

MINUTES
REGULAR MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
DECEMBER 14, 2004

46011 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, December 14, 2004.

Chairman Pace called the Meeting to order at 12:07 p.m.

46012 The Meeting was opened with an invocation by Director Isadore Hall III.

46013 The Pledge of Allegiance to the Flag was given, led by Councilman Robert Bagwell of the City of Montebello.

46014 Board Secretary Hansen called the roll. Those answering present were: Directors Abdo, Bakall, Bannister, Blake, Brick, Brown, Coughran, De Jesus, Dentler, Dick, Edwards, Farrar, Fellow, Foley, Grandsen, Hall, Hansen, Harris, Koopman, Kwan, Lewis, Loveland, Luddy, Morris, Murray, Mylne, Pace, Parker, Peterson, Pocklington, Record, Rez, Simonds, Tait, and Wright.

Those not answering were: Directors Apodaca and Veres (entered 12:20 p.m.).

Chairman Pace declared a quorum present.

46015 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction. No members of the public responded.

46016 There being no objection, Chairman Pace ordered the reading of the Minutes of the Meetings of November 9 and 23, 2004, dispensed with, copies having been mailed to each Director.

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

46017 Staff from the education section of the External Affairs Group introduced students from kindergarten to high school, whose artwork was featured on Metropolitan's 2005 "Water is Life" calendar.

46018 Chairman Pace presented to Director Emeritus Bonny L. Herman a Commendatory Resolution for her service on Metropolitan's Board from April 1995 to April 2004, representing the City of Los Angeles.

Director Veres took his seat at 12:20 p.m.

46019 Chairman Pace reported that on November 20, 2004, Metropolitan hosted the dedication of the Allan Preston Museum at Gene Village, and thanked Mr. Preston for all his efforts and work at Metropolitan. The Chair also acknowledged Metropolitan's Met Vets who assisted in the museum event. Certificates of Appreciation were given to retirees Darrell McBride, Gary Hazel, Don Sullivan, Ron Johnson, Robert Garcia, Mike Young, Edward Garcia, Jake Stanish, Sheila Landsman, and Don Grant. Mr. Young accepted the Certificates on behalf of the group.

The Chair presented Commendatory Resolutions to:

Director Emeritus Fred Lantz who is retiring after 17 years of service at Burbank Water and Power, and who served on Metropolitan's Board from January through March 1999, representing the City of Burbank.

Gerald Gewe, Assistant General Manager—Water at the Los Angeles Department of Water and Power, following a 38-year career with the City of Los Angeles.

David Furukawa, who is retiring after 30 years of service, with the last 19 years as Metropolitan's Controller.

Ronald R. Gastelum, Metropolitan's Chief Executive Officer, and who previously served on Metropolitan's Board from January through November 1998, and previously served as a member of the General Counsel's office and as Metropolitan's legislative advocate in Washington, D.C.

Director Lewis withdrew from the Meeting at 12:28 p.m.

46020 On behalf of the Nominating Committee, Director Record reported the committee met on September 7, 2004, to consider filling a position on the Inquiry and Review Committee; and after consideration for the position, the committee nominated Director David Farrar for the position on the Inquiry and Review Committee for the three-year term commencing January 1, 2005 and ending December 31, 2007.

Director Record then moved, seconded by Board Secretary Hansen and carried, that Director Farrar be elected for the position on the Inquiry and Review Committee for the three-year term commencing January 1, 2005 and ending December 31, 2007.

46021 Chairman Pace reported the Executive Committee had authorized the Chairman to put together a program for transition to a new Chief Executive Officer after Ronald R. Gastelum steps down on December 31, 2004. Executive Vice President Gilbert F. Ivey will be the Interim Chief Executive Officer, effective January 1, 2005. Mr. Gastelum will assist during the transition period as advisor to the Chief Executive Officer and the Board for a period of time, not to exceed six months, with the terms subject to approval of the General Counsel.

Vice Chairman Foley moved, seconded by Board Secretary Hansen and carried, approving the appointment of Gilbert F. Ivey to be the Interim Chief Executive Officer and Ronald R. Gastelum to be advisor to the Chief Executive Officer and the Board for up to six months.

46022 Communications, Outreach and Legislation Committee Chair Fellow reported the committee considered the Inspection Trip Program and, after hearing from members of the public, approved the continuation of the inspection trips. Chief Executive Officer Gastelum stated that this program has been a positive experience for Metropolitan, and one that has been reviewed continuously from the beginning. He continued that in moving forward, this experience has given Metropolitan the opportunity to hear from the public on how we can improve and continue to provide this program.

Director Blake moved, seconded by Director Edwards and carried, and the Board reaffirmed support for continuation of the Director-Sponsored Inspection Trip Program as set forth in the letter signed by the Chair of the Communications, Outreach and Legislation Committee on December 7, 2004.

46023 On behalf of the City of Los Angeles, Councilman Dennis Zine presented Commendatory Resolutions to Chief Executive Officer Ronald R. Gastelum and Chairman of the Board Phillip J. Pace for their efforts in water management for the Southern California region.

46024 Chairman Pace presented plaques of appreciation to Board Secretary Hansen and Director Luddy for their chairmanships on the Desalination Subcommittee and the Water Planning, Quality and Resources Committee, respectively.

46025 Chairman Pace thanked all the Directors at Metropolitan for giving him the privilege of serving the Board as Chairman for the past six years. He reviewed some of the major events that took place during his tenure: the completion of Diamond Valley Lake, innovative dry-year storage programs, added conservation, environmental protections for the source of water, the Quantification Settlement Agreement on the Colorado River, a CALFED bill passed by the U.S. Congress, the Inland Feeder Program, a strategic plan on rate structure, the Integrated Resources Plan, and developments at Diamond Valley Lake to include The Center for Water Education.

Executive Vice President Ivey thanked the co-sponsors of last night's holiday event: David Argo, Black & Veatch; Russ Behrens, McCormick, Kidman & Behrens; Ed Casey, Weston Benshoof; Steve Friessen, Boyle Engineering; Kevin Hunt, Municipal Water

District of Orange County; Paula Jones, Irvine Ranch Water District; Jerry King, EMA, Inc.; Mike Rudinica, Robert Bein, William Frost & Associates; Bob Siemak, Parsons; John Thornton, Psomas; and Bob Apodaca, Central Basin Municipal Water District.

46026 Regarding Colorado River, Bay-Delta, and CALFED matters, Chief Executive Officer Gastelum referred to his activity report for November dated December 7, 2004, which was distributed earlier.

Chief Executive Officer Gastelum reported that more supplies have been made available to Metropolitan from the Colorado River than was projected earlier in the year, and that eight pumps were being pumped right now with full pumping to continue through the end of the year.

46027 Regarding Legal Department activities, General Counsel Kightlinger referred to his activity report for November dated December 7, 2004, which was distributed earlier.

General Counsel Kightlinger reported that of significant importance to Metropolitan are two cases that the Legal Department will be taking note of during the coming year: *Central Delta Water Agency, et al. v. State Water Resources Control Board* and the PG&E Potter Valley Project - 60-day Notice of Intent to Sue.

46028 General Auditor Riss presented a summary report of the Audit Department's activities for the month of November. He began by noting that two audit reports were issued during the month. Specifically, he noted the Official Statement for the Water Revenue Bonds, 2003 Series B-3 and B-4, and the Official Statement for the Water Revenue Refunding Bonds, 2004 Series C.

Mr. Riss then conducted a brief discussion of these reports. He noted that these reviews of the Official Statements for the above-named Bonds were undertaken to provide the underwriters of the Bonds "comfort" that the Official Statements for the Bonds are complete, consistent with supporting financial records and accurate in all material respects.

In addition, Mr. Riss stated that the Audit Department has been assisting in putting together the 180-day response to the state audit, which will be filed toward the end of the year.

46029 Ethics Officer Elliott referred to her activity report for November dated November 29, 2004, which was distributed earlier. She reported that the Inquiry and Review Committee was conducting a formal review of allegations of impropriety in the award and administration of a contract to Securitas, the company that provides security to Metropolitan's facilities. The committee determined that the scope of the review was twofold: the use of Metropolitan's property by the contractor, which will be investigated by an internal audit to be completed within 30 days; and the next being questions of irregularities in the award of the contract to Securitas, which will be investigated by an external investigator. The committee will meet on January 25, 2005 to review the process of the investigation.

Dr. Elliott reminded the Directors of the upcoming presentation on disclosure and Form 700 on January 25 by Attorney Steven Churchwell, external counsel to Metropolitan, and formerly General Counsel to the Fair Political Practices Commission. She urged the Board and designated employees to attend the meeting.

46030 Chief Executive Officer Gastelum commented on the report dated December 14, 2004, distributed to the Board regarding the Award for Excellence for fiscal year 2003/04. This program awards employees for exemplary performance.

Mr. Gastelum also reported on the Prism awards received by the External Affairs Group for its internal and external programs during fiscal year 2003/04. He stated that the External Affairs Group competed against the largest national and international public relations agencies and against major corporations such as Toyota, Boeing, and McDonalds. Chief Executive Officer Gastelum recognized those employees from the External Affairs Group who participated in this award program.

46031 The reports of the Standing Committees are as follows:

Chairman Pace reported the Executive Committee, at its meeting of November 23, discussed and approved the proposed items for December's Board and committee agenda items. The committee was informed there will be a name change regarding the use of the word "filtration" at the various filtration plants to keep in line with the use of the correct name and regulations with today's technology. The new name will reference

"treatment" plant. The committee heard reports on activities of the Audit Subcommittee and the Colorado River Board. An update was given on the status of the search for the Chief Executive Officer. The committee approved the nomination of Executive Vice President Gilbert F. Ivey for the position of Interim Chief Executive Officer while the search and hiring of a Chief Executive Officer takes place.

Asset, Real Estate and Infrastructure Policy Committee Chairman Record reported the committee received updates on the status of real estate activities and on actions taken at the Diamond Valley Lake and Lake Skinner Oversight Subcommittee meeting of November 23, 2004.

Budget, Finance and Investment Committee Chairman Mylne reported the committee unanimously approved Agenda Item 8-3 with the stipulation that capitalization criteria for investment banking team members be reviewed at the January committee meeting. The committee also unanimously approved Agenda Item 9-3 and Committee Chair Mylne requested it be moved to the Consent Calendar.

Communications, Outreach and Legislation Committee Chairman Fellow reported the committee heard reports on the annual exhibit for the "Water is Life" art contest; the upcoming event on December 17 saluting Senator Diane Feinstein for her work on CALFED; the restructuring of the Community Partnering Program for fiscal year 2005/06; the special "Straight from the Tap" episode on "A California Friendly Garden Makeover"; and the current activities from both Washington, D.C. and Sacramento.

Engineering and Operations Committee Chairman Wright reported the committee approved Agenda Items 8-1, 8-2, 9-1, and 9-2, and requested Items 9-1 and 9-2 be added to the Consent Calendar. The committee deferred Agenda Item 9-10 to the full Board for consideration. The committee heard oral reports on the Inland Feeder Program and the system operations and accomplishments for the year 2004. A year-end video on the accomplishments made by Engineering in the year 2004 was shown.

Legal, Claims and Personnel Committee Chairman De Jesus reported that the committee approved Agenda Items 8-4, 8-5, 9-6, and 9-7 and requested that Items 9-6 and 9-7 be placed on the Consent Calendar. In closed session, the committee heard

a report on potential claims and the status of the Arrowhead Tunnels construction of the Inland Feeder Program. The committee tabled the report on *Arizona v. California* to the next month's meeting. The committee also heard a report on Proposition 59, approved by the voters in November, regarding constitutional changes to the Public Records Act.

Water Planning, Quality and Resources Committee Chairman Luddy reported the committee held a public hearing on key accomplishments and information contained in Metropolitan's annual water management progress report to the Legislature. The committee discussed CALFED ten-year funding targets. The committee approved a modified Option #1 in Agenda Item 9-4, deferring the effective date until April 15, 2005, to permit additional recommendations and study of a dedicated Water Stewardship Fund. In closed session, the committee heard Agenda Item 9-5, the settlement agreement related to the Department of Water Resources' application for a new FERC license for the Oroville Facilities. In open session the committee approved it, and Committee Chairman Luddy requested Item 9-5 be placed on the Consent Calendar.

Director Blake moved, seconded by Director Coughran and carried, and the Board approved the Consent Calendar Items, **M.I. 46032** through **M.I. 46042**, as follows:

46032 Adopted the California Environmental Quality Act (CEQA) determination and (a) appropriated \$720,000 in budgeted funds (Appropriation No. 15371, No. 7, from the Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) awarded a construction contract for \$546,275 to Best roofing & Waterproofing, Inc. to perform leak repairs at Jensen Basin No. 3, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

46033 Adopted the CEQA determination and (a) appropriated \$1.42 million in budgeted funds (Appropriation No. 15415, No. 2, from Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) authorized final design of roofs for tank farms at the Jensen, Weymouth, and Mills treatment plants, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

Director Morris requested to be recorded as abstaining due to a potential perception of a conflict of interest as his son works with Montgomery Watson Harza Americas.

46034 Adopted the CEQA determination and amended the recommendation set forth in the letter signed by the Chief Executive Officer on October 19, 2004, and approved selection of Metropolitan's investment banking team to provide services associated with the future issuance of Metropolitan debt, with the stipulation that capitalization criteria for investment banking team members be reviewed at the January committee meeting.

46035 Adopted the CEQA determination and approved the amendment to Administrative Code Section 7304 set forth in Attachment 1 to the letter jointly signed by the Ethics Officer and the General Counsel on November 19, 2004, regarding Conflicts of Interest.

46036 Adopted the CEQA determination and approved the proposed amendments to Administrative Code Sections 1106 and 6225 as set forth in Attachment 1 to the letter signed by the General Counsel on November 22, 2004, regarding Holidays, effective January 1, 2005.

46037 Adopted the CEQA determination and authorized entering into an agreement with MARRS Services, Inc. in an amount not to exceed \$3.6 million for construction inspection and support services for Colorado River Aqueduct-related projects, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

46038 Adopted the CEQA determination and authorized an amendment for an increase from \$3 million to \$5 million to 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 \$5 million, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

46039 Adopted the CEQA determination and approved payments up to a total of \$504 million for calendar year 2005 charges for State Water Project and Devil Canyon/Castaic contracts, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

46040 Adopted the CEQA determination and authorized execution of a settlement agreement and supplemental benefits fund agreement related to license conditions to be included in the Department of Water Resources' application to the Federal Energy Regulatory Commission for a new license under the Federal Power Act for the State Water Project's Oroville Facilities, as set forth in the confidential letter signed by the Chief Executive Officer on December 2, 2004.

46041 Adopted the CEQA determination and authorized increase by \$100,000 of maximum payable amount under contract with Bingham McCutchen LLP to defend Metropolitan in the appeal of *Louis H. Cardenas, et al. v. Metropolitan*, as set forth in the confidential letter signed by the General Counsel on November 22, 2004.

46042 Adopted the CEQA determination and authorized increase of \$750,000 in maximum amount payable under contract with Bergman & Dacey to defend Metropolitan in related lawsuits challenging the employment status of temporary workers in *Dewayne Cargill, et al. v. Metropolitan*, LASC Case No. BC 191881 (consolidated with LASC Case Nos. BC 194444 and BS 052318), as set forth in the confidential letter signed by the General Counsel on December 7, 2004.

Director Dentler requested to be recorded as abstaining due to a conflict of interest, as her husband represents one of the parties to this action.

46043 Regarding the potential claims and status of Arrowhead Tunnels construction of the Inland Feeder Program, no action was taken.

46044 Regarding *Arizona v. California*, United States Supreme Court, this item was tabled to the next month's meeting.

46045 Regarding inclusion of rate structure integrity language in future water management program incentive agreements, Director Loveland stated that there was the opportunity to develop a consensus-based solution to this item, and that the General Managers of the member agencies that submitted a proposal to Metropolitan's Chief Executive Officer, at his request, have indicated they could complete that effort by March 2005. Director Loveland requested that the Board give the member agency managers the extra time to bring their recommendation back to the Board. Director Loveland then moved Option No. 3 in Board Letter 9-4 signed by the Chief Executive Officer on December 2, 2004, to defer action until the member agency proposal on rate structure integrity language is completed in March 2005.

Water Planning, Quality and Resources Committee Chairman Luddy reported the committee had approved Option No. 1 in the board letter with amendments to include the extension to April 15 for the member agency managers to develop their recommendation, which would be taken up at the committee meeting on March 15, 2005. Director Luddy therefore stated that the action of the committee should move forward, and then moved Option No. 1 in the aforementioned letter, as amended, as follows:

Adopt the CEQA determination and authorize inclusion of rate structure integrity language, as specified in Attachment 1 to the board letter, in all future Local Resources, Seawater Desalination and Conservation programs, and in all existing Local Resources Program agreements that were approved subject to negotiating the rate structure integrity language; and

- That the effective date of Option 1 be April 15, 2005 to provide an opportunity to the Board for consideration;
- That member agency managers be invited to make further recommendations to the Board on the approved rate structure integrity language at the March 15, 2005 Water Planning, Quality and Resources Committee meeting; and
- That staff be directed to report to the Board on the feasibility of establishing a dedicated Water Stewardship Fund as part of the 2005/06 budget.

Following a discussion on rate stability, the differences in the options, and definitive dates, Director Loveland again moved, seconded by Director Koopman, to defer action until the member agency proposal on rate structure integrity language is completed on April 15, 2005.

Following further discussion on conservation, recovery of groundwater basins, recycling of wastewater, and not delaying the program, Director Luddy moved a substitute motion for Option No. 1 in Board Letter 9-4, as amended by the committee, and set forth above. Director Murray seconded the substitute motion.

The Chair called for a vote on the substitute motion.

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

Ayes: Burbank (Dir. Brown, 1,287 votes), Calleguas Municipal Water District (Dir. Grandsen, 5,928 votes), Central Basin Municipal Water District (Aye: Dir. Pace. Absent: Dir. Apodaca. 8,128 votes), Compton (Dir. Hall, 230 votes), Fullerton (Dir. Blake, 1,090 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,378 votes), Long Beach (Dir. Hansen, 2,669 votes), Los Angeles (Dirs. Dentler, Farrar, Luddy, and Simonds, 28,088 votes), Municipal Water District of Orange County (Dirs. Bakall, Dick, and Foley, 18,844.50 votes), Pasadena (Dir. Brick, 1,381 votes), San Fernando (Dir. Veres, 109 votes), Santa Ana (Dir. Coughran, 1,574 votes), Santa Monica (Dir. Abdo, 1,648 votes), Three Valleys Municipal Water District (Dir. De Jesus, 3,706 votes), Torrance (Dir. Wright, 1,652 votes), West Basin Municipal Water District (Dir. Murray, 4,887.50 votes). Total 82,600 votes.

Noes: Anaheim (Dir. Tait, 2,622 votes), Eastern Municipal Water District (Dir. Record, 3,570 votes), Foothill Municipal Water District (Dir. Edwards, 921 votes), Glendale (Dir. Rez, 1,626 votes), Inland Empire Utilities Agency (Dir. Koopman, 5,379 votes), San Diego County Water Authority (Noes: Dirs. Loveland, Parker, and Pocklington. Absent: Dir. Lewis. 26,222 votes), San Marino (Dir. Morris, 304 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow, 5,256 votes), West Basin Municipal Water District (Dir. Kwan, 4,887.50 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 5,043 votes). Total 63,519 votes.

Abstain: None.

Absent: None.

The Chair declared the substitute carried by a vote of 82,600 ayes and 63,519 noes.

46046 At 1:49 p.m., the Chairman called the Meeting into closed session pursuant to Government Code Section 54956.9(b) to consider potential claims on Contract No. 1542 for the Arrowhead Tunnels of the Inland Feeder Program.

At 2:07 p.m., the Chair called the Meeting into open session. Chairman Pace reported that the Board directed staff to continue with negotiations.

Directors Hall and Record withdrew from the Meeting at 2:14 p.m.

Director Simonds withdrew from the Meeting at 2:21 p.m.

46047 Chief Executive Officer Gastelum reported that Item 9-10 was an important part of the San Diego Pipeline No. 6 project and two bids were received. Since there were some questions regarding the bids, staff waited for some time to bring this item to the Board. The questions have now been resolved and staff was now requesting that the Board go forward with awarding the contract to the winning bidder.

There was discussion regarding the winning bidder and other work that the contractor has done for the District, and whether this item has to go forward at this time. Director Bakall moved, seconded by Director Peterson, that this item be tabled. The motion to table did not carry.

Director Bannister then moved, seconded by Director Murray and carried, and the Board adopted the CEQA determination and (a) appropriated \$65.8 million (Appropriation No. 15121, No. 11, from Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) awarded a contract to J. F. Shea Construction, Inc. for \$65.806 million for construction of the North Reach of San Diego Pipeline No. 6, as set forth in the

letter signed by the Chief Executive Officer on December 7, 2004.

Directors Bakall and Coughran requested to be recorded as voting no.

46048 The following communications were submitted to the Board for information:

- a. Proposed Water Management Pilot Project with Lower Tule River Irrigation District, signed by the Chief Executive Officer on November 19, 2004.
- b. Restructuring of the Community Partnering Program for fiscal year 2005/2006, signed by the Chief Executive Officer on November 24, 2004.

46049 There being no objection, Chairman Pace adjourned the Meeting at 2:28 p.m. in memory of the late Director and Chairman of the Board E. Thornton Ibbetson.

HELEN Z. HANSEN
SECRETARY

PHILLIP J. PACE
CHAIRMAN