

MINUTES
REGULAR MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MAY 11, 2004

45727 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 11, 2004.

Chairman Pace called the Meeting to order at 12:34 p.m.

45728 The Meeting was opened with an invocation by Director Isadore Hall, III.

45729 The Pledge of Allegiance to the Flag was given, led by Director Robert Simonds.

45730 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, Hall, Hansen, Harris, Koopman, Kwan, Lewis, Luddy, Mejia, Morris, Murray, Mylne, Pace, Parker, Peterson, Record, Rez, Simonds, Stanton, and Wright.

Those not answering were: Directors Loveland and Turner.

Chairman Pace declared a quorum present.

45731 At 12:36 p.m., the Chair called a public hearing to receive comments on the proposed standby charge for the 77th Fringe Area Annexation to Eastern 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 12:37 p.m.

45732 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction.

Tim Scott, community representative from the city of Rolling Hills Estates, commented on Metropolitan's proposed lease with the Covenant Church on the Palo Verdes Reservoir property for construction of a sanctuary and a parking structure. He stated the concerns of the neighborhood homeowner groups and the likelihood of a lawsuit by the church against the city if Metropolitan goes through with the lease and the city disallows the zoning. Mr. Scott stated his understanding that Metropolitan had approved the lease in February although it was not yet signed. He asked that Metropolitan consider retracting its approval of the lease until public concerns can be addressed.

Chief Executive Officer Gastelum responded that Metropolitan has taken no action on this lease and that the District is still awaiting the city's action. If the city does approve the church's request to build, Metropolitan has informed both the city and the church that it would consider a lease.

45733 Director Record announced the recognition of employee Lynda Poggenpohl of the External Affairs Group as one of four women as the 2004 Professional Women of the Year in the San Jacinto Valley. The Board congratulated Ms. Poggenpohl for her exemplary service to her community and to Metropolitan.

45734 Director Parker introduced John Johnson and Robert "Bud" Irvin, board members of the San Diego County Water Authority.

45735 There being no objection, Chairman Pace ordered the reading of the Minutes of the Meeting of April 13, 2004, dispensed with, a copy having been mailed to each Director.

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

45736 Gary Lynch, co-chairman of the California-Nevada Section of the American Water Works Association, presented to Chief Executive Officer Gastelum a plaque in recognition of his commitment to water quality, and in particular his efforts in the name of AWWA on his testimony to the U.S. Congress in discouraging immunity for the Department of Defense and its contractors where they have contaminated drinking water sources.

Jackie Glover, immediate past chair of the California-Nevada Section of AWWA, also presented a plaque to Metropolitan's Board of Directors for its outstanding leadership role in the protection of public health in the areas of elimination of the gas additive MTBE from California's fuel supply, perchlorate remediation efforts on the Colorado River, and water conservation.

45737 Director Blake moved, seconded by Director Coughran and carried, authorizing a sixty-day leave of absence for Director Anthony Fellow, commencing May 31, 2004.

45738 Chairman Pace announced the assignment of Director Dentler to the Legal, Claims and Personnel Committee and her removal from the Communications, Outreach and Legislation Committee and the Audit Subcommittee.

45739 Chairman Pace reported that on April 16, The Center for Water Education held its board meeting at the Science Discovery Center in Santa Ana where the members had the opportunity to see the educational learning exhibits designed for school children of all ages. On April 19 he spoke at Central Basin Municipal Water District's forum on Planning for Southern California Water Future. On April 28-30 Chief Executive Officer Gastelum and himself participated in a tour of Southern California Edison's facilities in the High Sierra. The Chair stated that on May 2 Metropolitan received the California Glory Award from the Rancho Santa Ana Botanic Gardens in recognition of its contribution towards promotion of native plants and education of the public about ecological, aesthetic and economic importance to California concerning water. On May 5-7 he, along with a number of Metropolitan's Directors, attended the ACWA spring conference in Monterey. Topics highlighted at the conference were the State Water Resources Control Board, financing the state on the backs of local government, and Bay-Delta.

45740 Regarding Colorado River, Bay-Delta, and CALFED matters, Chief Executive Officer Gastelum referred to his activity report for April dated May 5, 2004, which was distributed earlier.

Regarding the Colorado River matters, Chief Executive Officer Gastelum requested Vice President of Colorado River Resources Underwood to give an update of his trip on the river that was hosted by Assistant Secretary of the Interior Raley. Mr. Underwood reported on his seven-day Department of Interior rafting trip down the Colorado River in order to facilitate discussion among Colorado River agencies and heighten media awareness of the issues. Mr. Underwood stated that on behalf of Metropolitan he made a variety of points during the river operations and water supply discussions; and that unlike other states, the costs of Metropolitan's investments have been borne exclusively by the ratepayers and beneficiaries. There are many possible steps for improved management of the river that could help avoid shortages. Among the possibilities are increased regulatory storage along the All-American Canal, interstate water pool/banking, water use forbearances, and shifting storage to the Upper Colorado Basin to reduce evaporation losses.

Referring to the state audit, Chief Executive Officer Gastelum reported that the state auditors advised that they are about to conclude their report in May. Mr. Gastelum stated that as soon as the report is received, he would distribute it to all the Directors, and that it would also be available to the public.

Chief Executive Officer Gastelum stated that at the meeting of the Water Planning, Quality and Resources Committee, the topic of Chromium 6 was discussed. He was requested to ask the state Department of Health Services to make the Chromium 6 contamination at the Pacific Gas & Electric plant in Topock one of the state's highest priorities. This would include providing sufficient staff for site characterization and remediation, and to provide an expedited permitting process so that necessary actions can be taken to stop the flow of Chromium 6 toward the Colorado River, including permanent barriers.

Chief Executive Officer Gastelum commented on his opportunity to address the San Marino City Club where he was able to share Metropolitan's programs.

45741 Regarding Legal Department activities, General Counsel Kightlinger referred to his activity report for April dated May 4, 2004, which was distributed earlier.

General Counsel Kightlinger reported that Metropolitan had been served in four lawsuits filed by Aerojet-General on perchlorate issues, along with 12 claims by other groups in the San Gabriel Valley alleging that Metropolitan has contaminated or contributed under the Comprehensive Environmental Response Compensation, and Liability Act to the contamination of the San Gabriel Valley basin through its importation of Colorado River water.

General Counsel Kightlinger also reported on the action filed by the attorneys representing creditors in the Enron bankruptcy case against Metropolitan for several contracts Metropolitan had with Enron some years ago.

In the matter of the Quantification Settlement Agreement, General Counsel Kightlinger stated the Imperial Group filed another lawsuit challenging pieces of the QSA, bringing the total QSA-related lawsuits to twelve.

General Counsel Kightlinger reported that at the committee meeting, the new lawsuits were discussed, as well as the *Cargill* temporary worker case.

45742 General Auditor Riss presented a summary report of the Audit Department's activities for the month of April. He began by noting that two reports were issued during the month. Specifically, he noted that the Hatch Mott Macdonald Report and the State Grants Report were issued in April.

Mr. Riss then conducted a brief discussion of these reports. He began with the Hatch Mott MacDonald Report, and stated that this is a construction contract engaged for the Inland Feeder Project. Mr. Riss then noted that the report was issued with an opinion that the accounting and administrative procedures over the HMM agreements include those practices usually necessary to provide for a satisfactory internal control structure. He added that the degree of compliance with such procedures provided effective control for the period January 1, 2002 through December 31, 2003. Mr. Riss then reported that some minor issues of non-compliance to established procedures

were noted and he stated that management has already taken corrective action.

Next, Mr. Riss discussed the State Grants Report. He began by noting that Metropolitan was awarded 13 state grants totaling \$111 million from the Department of Water Resources, California Energy Commission, and the CALFED Bay-Delta Authority. Mr. Riss added that Water Resource Management Group administers eight of these grants and the Water System Operations Group administers five grants. Mr. Riss then noted that the report was issued with an opinion that the accounting and administrative procedure for state grants includes those practices usually necessary to provide for a generally satisfactory internal control structure over administration of state grants. He added that the degree of compliance with such procedures provided effective control for the period from July 2002 through September 2003. Mr. Riss then stated that although this report is issued with an acceptable opinion, concern is expressed as the Audit Department noted internal control concerns relating to the centralization of grant management and standardization of policies and procedures. Mr. Riss stated that a recommendation was made for WRM and WSO management to meet and address these noted concerns.

45743 The reports of the Standing Committees are as follows:

Chairman Pace reported the Executive Committee, at its meeting of April 27, discussed and approved the proposed items for May's Board and committee agenda items. The committee heard reports on activities of the Ethics Subcommittee and the Colorado River Board. Chief Executive Officer Gastelum reported on Metropolitan's activities. He provided an update on the hearing in Washington, D.C., regarding perchlorate and the Department of Defense exemptions. Mr. Gastelum requested Chief Operating Officer Man to review the Third Quarter Business Plan. Chairman Pace also reported that the committee met in closed session on existing litigation, but no action was taken.

Asset, Real Estate and Infrastructure Policy Committee Chairman Record reported that there was a presentation of the master plan for development of various properties east of Diamond Valley Lake, and that a workshop will be scheduled at a later date to review the master plan. He stated the committee deferred Agenda Item 8-7, the agreement with Moffatt & Nichol

Engineers for Phase II final design of the Diamond Valley Recreation East Marina Program; the status report on Diamond Valley Recreation Area; and the report on Lake Skinner Recreation Area Management Options. The committee heard reports on real estate activities and the Information Technology Business Plan and budget for fiscal year 2004/05.

Budget, Finance and Investment Committee Chairman Mylne reported the committee unanimously approved Agenda Items 9-1 and 9-2, and requested they be placed on the Consent Calendar. The committee heard oral reports on fiscal year 2004/05 budgets for the Corporate Resources Group and the Legal Department. The fiscal year 2004/05 Capital Investment Plan Forecast was also presented. The committee also heard a report on the renewal status of Metropolitan's Casualty and Property Insurance Program. Committee Chair Mylne announced the annual Budget Workshop is scheduled for Tuesday, May 18, 2004, at 9:00 a.m.

Communications, Outreach and Legislation Committee Chairman Fellow reported the committee approved Agenda Item 9-9. The committee heard reports on the legislative activities from both Washington, D.C., and Sacramento. The committee also received updates on the array of employee communication tools and the Solar Cup competition, scheduled for May 21-23 at Lake Skinner. Committee Chairman Fellow commented on the first-ever "California Glory" award given to Metropolitan from the Rancho Santa Ana Botanic Garden; the results from the Directors' questionnaire on inspection trips, public events, and editorial activities; and the article in today's *Los Angeles Times* business section about the Palo Verde deal.

Engineering and Operations Committee Chairman Wright reported the committee unanimously approved Agenda Items 8-1, 8-2, 8-4, 9-3, and 9-4. Committee Chairman Wright requested Items 9-3 and 9-4 be added to the Consent Calendar. The committee heard oral reports on the Inland Feeder Program, the fiscal year 2004/05 budget for Corporate Resources Group and the Capital Investment Plan Forecast, and engineering activities.

Legal, Claims and Personnel Committee Chairman De Jesus reported the committee approved Agenda Items 8-5, 8-6, 9-7, and 9-8. He requested Items 9-7 and 9-8 be added to the Consent Calendar. In closed session the committee heard reports

on the temporary workers' lawsuit, Management and Professional Employees Association negotiations, the Cadiz claim, and the San Gabriel Valley groundwater basin contamination cases.

Director Lewis withdrew from the Meeting at 1:39 p.m.

Water Planning, Quality and Resources Committee Chairman Luddy reported the committee approved Agenda Items 9-5 and 9-6, and requested that they be moved to the Consent Calendar. The committee heard reports on the fiscal year 2003/04 Innovative Supply Program Grant Recipients, the selection of groundwater storage programs using remaining Proposition 13 funds, the Water Surplus and Drought Management Plan Report on water supply and demand, and the status of Pacific Gas & Electric cleanup efforts at Topock.

45744 Chairman Pace announced that Agenda Item 8-7 was deferred, the agreement with Moffatt & Nichol Engineers for Phase II final design of the Diamond Valley Recreation East Marina Program.

Director Coughran moved, seconded by Director Rez and carried, and the Board approved the Consent Calendar Items, **M.I. 45745** through **M.I. 45756**, as follows:

45745 Adopted the California Environmental Quality Act (CEQA) determination and awarded a procurement contract to Nissho Iwai American Corporation for \$861,055 for valves for the San Diego Pipeline No. 6 North Reach and Service Connection EM-21 projects, as set forth in the letter signed by the Chief Executive Officer on April 20, 2004.

45746 Adopted the CEQA determination and (a) appropriated \$525,000 in budgeted funds (Appropriation No. 15369, No. 9, from the Construction Funds); and (b) authorized the Weymouth Reliability Assessment and the La Verne Power System Upgrade Study, as set forth in the letter signed by the Chief Executive Officer on April 20, 2004.

45747 Adopted the CEQA determination and approved the proposed amendments to the employee deferred compensation plans and the Administrative Code, as set forth in the letter signed by the Chief Executive Officer on April 22, 2004.

45748 Adopted the CEQA determination and approved funding and contract extension for 3 years with WorkLife Benefits for Metropolitan's Rideshare Transit Program to comply with the IRS regulation under Section 132(f), as set forth in the letter signed by the Chief Executive Officer on April 14, 2004.

45749 Adopted the CEQA determination and **Resolution 8902** to impose and extend a Water Standby Charge for fiscal year 2004/05, as set forth in the letter signed by the Chief Executive Officer on April 22, 2004, 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 2004/05**

45750 Adopted the CEQA determination and approved the use of interest rate swap transactions in a total notional amount not to exceed \$300 million to enable Metropolitan to lower the cost of its debt service and reduce the variability of Metropolitan's net interest exposure, as set forth in the letter signed by the Chief Executive Officer on April 26, 2004.

45751 Adopted the CEQA determination and (a) appropriated \$11.5 million (Appropriation No. 15388, No. 3, from the Construction Funds); and (b) awarded a procurement contract for \$8.409 million to Ozonia North America to provide ozone equipment for the Robert A. Skinner Filtration Plant Oxidation Retrofit Program, as set forth in the letter signed by the Chief Executive Officer on April 20, 2004.

45752 Adopted the CEQA determination and (a) appropriated \$8.61 million (\$4.496 million from Appropriation No. 15410, No. 3, and \$4.114 million from Appropriation No. 15388, No. 4, all from the Construction Funds); and (b) awarded a construction contract in the amount of \$5.4481 million to ABHE & Svoboda, Inc. to perform all work as described in Specifications No. 1485A, Site Preparation for Robert A. Skinner Filtration Plant Expansion No. 4 and Oxidation Retrofit Program, as set forth in the letter signed by the Chief Executive Officer on April 22, 2004.

45753 Adopted the CEQA determination and the refined Bay-Delta finance and cost allocation policy principles for communication with the California Bay-Delta Authority and

interested parties, as set forth in the letter signed by the Chief Executive Officer on April 20, 2004.

45754 Adopted the CEQA determination and (a) authorized an increase of \$1.4 million in Appropriation No. 15400 and entering into contracts with four title companies; and (b) approved an initial annual payment of \$602 per non-irrigated acre and the other revisions to the contractual principles in the agreements related to the Palo Verde Irrigation District Land Management, Crop Rotation, and Water Supply Program, as set forth in the letter signed by the Chief Executive Officer on May 7, 2004.

Director Abdo requested to be recorded as abstaining.

45755 Adopted the CEQA determination and authorized amendment of expert witness contract with History Associates, Inc. in *Arizona v. California* to increase maximum amount by \$50,000, as set forth in the confidential letter signed by the General Counsel on April 27, 2004.

45756 Adopted the CEQA determination and authorized (1) partial settlement of the pending litigation in *Shank/Balfour Beatty, a Joint Venture, vs. Metropolitan Water District of Southern California*, LASC Case No. BC283438 (consolidated with BC283439); (2) amending contracts for legal services with Hunt, Ortmann, Blasco, Palffy & Rossell to increase compensation to a maximum of \$1.225 million, and forensic accounting with Tucker Alan, Inc./Navigant Consulting to increase compensation to a maximum of \$600,000; and (3) statutory settlement offer, as set forth in the confidential letter signed by Assistant General Counsel Bennion for the General Counsel on April 29, 2004.

Director Bakall requested to be recorded as voting no.

Directors Abdo and Parker requested to be recorded as abstaining.

45757 In response to a question of the design and building of the marina facilities, Director Bakall was informed a design-build approach would not be used since the Act precludes Metropolitan from having a design-build approach to implementation of projects. He, therefore, inquired whether the design-build approach would be used for the dam seepage

monitoring design and installation services. General Counsel Kightlinger replied that this would not be a design-build project, but only a procurement of services and equipment.

Director Edwards then moved, seconded by Director Morris and carried, and the Board adopted the CEQA determination and:

- (a) Appropriated \$1.86 million in budgeted funds (Appropriation No. 15419 from the Construction Funds) for:
 - (1) Initial phases of a seismic assessment study of Metropolitan's dams and related structures;
 - (2) Spillway capacity studies of Lake Mathews, Lake Skinner, Iron Mountain Reservoir, and Eagle Mountain Reservoir; and
- (b) Authorized a professional agreement with Roctest, Inc. in an amount not to exceed \$550,000 for design and installation of seepage monitoring systems, as set forth in the letter signed by the Chief Executive Officer on April 20, 2004.

45758 Following the discussion and close vote at the Communications, Outreach and Legislation Committee of Agenda Item 9-9, the adoption of a policy principle on private water utility access to state water bond funds, Director Edwards moved, seconded by Director Stanton and carried, that this item be tabled.

Director Coughran withdrew from the Meeting at 1:45 p.m.

45759 The following communications were submitted to the Board for information:

- a. Status report for the Inland Feeder Program for activities through March 2004, signed by the Chief Executive Officer on April 22, 2004.
- b. Renewal status of Metropolitan's Casualty and Property Insurance Program, signed by the Chief Executive Officer on April 22, 2004.
- c. Report on fiscal year 2003/04 Innovative Supply Program Grant Recipients, signed by the Chief Executive Officer on April 23, 2004.

- d. Report on selection of groundwater storage programs using remaining Proposition 13 funds, signed by the Chief Executive officer on April 20, 2004.
- e. Water Surplus and Drought Management Plan report on water supply and demand as of April 16, 2004, signed by the Chief Executive Officer on April 23, 2004.
- f. Presentation of the master plan for development of various properties east of Diamond Valley Lake, signed by the Chief Executive Officer on May 5, 2004.
- g. (No written report submitted on *Dewayne Cargill et al. v. Metropolitan*, LASC Case No. BC191881 (consolidated with LASC Case Nos. BC194444 and BS052318)).

Relating to the selection of groundwater storage programs using Proposition 13 funds, Director Dentler inquired as to why one of the projects that would have generated 15,000 acre-feet of water was not selected, and that the review committee's reasoning should have been reflected in the report submitted to the Directors. Chief Executive Officer Gastelum replied that the review committee did not recommend the San Pasqual Valley project and that only details were presented on the top three projects chosen. Water Resource Management Group Manager Arakawa further answered that the criteria were based on principles established by the Board in January 2000, and the top three projects chosen overall met the criteria better than the others. A key consideration was the ability for the project to be operational by the state deadline included in the conditions for Proposition 13 funding.

Director Brick requested that staff submit the overall storage capacity in these projects.

Director Hansen asked if funding from projects that were originally selected and then withdrawn would be available for reallocation. Chief Executive Officer Gastelum replied that monies may be available and given the time line, staff would return to the Board for further discussion.

Regarding the report on fiscal year 2003/04 Innovative Supply Program Grant Recipients, Director Peterson emphasized

that these projects should be brought back to the Board for consideration before any payments are made.

45760 Director Edwards requested that a report on the Ormond Beach and the Arroyo Seco properties be presented at the July meeting.

45761 There being no objection, Chairman Pace adjourned the Meeting at 1:59 p.m.

HELEN Z. HANSEN

SECRETARY

PHILLIP J. PACE

CHAIRMAN