Edwards moved, seconded by Director Murph and carried, adopting the CEQA determination and authorized the expenditure of \$100,000 for sponsorship of the Water for the West Foundation's educational efforts and commemoration of the 100-year anniversary of the U.S. Bureau of Reclamation, as set forth in the letter signed by the Chief Executive Officer on April 15, 2002.

Director Bannister requested to be recorded as abstaining.

44876 Referring to the determination of surplus property in the city of La Verne, Director Swan requested clarification that all the acreage declared surplus would come back to the Board prior to there being a firm contract so the Board could make sure that provisions are in the contract to protect Metropolitan's assets, and not just brought back for ratification after the sale has been negotiated.

Manager of Corporate Resources Wolfe responded that prior to selling the property, which the Chief Executive Officer has the authority to do under the Administrative Code, staff would return to the Board with the various options for selling the property. Chairman Pace stated that the Chief Executive Officer would bring any proposed sale back to the Board to give the Board an opportunity to address it.

Director Swan therefore moved, seconded by Director Edwards and carried, adopting the CEQA determination and (a) affirm the Chief Executive Officer's determination that the subject property (3.721 acres south of Arrow Highway, La Verne) is surplus; (b) comply with Government Code Section 54222, Surplus Lands Act, by offering the property to the La Verne Redevelopment Agency and other 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; (d) market the property for sale on the open market for its fair market value (preliminary estimate at \$1.2 million less costs); and (e) establish a reversion provision with condition subsequent wherein actual site development is restricted to purchaser's land utilization as originally disclosed to Metropolitan per the

purchaser's plans and specifications, as set forth in the letter signed by the Chief Executive Officer on April 29, 2002.

44877 The Chair reported that Agenda Item 9-7, the report on mediation regarding the *Planning and Conservation League, et al. v. Department of Water Resources, et al.*, was withdrawn.

44878 The following communications were submitted to the Board for information:

- a. Status report for the Inland Feeder Project for the month ending March 2002, signed by the Chief Executive Officer on April 22, 2002.
- b. Semiannual report on diversity, signed by the Chief Executive Officer on April 22, 2002.

44879 Director Morse moved, seconded by Director Wright and carried, authorizing the preparation of a Commendatory Resolution in commemoration of the 100-year anniversary of the U.S. Bureau of Reclamation.

44880 Chairman Pace announced that the Los Angeles Department of Water and Power, in celebration of "A Century of Service", will be hosting a reception for Metropolitan's Directors on Monday, June 10, 2002, from 5-7 p.m., at the Pico House.

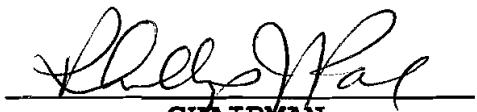
44881 Director Swan requested an update on the Cadiz groundwater storage program and the time frame for Metropolitan's discussion and decision on the project. He asked that this item be agendized for next month. Chief Executive Officer Gastelum responded that Metropolitan is still awaiting a decision from the Bureau of Land Management. Following that, a workshop will be scheduled to review the EIR, and the Legal, Claims and Personnel Committee would then agendize the Cadiz item to review the economic terms. Director Swan then requested that staff make available to all Directors the latest S-3 filing that Cadiz filed on their stock registration.

Director Swan stated that under the Carver principle there is a policy that he agrees with that Directors do not direct staff to do things. However, he understands there is a policy from the Chief Executive Officer's office that when a

Director talks to staff, a written report should be sent to the Chief Executive Officer. Director Swan requested that the Board institute a policy wherein if staff writes a report on their discussions with Directors, that as a courtesy the Director be given a copy of the report. Chairman Pace stated that would be done.

44882 There being no objection, the Chair adjourned the Meeting at 11:50 a.m.



SECRETARY

CHAIRMAN