

**MINUTES**  
**REGULAR MEETING OF THE**  
**BOARD OF DIRECTORS**  
**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**  
**JANUARY 13, 2004**

**45617** 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, January 13, 2004.

Chairman Pace called the Meeting to order at 12:15 p.m.

**45618** The Meeting was opened with an invocation by Harley Searcy, Deputy General Counsel, Metropolitan Water District.

**45619** The Pledge of Allegiance to the Flag was given, led by Director Larry D. Dick.

**45620** Board Secretary Hansen called the roll. Those answering present were: Directors Abdo, Apodaca, Bakall, Bannister, Blake, Brick, Brown, Coughran, De Jesus, Dentler, Dick, Edwards, Farrar, Fellow, Foley, Grandsen, Harris, Hansen, Herman, Kwan, Lewis, Loveland, Murray, Mylne, Pace, Peterson, Record, Rez, Stanton, Turner, and Wright.

Those not answering were: Directors Koopman, Luddy, Mejia (entered 12:21 p.m.), Morris, Orduna, and Parker.

Chairman Pace declared a quorum present.

**45621** Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction. No members of the public responded.

**45622** There being no objection, Chairman Pace ordered the reading of the Minutes of the Meeting of December 9, 2003, dispensed with, a copy having been mailed to each Director.

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

**45623** Chairman Pace presented to Director Willard H. Murray, Jr., a pin for his five years of service on Metropolitan's Board, representing West Basin Municipal Water District.

Director Mejia took his seat at 12:21 p.m.

**45624** Chairman Pace presented a Commendatory Resolution to Robert P. Will, former General Counsel of Metropolitan Water District.

**45625** Director Murray moved, seconded by Director Mejia and carried, and the Board ratified the Chair's assignments of Chairs and Vice Chairs of standing- and sub- committees as approved by the Executive Committee at its meeting of December 16, 2003.

**45626** Nominating Committee Chairman Mejia reported the committee met to consider the candidates for three non-officer members of the Executive Committee for the term ending December 31, 2005. The committee reviewed all eligible Directors as potential candidates and following this review, as noticed in the December 23, 2003, letter to all Directors, the original on file with the Executive Secretary, the Nominating Committee nominated four Directors - Timothy Brick, Thom Coughran, Joseph Parker, and James Rez - for the non-officer member positions of the Executive Committee for the term ending December 31, 2005. However, Director Brick has since been appointed a committee chair, automatically making him a member of the Executive Committee.

On behalf of the Nominating Committee, Director Mejia recommended that Directors Coughran, Parker, and Rez be nominated as non-officer members of the Executive Committee for the two-year term ending December 31, 2005.

Chairman Pace called for other nominations from the floor. There were none.

Director Coughran moved, seconded by Vice Chairman Foley that the nominations be closed, and that the Board elect Directors Coughran, Parker, and Rez to the Executive Committee as non-officer members for the term ending December 31, 2005. The motion was voted upon and unanimously carried.

**45627** Nominating Committee Chairman Mejia reported the committee met to consider candidates for three Director positions on the Inquiry and Review Committee. Following a discussion, the committee nominated four Directors - James Edwards, Ted Grandsen, David Farrar, and George Loveland - for election by the Board to the three Director positions on the Inquiry and Review Committee. Members of the Inquiry and Review Committee will serve for staggered three-year terms, but because this is the first election for members of this new committee, the Director with the highest votes will serve 3 years; the second highest for 2 years; and the third highest for 1 year.

On behalf of the Nominating Committee, Director Mejia recommended that Directors Edwards, Grandsen, Farrar, and Loveland be nominated to the Inquiry and Review Committee for the terms stated above.

Chairman Pace called for other nominations from the floor. There were none.

Director Bannister moved, seconded by Director Blake that the nominations be closed, and that the Board vote on the nominees presented.

Following the vote and tabulations of the ballots, Board Secretary Hansen recorded the results from those votes. The majority of the weighted votes of the Board was cast in favor of Director Edwards for a 3-year term, Director Loveland for a 2-year term, and Director Farrar for a 1-year term, all effective January 1, 2004. Chairman Pace declared that Directors Edwards, Loveland, and Farrar have been duly elected to serve as members of the Inquiry and Review Committee for the terms as stated.

Director Harris inquired whether there can be additions or questions asked about the ethics complaint procedure. The Chair replied affirmatively and that anything relating to the complaint procedure can be taken up at the Ethics Subcommittee meetings.

Director Dentler asked since the ethics complaint procedure also applied to employees, was it discussed or bargained with the employee associations. General Counsel Rightlinger responded that the union was informed of the procedure, but it was deemed to be outside of collective bargaining procedures. Chief Executive Officer Gastelum stated that comments are being solicited from the bargaining units.

**45628** Chairman Pace addressed the Board and reflected on Metropolitan's 75 years of accomplishments, including the conclusion of the Quantification Settlement Agreement (QSA), the opening of Diamond Valley Lake and its recreation amenities, the shutdown of the Colorado River Aqueduct for repairs, the promoting of native plants as part of the stewardship policy, and the embrace of the joint state legislative audit of Metropolitan as part of the public business philosophy. The Chair stated that in 2004 Metropolitan would continue building the future of Southern California, to include updating the Integrated Resources Plan; concluding the agreement with the Palo Verde Irrigation District and farmers to transfer water that will be put to beneficial use and storage; CALFED issues; and through a master plan for the development of surplus property, the construction of The Center for Water Education at Diamond Valley Lake, and increased recreational opportunities. Chairman Pace continued that Metropolitan has a unique opportunity to impress upon the greater public the wisdom of its long-term planning approach, and stated that when water districts make a commitment to projects, they are bound to make good on things like conservation and water recycling credits irrespective of future budget crises and with benefits provided for generations to come.

**45629** At 12:46 p.m., the Chair called a public hearing to receive comments on the proposed standby charges for:

75<sup>th</sup> Fringe Area Annexation to Eastern Municipal Water District

44<sup>th</sup> Fringe Area Annexation to Western Municipal Water District  
49<sup>th</sup> Fringe Area Annexation to Western 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 12:47 p.m.

**45630** Regarding Colorado River, Bay-Delta, and CALFED matters, Chief Executive Officer Gastelum referred to his activity report for December dated December 26, 2003, which was distributed earlier.

Chief Executive Officer Gastelum commented on the Bay-Delta and an outreach program that is occurring within Metropolitan's service area by staff in conjunction with other stakeholders to explain what is the Napa proposal and how it fits in with CALFED.

Mr. Gastelum stated that his Business Plan is updated on a quarterly basis and that the Board would be receiving the second quarter update next week for discussion at the next Executive Committee meeting. He would be prepared to answer any questions then.

With the Governor's budget in mind, Chief Executive Officer Gastelum stated that in looking at the finances of the state and the upcoming election at the federal level, there would be a dramatic impact on the initiatives that were put in place in 2003, especially on CALFED. There are funding requests, and Mr. Gastelum was optimistic that funding requests would be met for the QSA. However, a big issue facing the water community will be fees. Requests that agencies have been accustomed to getting from the State Water Resources Control Board (SWRCB) are now going to be subject to fees; and there will be a debate in the water community as to whether the fees are appropriate and how would the costs be apportioned. Those issues spill over to major policy questions, and Metropolitan will be engaged in discussions that will undoubtedly force the issue of "beneficiaries pay". There will be discussions among the Board and member agencies as to exactly what is meant by "beneficiaries pay" as we move forward on negotiations on the budget and related matters.

Regarding the following program with the Palo Verde Irrigation District, Mr. Gastelum stated that it is moving ahead with a time frame to implement the program.

Referring to the state audit, Chief Executive Officer Gastelum reported that the state audit team is back at the District and interviewing additional staff. The audit is continuing as expected and there is a January/February time frame for the completion of the report. The Board will be advised accordingly.

**45631** Regarding Legal Department activities, General Counsel Kightlinger referred to his activity report for December dated January 6, 2004, which was distributed earlier.

In the *Arizona v. California* litigation, General Counsel Kightlinger reported that the last piece of that case involving the Quechan Indian Tribe is proceeding. There was a hearing on December 8 and 9, 2003 in Chicago before a special master appointed by the U.S. Supreme Court. Linus Masouredis of Metropolitan's staff made the argument on behalf of the state of California. A ruling is expected in several months. This case involves potentially reserve water rights claimed by the tribe, and is the last outstanding piece yet to be resolved in this 40-year old decision.

In *Miccosukee Tribe of Indians of Florida, et al. v. South Florida Water Management District*, Metropolitan has been an *amicus* in this case. This was a case that resulted in the South Florida Water Management District having to get a National Pollutant Discharge Elimination System (NPDES) water permit under the Clean Water Act for moving water from one basin to another due to natural occurring constituents in that water. Metropolitan is one of the leaders in the *amicus* effort and has helped with the funding and the drafting of the *amicus* briefs. This case will be argued before the U.S. Supreme Court tomorrow morning, January 14, 2004.

**45632** General Auditor Riss gave a summary report of the Audit Department's activities for the month of December. He noted that seven reports were issued during the month, specifically, the Official Statement for the Water Revenue Refunding Bonds review; the Property Tax Revenue Process and Controls; Payroll and Employee Benefits Processes; Major

Construction Projects-Contract Award; The Center for Water Education; the Software Licensing Audit reports; and Windows 2000 Implementation Risk Assessment report.

Mr. Riss then conducted a brief discussion of these reports. He began with the property tax revenue process audit and stated that management has established reasonable accounting and administrative controls over the property tax revenue process. Next, he discussed the payroll and benefit processes audit and stated there were internal control concerns relating to employee data input inaccuracies and noncompliance to established procedures. General Auditor Riss noted that management has taken appropriate and timely corrective action on these issues and stated that reasonable controls are now in place. He then discussed the examination of the contract award process for major construction projects and reported that minor recommendations were made to improve the internal control structure over the bid and cost estimate processes.

Next, Mr. Riss discussed the audit of The Center for Water Education and described the nature of the monthly reviews that are conducted of the Center's activities. He stated that these reviews provide a continuous audit presence in this area. He then discussed the software licensing audit and reported that Metropolitan has effective administrative controls over software licensing requirements. Finally, Mr. Riss discussed the Windows 2000 Risk Assessment report. He stated that the current risk exposure is low for this project as management has proper controls in place to mitigate implementation concerns.

**45633** Executive Vice President Ivey reported on the new scorecard process to be used in conjunction with the business plans for the performance reviews of the Chief Executive Officer, General Counsel, and General Auditor.

**45634** The reports of the Standing Committees are as follows:

Chairman Pace reported the Executive Committee, at its meeting of December 16, discussed and approved the proposed items for January's Board and committee agenda items. The committee heard reports on activities of the Audit Subcommittee, Ethics Subcommittee, and the Colorado River Board. Chief Executive Officer Gastelum reported on Metropolitan's activities, the Arizona surplus water agreement, the discussions

with the member agencies regarding the Integrated Resources Plan (IRP) and the process for reaching the public, and the strategies to access Proposition 50 funds.

Asset, Real Estate and Infrastructure Policy Committee Chairman Record reported the committee approved Agenda Item 9-3, the pre-annexation development agreement between Metropolitan and the city of Hemet (subsequently tabled by the Board). The status reports on the Diamond Valley Recreation Area and Real Estate Activities were deferred until next month.

Budget, Finance and Investment Committee Chairman Mylne reported the committee approved Agenda Item 9-2. He requested Item 9-2 be placed on the Consent Calendar. The committee heard an oral report on the 2004 Update of the Long Range Finance Plan.

Communications, Outreach and Legislation Committee Chairman Fellow stated that at the committee meeting he reported on Huell Howser's new show "California's Green", which is being partly underwritten by Metropolitan, and will debut on Sunday, January 25, at 6 p.m. on KCET and will air throughout California on other PBS stations. This series will highlight what innovative and creative Californians are doing to solve environmental challenges. The committee heard reports on the Community Partnering Program with applications due by January 31, 2004, again focusing on outdoor conservation projects; this year's solar boat event at Lake Skinner scheduled for May 21-23, 2004; and the legislative activities from both Washington, D.C., and Sacramento.

Engineering and Operations Committee Chairman Wright reported the committee unanimously approved Agenda Item 8-1. The committee heard oral reports on the Inland Feeder Program, Diemer Filtration Plant site engineering plan, and system operations.

Legal, Claims and Personnel Committee Chairman De Jesus reported the committee approved Agenda Item 8-2. The committee heard reports on legal matters with respect to the Colorado River and State Water Project resources. In closed session the committee also heard a report on the Arrowhead East and Arrowhead West tunnel contracts.



Water Planning, Quality and Resources Committee Vice Chairman Bakall reported the committee approved Agenda Item 9-1. He requested that Item 9-1 be placed on the Consent Calendar. The committee heard reports on Bay-Delta and State Water Project matters, the Protector del Agua landscape irrigation-efficiency education program, the Water Surplus and Drought Management Plan Report on water supply and demand, and the IRP Update process.

**45635** Chairman Pace stated that Agenda Item 9-3, the pre-annexation development agreement between Metropolitan and the city of Hemet will be tabled for discussion at the meeting of the Executive Committee on January 27, 2004.

Director Bakall moved, seconded by Director Coughran and carried, and the Board approved the Consent Calendar Items, **M.I. 45636** through **M.I. 45639**, as follows:

**45636** Adopted the California Environmental Quality Act (CEQA) determination and authorized \$120,000 in budgeted funds (Appropriation No. 03403) for preliminary design and preparation of environmental documentation for the replacement of the floating cover and repair of damaged lining at Palos Verdes Reservoir, as set forth in the letter signed by the Chief Executive Officer on December 23, 2003.

**45637** Adopted the CEQA determination and amended Metropolitan's Administrative Code Section 4205 in accordance with the suggested language contained in the letter jointly signed by the General Counsel and the Chief Executive Officer on December 10, 2003, to clarify existing practice and policy regarding sale of imported water by one member public agency into territory of another member public agency.

**45638** Adopted the CEQA determination and (a) authorized a long-term regional Commercial/Industrial/Institutional program; and (b) increased the current Honeywell contract by \$2.5 million through December 2004, as set forth in the letter signed by the Chief Executive Officer on December 23, 2003.

**45639** Regarding the determination of water revenue requirements, apportionment of revenues, recommending water rates and charges to raise firm revenues, and the adoption of resolutions giving notice of intention to impose rates and charges for fiscal year 2004/05, the Board adopted the CEQA

determination and the recommendation as set forth in the letter signed by the Chief Executive Officer on December 23, 2003, as follows:

a. Determined that revenues required from rates and charges during fiscal year 2004/05 should not be less than \$995.8 million, and use this determination in establishing water rates and charges to be effective January 1, 2005.

b. Set a time for a public hearing of the Budget, Finance and Investment Committee at which interested parties may present their views regarding the Chief Executive Officer's recommendation for rates and charges to be effective January 1, 2005.

Description:	Effective January 1, 2004	Effective January 1, 2005
Tier 1 Supply Rate (\$/AF)	\$ 73	\$ 73
Tier 2 Supply Rate (\$/AF)	\$154	\$154
System Access Rate (\$/AF)	\$163	\$152
Water Stewardship Rate (\$/AF)	\$ 30	\$ 25
System Power Rate (\$/AF)	\$ 60	\$ 81
Full Service Untreated Volumetric Cost (\$/AF)		
Tier 1	\$326	\$331
Tier 2	\$407	\$412
Replenishment Water Rate Untreated (\$/AF)	\$233	\$238
Interim Agricultural Water Program Untreated (\$/AF)	\$236	\$241
Treatment Surcharge (\$/AF)	\$ 92	\$112
Full Service Treated Volumetric Cost (\$/AF)		
Tier 1	\$418	\$443
Tier 2	\$499	\$524
Treated Replenishment Water Rate (\$/AF)	\$300	\$325
Treated Interim Agricultural Water Program (\$/AF)	\$304	\$329
Readiness-to-Serve Charge (\$M)	\$80	\$80
Capacity Charge (\$/cfs)	\$6,100	\$6,800

b. Adopted the following resolutions:

1. Resolution of intention (**Resolution 8887**) to impose the Readiness-to-Serve (RTS) Charge in the form shown as Attachment 2 to the foregoing letter, declaring the Board's intention (i) at its March 9, 2004 meeting to consider and act upon the Chief Executive Officer's recommendation to impose a Readiness to Serve Charge, and (ii) at its May 11, 2004 meeting to consider and act upon the Chief Executive Officer's recommendation to impose standby charges within the territories of member agencies that have requested that charge as a means of collecting all or a portion of their RTS Charge, said resolution entitled:

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN  
WATER DISTRICT OF SOUTHERN CALIFORNIA GIVING NOTICE OF  
INTENTION TO IMPOSE A READINESS-TO-SERVE CHARGE FOR FISCAL  
YEAR 2004/05**

2. Resolution of intention (**Resolution 8888**) to impose a Capacity Charge in the form shown as Attachment 3 to the foregoing letter, declaring the Board's intention, at its March 9, 2004 meeting to consider and act upon the Chief Executive Officer's recommendation to impose a Capacity Charge, said resolution entitled:

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN  
WATER DISTRICT OF SOUTHERN CALIFORNIA GIVING NOTICE OF  
INTENTION TO IMPOSE A CAPACITY CHARGE FOR FISCAL YEAR  
2004/05**

**45640** The following communications were submitted to the Board for information:

- a. Status report for the Inland Feeder Program for activities through November 2003, signed by the Chief Executive Officer on December 22, 2003.
- b. Protector del Agua landscape irrigation-efficiency education program, signed by the Chief Executive Officer on December 22, 2003.

- c. Water Surplus and Drought Management Plan Report on water supply and demand (as of December 19, 2003), signed by the Chief Executive Officer on December 22, 2003.
- d. Presentation of staff-recommended Integrated Resources Plan Update for a public review process, signed by the Chief Executive Officer on January 6, 2004.

**45641** There being no objection, Chairman Pace adjourned the Meeting at 1:25 p.m.

**HELEN Z. HANSEN**  
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**SECRETARY**

**PHILLIP J. PACE**  
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**CHAIRMAN**