

MINUTES

REGULAR MEETING OF THE

BOARD OF DIRECTORS

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

JULY 12, 2011

48716 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, July 12, 2011.

Chairman Foley called the Meeting to order at 12:02 p.m.

48717 The Meeting was opened with an invocation by Angela Wright, Senior Real Estate Representative, Real Property Development and Management Group.

48718 The Pledge of Allegiance to the Flag was given by Director James L. Bowersox.

48719 Board Secretary Morris called the roll. Those answering present were: Directors Abdo, Ackerman, Ballin, Barbre, Blake, Bowersox, Brick, Brown, Camacho, De Jesus, Dick, Edwards, Evans, Fleming, Foley, Friedman, Grandsen, Gray, Griset, Grunfeld, Hawkins, Lewinger, Little, Montalvo, Morris, J. Murray, Peterson, Record, Sanchez, Wright, and Wunderlich.

Those not answering were: Directors Fellow, Heidel, Lowenthal, K. Murray, Quiñonez (entered 12:16 p.m.), and Steiner.

Chairman Foley declared a quorum present.

48720 Chairman Foley invited members of the public to address the Board on matters within the Board's jurisdiction.

Dennis M. Moser of Peaceful Valley Ranch requested to speak on Agenda Item 8-1, the annexation of Peaceful Valley Ranch to San Diego County Water Authority, when the item comes up for discussion.

Chairman Foley and General Manager Kightlinger recognized and thanked the Diamond Valley Lake (DVL) docents, some of whom have been with the program since the early construction of DVL in 1995.

Director Quiñonez took his seat at 12:16 p.m.

48721 At 12:20 p.m., Chairman Foley called a public hearing to receive comments on the proposed standby charge for Calleguas Annexation No. 95 to Calleguas Municipal Water District.

No members of the public responded; and with no majority protests received from the owners, the Chair closed the public hearing at 12:21 p.m.

48722 There being no objection, Chairman Foley ordered the reading of the Minutes of the Meeting of June 14, 2011, dispensed with, a copy having been mailed to each Director.

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

48723 A written report of meetings attended by Directors at Metropolitan expense during the month of June was distributed, which was received and filed.

48724 Director Peterson moved, seconded by Director Wright and carried, approving a 30-day leave of absence for Chairman John Foley, effective July 23, 2011.

48725 Director Blake moved, seconded by Director Grunfeld and carried, adjourning the August Board Meeting to August 16, 2011, to establish the tax rate. (Committees will meet on Monday and Tuesday, August 15 and 16, 2011.)

48726 Chairman Foley established a Blue Ribbon Review Committee to review the report and recommendations submitted by the Blue Ribbon Committee headed by former Director Robert Simonds.

Director Grunfeld moved, seconded by Vice Chairman Record and carried, that the Board approve the following members to the Blue Ribbon Review Committee as recommended by Chairman Foley:

John Murray, Chair
Robert Wunderlich, Vice Chair
James Blake
James Bowersox
Timothy Brick
Ted Grandsen
Daniel Griset
Edward Little
Glen Peterson

48727 Chairman Foley reported on events in which he participated, as follows:

- June 15 - Attended the Southern California Leadership Council meeting and lunch in Los Angeles
- June 21-22 - Participated in Sacramento Days with some Directors and staff to meet with legislators

48728 Regarding matters relating to Metropolitan's operations and activities, General Manager Kightlinger referred to the activity report for June dated June 30, 2011, which was posted to the Directors' website.

General Manager Kightlinger stated that Matt Rodriguez of the Attorney General's office has been appointed Secretary of the California Environmental Protection Agency (CalEPA). CalEPA is one of the agencies that Metropolitan works with rather closely on a number of issues.

48729 Regarding Legal Department activities, Interim General Counsel Scully referred to the General Counsel's activity report for June dated July 6, 2011, which was posted to the Directors' website.

Interim General Counsel Scully had nothing further to report.

48730 General Auditor Riss referred to the Audit Department's activity report for the month of June, dated June 30, 2011, which was posted to the Directors' website.

General Auditor Riss stated that two audit reports were issued, with opinions of generally satisfactory internal control structure. In addition, there were comments that management responded to by modifying some of their procedures.

General Auditor Riss reported that review was also completed on the Official Statement for the Water Revenue Refunding Bonds, 2011 Authorization, Series B, in accordance with specified procedures by the underwriters and letters were issued to the underwriters describing the procedures to the results obtained.

48731 Ethics Officer Elliott referred to the activity report for June dated June 30, 2011, which was posted to the Directors' website.

Ethics Officer Elliott reported that the Ethics Office has been involved in the development of the online AB 1234 course and the audio is now complete. Dr. Elliott stated that the transcripts are being vetted by the Legal Department and that they should be online and on iPads by fall.

48732 General Manager Kightlinger reported on his Business Plan for fiscal year 2011/12 and the new format used to streamline it to focus on strategic priorities and core business objectives and to receive the Board's input on the priorities. Mr. Kightlinger stated that the number one priority is the managing of finances and the budget. A critical issue is also the completion of the Long Range Finance Plan which will address a number of issues and the goal is to have it completed and brought to the Board with recommendations in July.

General Manager Kightlinger commented on the second priority to rebuild water storage accounts, and the third

priority to continue progress on the Bay Delta Conservation Plan. On the second priority, Mr. Kightlinger reported that over the last three years, replenishment of storage had dropped down severely and that staff is now extremely focused on making sure the system works and operates to collect as much water to put into storage. On the third priority, Mr. Kightlinger mentioned that Metropolitan will continue progress on the Bay-Delta with staff providing leadership in this process to restore the reliability of the State Water Project.

Director Lewinger referred to the letter from the San Diego County Water Authority delegates dated July 12, 2011,, signed by Keith Lewinger, addressed to General Manager Jeff Kightlinger, regarding the General Manager's Business Plan for fiscal year 2011/12, and asked the General Manager if he would include the Authority's objectives in the Plan. The objectives related to financial management, performance measures, and water supply as stated in the letter.

General Manager Kightlinger replied that the Authority's objectives were specific policy directives, and he would prefer to take them to the full Board for discussion and direction.

Director Record moved, seconded by Director Hawkins and carried, that the Board adopt the CEQA determination and approve the General Manager's Business Plan for fiscal year 2011/12, as set forth in the letter signed by the General Manager on June 21, 2011.

Directors Bowersox and Lewinger requested to be recorded as voting no.

On behalf of the San Diego County Water Authority's delegates, Director Lewinger asked that the letter be made a part of the record.

Director Blake moved, seconded by Director Evans and carried, and the Board approved the Consent Calendar Items, **M.I. 48733** through **M.I. 48735**, as follows:

48733 Adopted the California Environmental Quality Act (CEQA) determinations and (a) appropriated \$930,000 (Appropriation No. 15442, No. 7, from the Revenue Bonds, Replacement and Refurbishment or General Funds); and authorized (b) final design of the Jensen Service Water Pump Replacement

project; (c) preliminary design to refurbish Jensen Modules Nos. 2 and 3 flocculators; and (d) construction of the Jensen Basin Launder Gate Improvements, as set forth in the letter signed by the General Manager on June 23, 2011.

48734 Adopted the CEQA determination and (a) appropriated \$130,000 (Appropriation No. 15441, No. 34, from the Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) authorized preliminary design to replace the standby generators at Temescal and Corona Power Plants, as set forth in the letter signed by the General Manager on June 23, 2011.

48735 Adopted the CEQA determination and (a) appropriated \$170,000 (Appropriation No. 15376, No. 14, from the Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) authorized final design to replace the data center Uninterruptible Power Supply system at Metropolitan's Headquarters Building, as set forth in the letter signed by the General Manager on June 23, 2011.

48736 Finance and Insurance Committee Chairman Grunfeld moved, seconded by Committee Vice Chairman Blake and carried, that the Board adopt the CEQA determination and (a) grant conditional approval for Peaceful Valley Ranch Annexation to San Diego County Water Authority (SDCWA) and to Metropolitan, conditioned upon finding that Metropolitan's interests will not be adversely affected by the existence of a window in Metropolitan's service area and establishing Metropolitan's terms and conditions for the annexation; (b) approve SDCWA's Statement of Compliance with the current Water Use Efficiency Guidelines; and (c) adopt **Resolution 9124**, the resolution of intention to impose water standby charge within the proposed annexation territory, substantially in the form of Attachment 4 to the board letter, as set forth in the letter signed by the General Manager on June 23, 2011, said resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA GIVING NOTICE OF INTENTION TO IMPOSE WATER STANDBY CHARGES CONTINGENT UPON ANNEXATION—PEACEFUL VALLEY RANCH ANNEXATION, SAN DIEGO COUNTY WATER AUTHORITY

Due to the approval of the above annexation, Dennis M. Moser of Peaceful Valley Ranch stated that he had no comments.

48737 Water Planning and Stewardship Committee Chairman De Jesus moved, seconded by Committee Vice Chairman Wright, that the Board adopt the CEQA determination and authorize the General Manager to make a payment of \$537,728 to the Six Agency Committee and the Colorado River Authority of California for fiscal year 2011/12, as set forth in the letter signed by the General Manager on June 23, 2011.

Chairman Foley called for a vote on the motion which required a two-thirds vote. The motion carried by the unanimous vote of those present.

48738 Water Planning and Stewardship Committee Chairman De Jesus moved, seconded by Director Griset and carried, that the Board adopt the CEQA determination and authorize the General Manager to execute agreements with the Mojave Water Agency and the Department of Water Resources, as appropriate, for the storage of Metropolitan's State Water Project supplies consistent with the terms described in the letter signed by the General Manager on June 23, 2011, and Attachment 1 thereto.

48739 The following communications were submitted to the Board for information:

- a. Draft policy principles for Metropolitan's assets, signed by the General Manager on June 22, 2011.
- b. Update on Water Supply Allocation Plan Three-Year Review Process, signed by the General Manager on June 23, 2011.
- c. Review of in-region contractual groundwater storage programs, signed by the General Manager on June 29, 2011.

48740 Director Grunfeld commented on the passing of Maria DeBacker, wife of Interim Chief Financial Officer Tom DeBacker.

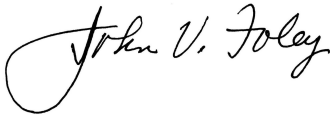
Director Brick commented on the passing of Catherine Mulholland, the granddaughter of William Mulholland, who brought Owens Valley water to Los Angeles. Ms. Mulholland was well known to the Los Angeles Department of Water and Power family through participation in events that celebrated her legendary grandfather.

Organization and Personnel Committee Chairman J. Murray stated there was a 65 percent response from the Directors regarding the performance evaluation of the direct reports, and that this matter will be brought back at the September meeting.

48741 At 12:40 p.m., there being no objection, the Chairman adjourned the Meeting in memory of both Maria DeBacker and Catherine Mulholland.



JOHN T. MORRIS
SECRETARY



JOHN V. FOLEY
CHAIRMAN



San Diego County Water Authority

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MEMBER AGENCIES

July 12, 2011

Carlsbad
Municipal Water District

City of Del Mar

City of Escondido

City of National City

City of Oceanside

City of Poway

City of San Diego

Fallbrook
Public Utility District

Helix Water District

Lakeside Water District

Olivenhain
Municipal Water District

Otay Water District

Padre Dam
Municipal Water District

Camp Pendleton
Marine Corps Base

Rainbow
Municipal Water District

Ramona
Municipal Water District

Rincon del Diablo
Municipal Water District

San Dieguito Water District

Santa Fe Irrigation District

South Bay Irrigation District

Vallacitos Water District

Valley Center
Municipal Water District

Vista Irrigation District

Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Jeff Kightlinger, General Manager
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Item 6E – General Manager’s Business Plan for fiscal year 2011/12

Dear Mr. Kightlinger,

We wanted to provide you with our requests and recommendations to modify your Business Plan for the current fiscal year in order to address what we believe are the main challenges confronting MWD in the current fiscal year and in the future. While some of these objectives are broadly suggested in Board Memo 6E, we believe that further clarification in key areas would be useful to establishing performance measures.

The single greatest concern is that, with improved water supply conditions throughout the region, MWD water sales and revenue will continue to trend substantially below budget projections. The adopted budget for FY 2011/12 is based on 2 million acre feet (maf) of MWD water sales.¹ Although the staff presented to the board last April, potential cost-saving measures to respond to full service water sales as low as 1.8 maf, MWD’s *actual sales* last year were only 1.6 maf.² Given recent sales trends, full service water sales may not trend up to 1.8 maf in the current fiscal year; the time to address that real possibility is now, not at the end of the fiscal year. The general manager should work with the board of directors to identify and implement additional cost-cutting measures as soon as possible.³

Per our prior discussion, we request that the following amendments be made to the General Manager’s Business Plan for FY 2011/12.

1. Add the following objectives to financial management:

- Manage expenditures so that the FY 2011/12 budget is balanced without further reliance

¹ MWD reports its transportation of the Water Authority’s water under the Exchange Agreement as a “sale” by MWD. We believe this practice is confusing at best and that MWD should change its reporting practices to make clear – as it does in portions of its Official Statement – that MWD is actually delivering water owned by the Water Authority

² The 1.6 maf in sales included about 160 taf of Exchange Water owned by the Water Authority. While the recent sale of discounted water by MWD may cause the “sales” number to rise this year, the revenues to MWD resulting from the sale of discounted water cannot match budget projections that assumed sales at the full service rates.

³ MWD must also budget for the reality that the sale of discounted water will also reduce full service sales and revenues in future years.

A public agency providing a safe and reliable water supply to the San Diego region

Mr. Kightlinger

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on one-time revenues, such as sale of assets, or special funds such as OPEB or PAYGO.

- Develop a Long Range Finance Plan that: 1) is consistent with 2010 IRP, 2010 UWMP, and annual water resource management program implementation; 2) includes cost management measures that result in reasonable and predicable rate increases; 3) does not depend on one-time revenues, such as sale of assets; and 4) limits expenditures from special funds such as OPEB or PAYGO to designated purposes only.
- Secure board approval of firm “take-or-pay” contracts for purchase of water commencing January 1, 2013 so that firm revenues are assured to better match MWD’s fixed costs.
- Develop an appropriate reserve fund to provide funding to pay for storage of water when it is available in wet years.

2. Add the following performance measures to financial management:

- Preserve credit ratings.

3. Add the following objectives to water supply:

- Implement water resources programs in a manner that is consistent with: 1) both sales projections and member agency demand projections as shown in MWD documentations and member agency adopted Urban Water Management Plans, and 2) realistic budget projection and Long Range Finance Plan.

We believe these objectives and performance measures are important to MWD’s long-term fiscal sustainability and would appreciate your consideration in adding them to your Business Plan.

Finally, while we believe it is important to receive comments from the member agency managers, we believe that Metropolitan’s board of directors must be directly involved in the development and implementation of the Long Range Finance Plan. We have requested that the Chairman establish a board process as soon as possible.

Sincerely,



Keith Lewinger

For San Diego County Water Authority Delegates

cc: Fern Steiner
Lynn Heidel
Jim Bowersox
MWD Board Chairman Jack Foley