

MINUTES
REGULAR MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SEPTEMBER 10, 2002

44985 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, September 10, 2002.

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

44986 The Meeting was opened with an invocation by Larry Rosen, president and CEO, YMCA of Metropolitan Los Angeles.

44987 The Pledge of Allegiance to the Flag was given, led by Chief Greg Gibson of the city of Los Angeles Fire Department.

44988 Secretary Coughran called the roll. Those answering present were: Directors Abdo, Ashley, Bakall, Ball, Bannister, Blake, Brick, Brown, Castro, Coughran, De Jesus, Dentler, Edwards, Fellow, Foley, Grandsen, Harris, Hansen, Herman, Lewis, Loveland, Mejia, Morris, Murray, Mylne, Owen, Pace, Parker, Peterson, Rez, Stanton, and Wright.

Those not answering were: Directors Kwan, Luddy, Morse, Murph, and Troxel.

The Chair declared a quorum present.

44989 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction. No members of the public responded.

44990 There being no objection, the Chair ordered the reading of the Minutes of the Meetings of August 13 and 20, 2002, dispensed with, copies having been mailed to each Director.

Director Ball moved, seconded by Director Hansen and carried, approving the foregoing Minutes as mailed.

44991 Chairman Pace reported that the Department Heads' Compensation Committee will be meeting some time in the next few weeks to do the six-month reviews of the General Counsel and the Ethics Officer.

44992 Director Blake moved, seconded by Director Edwards and carried, authorizing the preparation of Commendatory Resolutions for former Directors Peer A. Swan and George Wein.

44993 Director Herman moved, seconded by Director Ball and carried, approving a 30-day leave of absence for Director Hansen, commencing October 4, 2002.

44994 Chairman Pace reported that on September 5 the Diamond Valley Recreation Special Committee hosted a trip to Lake Casitas and Lake Cachuma. On September 6 Board Executive Officer Ivey and himself met with council members and planning staff from the city of Hemet to discuss the specific plan for the Diamond Valley Lake recreation area. The meeting was very positive and the city restated its support for the project. The city plans to expedite the process upon approval by the Board, including any proposed grading plans, to make this project a success. That same day Chairman Pace and Mr. Ivey met with board members of the Valley-Wide Recreation and Park District to provide them with an update on their proposed site.

44995 Regarding the Colorado River, Bay-Delta and CALFED matters, and the summary of District activities, Chief Executive Officer Gastelum referred to his activity report dated September 3, 2002, which was distributed earlier.

On Colorado River matters, Chief Executive Officer Gastelum reported that negotiations are continuing among the four parties (Metropolitan, Imperial Irrigation District, Coachella Valley Water District, and San Diego County Water Authority) and a negotiation session is scheduled for tomorrow. Robert Hertzberg, former speaker of the Assembly, is leading the negotiations. Other assembly members will also be involved in the negotiations. A meeting is being held today with Mr. Hertzberg and IID to see if any progress can be made, and tomorrow negotiations will resume with the other parties. Mr. Gastelum stated that the Assembly and the Senate will be sponsoring joint hearings between now and the end of the year. The first one is scheduled to occur this month at Metropolitan's building. Senator Costa and Assemblyman Canciamilla, respective chairs of the water committees, will be asking all four agencies, as well as state officials, to report on the progress in reaching agreement on the Quantification Settlement Agreement.

Relative to CALFED, Chief Executive Officer Gastelum stated that the CALFED legislation is still pending; and on the federal level Vice President Quinn is in Washington today with representatives from the state and ACWA to try and finalize details on moving those bills forward.

Chief Executive Officer Gastelum then called on Chief Operations Officer Tait to give his report. Mr. Tait gave an update on the security measures being taken by Metropolitan and other agencies statewide and nationwide to protect the water supply system since the terrorist attack of September 11, 2001. Mr. Tait credited Water System Operations Group Manager Jill Wicke and her staff for their diligence in carrying out the security measures. Mr. Tait reported on the award given to Metropolitan by the American Society of Civil Engineers, San Bernardino-Riverside Counties Branch, for the Cajalco Creek Dam and Detention Basin as the outstanding civil engineering project of the year. Mr. Tait then introduced to the Board the Metropolitan employees involved in this project:

Rick Shpall
Tim Gamble
John Clairday
Tim Skrove

Michele Grey
Mehdi Jalali
Vinod Kashyap

The Board congratulated the staff for their hard work and accomplishment.

Board Executive Officer Ivey announced the Public Officials for Water and Environmental Reform is scheduled to have its water policy conference on October 9 and 10, 2002 at the Wilshire Grand Hotel, Los Angeles. Also, the Association of Water Agencies of Ventura County will host its Sixth Annual Wine & Cheese Reception for Policy Makers and AWA Members on Thursday, September 19, 2002 at the Ronald Reagan Presidential Library in Simi Valley. All Directors are invited to participate in both events.

44996 Regarding Legal Department activities, General Counsel Kightlinger referred to his activity report dated August 30, 2002, which was distributed earlier.

General Counsel Kightlinger also reported on other matters of interest to Metropolitan. In the *Diamond Valley Recreation Group* (DVRG) lawsuit against Metropolitan, a demurrer was heard to the complaint. It was sustained. DVRG now has leave to amend and Metropolitan is now awaiting to see whether DVRG will drop some of its causes of actions, or if it will just amend and refile. The amendment should be due shortly.

In the *Hartford* cases a summary judgment motion was heard, and that matter is now under submission. Metropolitan expects a written ruling from the court shortly. These cases are on the issue of whether or not the coverage is there for borrow soils from the insurance policy.

In the *Campus Crusade for Christ* case, which is the last eminent domain taking on the Inland Feeder, that trial is underway. Currently legal motions are taking place and a jury will be selected later in the week. At next month's committee meeting, there will be a further update.

Mr. Kightlinger reported the Legal Department has been actively involved in legislative matters, especially on SB 482 (Kuehl). That bill will enable Metropolitan to get fully-protected species coverage so that we can now get Endangered Species Act permits for Colorado River projects which we were not able to do, and which will enable us to move forward on the Quantification Settlement Agreement. There were a number of

amendments to that bill and it is now before the Governor for his signature.

44997 General Auditor Riss gave a summary report of the Audit Department's activities for the month of August. He noted that two traditional reports were issued on the Review of Maintenance Support Services to the Department of Water Resources and the Review of Asset Management Activities-Revenue Leases, which reports were identified as medium risk exposure. In addition, four Report Card reports were issued on the Oracle Financial Upgrade/Server Migration Project, the PC Replacement Project, the Supervisory Control and Data Acquisition (SCADA) Upgrades, and the WINS New Rate Structure Implementation, all with low risk exposure.

Director Dentler withdrew from the Meeting at 10:41 a.m.

44998 Ethics Officer Anderson reported that she has completed the initial draft of amending policy language for the ethics policy in Metropolitan's Administrative Code and a supporting handbook for Board members. Amending language has also been drafted to establish authority for the Ethics Officer in the Administrative Code. Ms. Anderson commented on the annual work plan and a newsletter outlining ethics awareness.

44999 The reports of the Standing Committees are as follows:

Chairman Pace reported that at the Executive Committee meeting on August 27, he assigned Director Dentler to the Engineering and Operations Committee and the Water Planning, Quality and Resources Committee. The committee approved the preparation of Commendatory Resolutions for former Directors Swan and Wein. The Executive Committee heard reports from Directors Hansen and Foley. Subcommittee on Rules and Ethics Chair Hansen reported the subcommittee approved the proposed items for September and October, and moving the monthly subcommittee meetings for the months of October and November to the fourth Tuesday of the month. This would allow for timely updates and reports to be given by staff concerning major policy issues the Board will face over the next several months. Vice Chairman Foley reported on the Department Heads' evaluation process and the activities of the Colorado River Board. Regarding the amendment of the Administrative Code to add

standardized guidelines for consideration of a waiver under the "Revolving Door" policy, the committee approved a substitute motion to delete subsection "D" and the proposed additions to the Code. In closed session the committee received an update on the Colorado River negotiations.

Director Dentler returned to the Meeting at 10:49 a.m.

Asset, Real Estate and Infrastructure Policy Committee Chairman Peterson reported the committee approved Agenda Item 8-6 and heard reports on (a) the status of the Real Property Database and Mapping project, the milestones achieved to date, and a recommended option to resolve the issue of unrecorded properties along the Colorado River Aqueduct; and (b) the status of the Riverside County Integrated Plan which focused on the General Plan component, the program EIR, and the potential impacts to water supply. The committee deferred to October the consideration of policy on requests of ingress and egress over District property.

A discussion took place regarding the times of meetings due to the overrun of some committee meetings yesterday and Directors not being able to attend all the meetings. The Chair requested the Subcommittee on Rules and Ethics to review the schedules of meetings.

Budget, Finance and Investment Committee Chairman Castro reported the committee approved Agenda Item 9-1. The committee heard a report on the accountability of Metropolitan's Chief Executive Officer and the Chief Financial Officer with respect to financial matters. A report on the State Water Contract will be given at the next meeting. A discussion was held on prohibiting Metropolitan's external auditors from consulting for Metropolitan and other potential conflicts of interest. This item was referred to the Audit Subcommittee for consideration of Administrative Code changes.

Director Herman withdrew from the Meeting at 11:06 a.m.

Communications, Outreach and Legislation Committee Chairman Fellow reported the Community Partnering Program had several events in August, including presentations to support the San Gabriel Watershed, the Friends of the Children's Museum,

California Polytechnic University in Pomona, and several programs in San Diego County. Westways magazine's cover story this month was about the Liquid Art project and featured several of the artworks. Huell Howser will be featuring Liquid Art in his PBS show "Road Trip" this month. Metropolitan's conservation message is appearing on more than 400 movie screens in Southern California and ads have been translated into Spanish. State Water Project inspection trips are again being scheduled, and the itinerary now reflects limitations on visiting state facilities, but gives participants greater access to people and information about water and agriculture concerns, CALFED, and the Central Valley Project. The Business Outreach Program had several events during the past month, including a meeting at Diamond Valley Lake that attracted 120 business people from the Inland Empire. 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 8-1, 8-2, 8-3, 8-4, and 8-9. The committee deferred Agenda Item 8-5 and the report on the feasibility of hydroelectric pumped-storage power generation potential using Copper Basin to next month's meeting. A joint meeting with Water Planning, Quality and Resources Committee was held to consider Agenda Item 8-10 regarding the San Diego Pipeline No. 6 project. Staff presented five optional implementation plans and described the Skinner member agencies' proposals. The member agencies presented comments. Agenda Item 8-10 was deferred with staff directed to report back to the committee next month with: reimbursement options in the event that San Diego Pipeline No. 6 project is cancelled; ideas on how to get water into a conjunctive use project with Rancho California Water District; details on how Module 7 might be accelerated; and an estimate of the costs for the portion of Pipeline No. 6 extending six miles into San Diego County.

Director Herman returned to the Meeting at 11:11 a.m.

Legal, Claims and Personnel Committee Chairman Owen reported the committee approved Agenda Items 8-8 and 9-2, and requested that Item 9-2 be added to the Consent Calendar (Item 9-2 subsequently removed from the Consent Calendar). In closed session the committee heard a report on the MAPA contract negotiations.

Water Planning, Quality and Resources (WPQ&R) Committee Vice Chairman Wright reported the committee heard Agenda Item 8-10 at the joint meeting held with the Engineering and Operations Committee and approved deferral of Item 8-10. The WPQ&R Committee approved Agenda Item 8-7. Reports were given on the seawater desalination program and the availability of replenishment water beginning October 1, 2002.

45000 The Chair announced that Agenda Item 8-11 has been removed from the Consent Calendar.

Director Blake moved, seconded by Director Stanton and carried, and the Board approved the Consent Calendar Items, **M.I. 45001** through **M.I. 45008** as follows:

45001 Adopted the California Environmental Quality Act (CEQA) determination for the project described in the letter signed by the Chief Executive Officer on August 17, 2002; and authorized (a) \$300,000 in Capital Investment Plan (CIP) budgeted funds from Appropriation No. 15370 (No. 2) from the Construction Funds; and (b) all work performed in advance of the award of a competitively bid contract for the renovation of the existing Softener Building No. 3 at Weymouth.

45002 Adopted the CEQA determination for all seven projects for the Distribution System Rehabilitation Program and authorized \$8.64 million in Appropriation No. 15377 (No. 3) from the Construction Funds, as set forth in the letter signed by the Chief Executive Officer on August 17, 2002, so that Metropolitan forces can implement the following projects:

- \$6.63 million of budgeted funds to repair and upgrade the 5.5-mile leased portion of the West Valley Feeder No. 1 valve structures.
- \$0.5 million of budgeted funds to replace valves on the Santiago Lateral.
- \$0.41 million of budgeted funds to replace valves at the Covina Pressure Control Structure.
- \$0.19 million of budgeted funds to replace valves on the Greg Avenue Control Structure.
- \$0.424 million of budgeted funds to perform flow meter modifications at three Metropolitan facilities.

- \$0.376 million of unbudgeted funds to replace needle valve operators at the Etiwanda Hydroelectric Plant.
- \$0.109 million of budgeted funds to perform design activities and prepare environmental documentation necessary to recoat the Sepulveda Canyon Control Facility tanks.

45003 Adopted the CEQA determination for the project described in the letter signed by the Chief Executive Officer on August 17, 2002, and authorized (a) \$196,000 in budgeted CIP funds from Appropriation No. 15381 (No. 3) from the Construction Funds; and (b) the Chief Executive Officer to have all work performed to replace the Mills plant Administration Building heating, ventilating and air conditioning system.

45004 Adopted the CEQA determination and amended the agreement with the United States Forest Service for reimbursable staff time on the Arrowhead Tunnels portion of the Inland Feeder Program to an amount not to exceed \$3.0 million, as set forth in the letter signed by the Chief Executive Officer on August 20, 2002.

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

45005 Adopted the CEQA determination and (a) authorized \$472,000 in Appropriation No. 15378 (No. 2) from the Pay-As-You-Go Fund; and (b) awarded contracts to upgrade PeopleSoft, as set forth in the letter signed by the Chief Executive Officer on August 20, 2002.

45006 Adopted the CEQA determination and approved the Advance Funding Agreement among Metropolitan, the Bureau of Reclamation, and the Imperial Irrigation District to advance funds to initiate preliminary work necessary for the All American Canal Lining Project, not to exceed \$450,000, as set forth in the letter signed by the Chief Executive Officer on August 17, 2002.

45007 Adopted the CEQA determination and authorized the amendment of the contract with the law firm of Harkins Cunningham to increase the maximum compensation by \$500,000 to complete negotiations of the Quantification Settlement Agreement

and related documents for the California 4.4 Plan, as set forth in the letter signed by the General Counsel on August 15, 2002.

45008 Adopted the CEQA determination and (a) authorized \$80.1 million in budgeted and unbudgeted CIP funds in Appropriation No. 15173 (No. 9) from the Pay-As-You-Go Fund; and (b) awarded a competitively bid contract in the amount of \$69,729,000 to Kiewit Pacific Company for the construction of oxygen/ozone facilities as part of the Jensen plant Oxidation Retrofit program, as set forth in the letter signed by the Chief Executive Officer on August 22, 2002.

45009 Director Ashley requested the record show that he disagreed with the action taken to defer Agenda Item 8-10, the San Diego Pipeline No. 6 project.

45010 Director Peterson commented on the recommendation shown on the agenda for Item 8-11 which differed from that approved by the Executive Committee. Director Peterson then moved, seconded by Director Ashley, that the Board adopt the CEQA determination and approve amending Section 7305 of the Administrative Code to delete the proposed subsections "D" and "E" relating to the "Revolving Door" Policy, as set forth in the letter jointly signed by the General Counsel and the Ethics Officer on August 22, 2002.

Following a discussion on the pros and cons of either leaving or deleting subsection "D" in the Administrative Code, Director Harris moved a substitute motion, seconded by Director Blake, that the waiver provision in Section 7305 be completely abolished. In addition, the language in Section 7300 that states "This policy sets forth the minimal ethical standards to be followed by the Board of Directors, officers, and employees of The Metropolitan Water District of Southern California" should be changed to read "This policy sets forth the highest ethical standards"

Following further discussion on whether deletion of the waiver should also apply to employees, Director Edwards moved that this item be tabled and sent back to the Subcommittee on Rules and Ethics and the Executive Committee for additional discussion and recommendation. Director Stanton seconded the motion. The motion was voted upon and carried.

45011 Budget, Finance and Investment Committee Chairman Castro moved, seconded by Committee Vice Chairman Blake, that the Board adopt the CEQA determination and (a) authorize the Chief Executive Officer to use up to \$75 million of unrestricted funds in an amount not to exceed \$75 million to purchase discounted Metropolitan bonds in the secondary market; and (b) adopt the form of Supplemental Resolution as set forth in Attachment 1 to the letter signed by the Chief Executive Officer on August 17, 2002 (**Resolution 8825**) of the Master Revenue Bond Resolution authorizing the issuance of variable rate bonds to be used to purchase outstanding bonds with a formal bond tender program, with these authorizations to expire on September 30, 2003, said Resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA AUTHORIZING THE PURCHASE OF CERTAIN OUTSTANDING WATER REVENUE BONDS AND AUTHORIZING THE ISSUANCE OF UP TO \$500,000,000 WATER REVENUE BONDS AND PROVIDING THE TERMS AND CONDITIONS FOR THE PURCHASE AND SALE OF SAID BONDS (FOURTEENTH SUPPLEMENTAL RESOLUTION)

The Chair called for a vote on the motion.

The following is a record of the vote on the motion:

Ayes: Anaheim (Dir. Stanton, 2,510 votes), Beverly Hills (Dir. Harris, 1,241 votes), Burbank (Dir. Brown, 1,149 votes), Calleguas Municipal Water District (Dir. Grandsen, 4,993 votes), Central Basin Municipal Water District (Aye: Dir. Pace. Absent: Dir. Morse. 7,185 votes), Eastern Municipal Water District (Dir. Ashley, 2,599 votes), Foothill Municipal Water District (Dir. Edwards, 781 votes), Fullerton (Dir. Blake, 891 votes), Glendale (Dir. Rez, 1,414 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,182 votes), Long Beach (Dir. Hansen, 2,152 votes), Los Angeles (Ayes: Dirs. Castro, Dentler, and Herman. Absent: Dir. Luddy. 24,169 votes), Municipal Water District of Orange County (Dirs. Bakall, Bannister, Foley and Owen, 21,394 votes), Pasadena (Dir. Brick, 1,173 votes), San Diego County Water Authority (Dirs. Ball, Lewis, Loveland, and Parker, 21,570 votes), San Fernando (Dir. Mejia, 94 votes), San Marino (Dir. Morris, 266 votes), Santa Ana (Dir. Coughran, 1,376 votes), Santa Monica (Dir. Abdo, 1,454 votes), Three Valleys Municipal Water District (Dir. De Jesus, 3,224 votes), Torrance (Dir. Wright, 1,475 votes), Upper San Gabriel Valley Municipal

Water District (Dir. Fellow, 4,564 votes), West Basin Municipal Water District (Aye: Dir. Murray. Absent: Dir. Kwan. 8,562 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 4,039 votes). Total 119,457 votes.

No: None.

Abstain: None.

Absent: Compton (Dir. Murph, 201 votes), Inland Empire Utilities Agency (Dir. Troxel, 4,441 votes). Total 4,642 votes.

The Chair declared the motion carried by a vote of 119,457 ayes and 4,642 absent, representing more than the required two-thirds vote.

Director Ball withdrew from the Meeting at 11:45 a.m.

45012 Regarding the Cadiz Groundwater Storage and Dry-Year Storage Program, Faramarz Nabavi, representing Public Citizen, a public interest group with over 40,000 members in California, stated their concerns about the Cadiz project.

Following a discussion on the payment of legal fees, Director Edwards moved, seconded by Director Stanton and carried, and the Board adopted the CEQA determination and amended agreement for legal services with the law firm of Riordan & McKinzie to increase amount payable by \$75,000 relating to the Cadiz project, as set forth in the confidential letter signed by the General Counsel on September 4, 2002.

Director Harris requested to be recorded as voting no.

Directors Castro, Dentler, and Herman requested to be recorded as abstaining.

45013 The following communications were submitted to the Board for information:

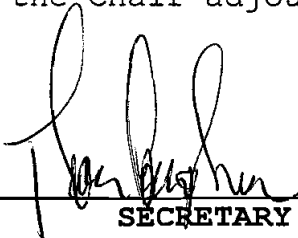
- a. Status report for the Inland Feeder Program for activities through July 2002, signed by the Chief Executive Officer on August 17, 2002.

- b. Seawater Desalination Program Update, signed by the Chief Executive Officer on August 28, 2002.

Director Ball returned to the Meeting at 11:49 a.m.

45014 Vice Chairman Foley moved, seconded by Director Stanton and carried, that the Board adopt the CEQA determination and approve the Department Heads' Compensation Committee recommendation that the Board no longer use the existing formal process to evaluate Department Heads. The committee further recommends a revised process with the respective committee chairs leading the evaluation and submitting a recommendation to the Executive Committee for final consideration and approval by the Board, as set forth in the letter signed by Director Castro, Co-Chair, Department Head Compensation Committee, on August 28, 2002.

45015 There being no objection, the Chair adjourned the Meeting at 11:50 a.m.



SECRETARY



CHAIRMAN