

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

FINANCE AND INSURANCE COMMITTEE

October 10, 2011

Chair Grunfeld called the meeting to order at 9:00 a.m. in Committee Room 2-145 at Metropolitan's Headquarters.

Members present: Chair Grunfeld, Vice Chair Blake, Directors Barbre, Evans, De Jesus, Grandsen, Hawkins, Heidel, Lewinger, Little, and Wunderlich.

Other Board Members present: Directors Ackerman, Brick, Brown, Dick, Edwards, Fleming, Morris, J. Murray, Peterson, Record, Steiner, and Wright.

Staff present: Bennion, Breaux, Brooks, DeBacker, Dunn, Goldstein, J. Gonzales, J. Green, Kightlinger, Man, Mares, Marumoto, Neal, Norris, Odwak, Patterson, Philp, B. Robertson, Scully, Skillman, Soper, Sotoodeh, Upadhyay, Waade, and E. Young.

1. OPPORTUNITIES FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

None

2. APPROVAL OF THE MINUTES OF THE MEETING OF THE FINANCE AND INSURANCE COMMITTEE HELD SEPTEMBER 12, 2011

Approved

Moved: Hawkins

Seconded: Little

Chairman Grunfeld welcomed and introduced Metropolitan's new Chief Financial Officer Gary Breaux.

3. MANAGEMENT REPORTS

a. Subject: Report of investment activity

Presented by: Treasurer Roger Marumoto

Mr. Marumoto highlighted the monthly treasurer's report, indicating that for the first time during the month of September, Metropolitan has been required to post collateral with JPMorgan pursuant to various swap agreements. However, as of month end, there was no collateral posted with JPMorgan. In addition, now included in attachment 2a of the Treasurer's report are positions that Metropolitan holds on medium-term notes issued by Bank of America and Merrill Lynch Corporation following their downgrade by Moody's.

Mr. Marumoto provided an update on Lehman corporate bonds. The bankruptcy court made a decision to adopt a particular payment plan and is allowing the bondholders time to review the plan. The payout will be approximately 21 percent. The voting by the bondholders will take place in November. Updates will be provided to the committee as additional information is received.

Mr. Marumoto discussed the investment portfolio for the month of September, summarizing the investment income, portfolio durations, and investment performance of the short-term portfolios and long-term portfolios.

The breakdown of the various categories of securities is provided each month in the Treasurer's Monthly Report.

b. Subject: Financial Highlights

Presented by: Chief Financial Officer Gary Breaux and Controller
Tom DeBacker

The September 30 swap report was distributed to the committee. Mr. Breaux reported that the mark-to-market is about \$206 million negative, due to lower interest rates. Metropolitan increased the collateral posting with Morgan Stanley to \$25.7 million.

Mr. Breaux reported that on September 14, Metropolitan priced \$157.1 million of water revenue refunding bonds, with an all-in true interest cost of 3.15 percent. Savings are estimated to be about \$740,000 per year on average, or \$19.3 million over the life of the bonds, which is \$11.8 million on a net present value basis.

Mr. DeBacker presented the preliminary financial summary for the first three months of fiscal year 2011/12, which ended September 30, 2011. He discussed the projected fiscal year 2011/12 receipts, expenditures, and use of reserve funds. He also provided cumulative water sales volume data, financial ratios, and cash and investments balances as of September 30, 2011.

4. CONSENT CALENDAR – ACTION

None

5. OTHER BOARD ITEMS – ACTION

None

6. BOARD INFORMATION ITEMS

None

7. COMMITTEE ITEMS

- a. Subject: Update on the Long Range Finance Plan
 Presented by: Unit Manager June Skillman

Ms. Skillman gave an overview of the activities of the Rate Refinement Work Group. She discussed the activities to date, and discussed a categorized list of issues which had been previously provided to the Board. She also discussed background information that had been provided to the Rate Refinement Work Group covering Metropolitan's cost and revenue structure, and how Metropolitan's volumetric revenue structure and sales variability contribute to revenue stability issues. This issue is not unique to Metropolitan and is being experienced by water utilities across the country. The benefits of increased fixed charges to Metropolitan were discussed, as was the reaction of member agencies to increased fixed charges. Finally, the next steps for the Rate Refinement Work Group were presented.

8. FOLLOW UP ITEMS

None

9. FUTURE AGENDA ITEMS

None

The next meeting will be held on November 7, 2011.

The meeting adjourned at 10:00 a.m.

Aaron Grunfeld
Chair