

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

**EXECUTIVE COMMITTEE
and
JOINT MEETING OF THE EXECUTIVE COMMITTEE
and AUDIT AND ETHICS COMMITTEE**

February 28, 2012

Chair Foley called the meeting of the Executive Committee to order at 10:05 a.m. in the Board Room at Metropolitan's Headquarters.

Executive Committee Members present: Chair Foley, Vice Chairs Gray De Jesus and Murray, Secretary Morris, Directors Brick, Evans, Griset, Grunfeld and Wunderlich.

Executive Committee members absent: Vice Chairs Record and Murray, Directors Lewinger and Ackerman.

Audit and Ethics Committee members present: Vice Chair Quiñonez, Directors Blake, Dick, Edwards, Grandsen, Wright and Wunderlich.

Audit and Ethics Committee Members absent: Chair Friedman, Directors Ballin and Barbre.

Other Directors present: Directors Brown, Hawkins, Little, Millard, Peterson, Steiner and Wilson.

Staff present: Acuna, Ardalan, Bennion, Breaux, Chin, L. Carrillo, Gil de Montes, Ivey, Jankovich, Kightlinger, Lieu, Man, Mares, Muir, Patterson, Pellegrini, Philp, Riss, Scully, Sotoodeh, Torres, Upadhyay, Waade, Wakiro, Walters, Wolfe and E. Yamasaki.

In addressing recent news articles, Chairman Foley commented on his wife's consulting work. Chairman Foley stated he will now abstain from any votes pertaining to contracts between Metropolitan and firms that his wife consults with even though their incomes have always been kept separate.

Chairman Foley stated that upon his election as Chairman a year ago, he and General Manager Kightlinger had instituted changes to reduce travel and related expenses for both board and staff. Chairman Foley said these policies will again be reviewed with any proposed revisions to be taken at the April meeting of the Committee.

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

None

2. APPROVAL OF THE MINUTES OF THE EXECUTIVE COMMITTEE HELD JANUARY 24, 2012

Approved

Motion: Director Griset Seconded: Director Gray

3. BOARD CHAIRMAN'S REPORT

None

4. CONSENT CALENDAR ITEMS – ACTION

None

5. BOARD INFORMATION ITEMS

None

6. COMMITTEE ITEMS

- a. Subject: Approve draft committee and Board meeting agendas, and schedule for March 2012

Presented by: Chair Foley

Legal and Claims Committee Chair Wunderlich observed that the selection of a new General Counsel was not reflected as an item on the Board agenda for March 13, 2012. This item will take a considerable amount of time and he requested Board members be prepared for a long board meeting.

Director Steiner asked about the item on the Finance and Insurance Committee agenda that called for action to approve the biennial budget on the same day as the public hearing on proposed water rates and charges. The General Manager clarified that staff was directed to put the item on the March agenda. The Board can decide if they want to approve it in March or move the approval to April.

Water Planning and Stewardship Committee Chair De Jesus stated that the item marked as withdrawn from the March agenda is listed as 8-10 but the item actually being withdrawn is item 8-11.

Approved with corrections

Motion: Director Grunfeld Seconded: Director Griset

b. Subject: General Manager's report of Metropolitan's activities

Presented by: General Manager Jeffrey Kightlinger

The General Manager reported that Metropolitan priced \$181.2 million of Water Revenue Refunding bonds at a cost of 3.48% to refund water revenue bonds issued in 2003. This will result in approximate savings of \$31.3 million.

The General Manager reported that the rating agencies have rated Metropolitan as stable: Fitch AA+, Moody's Aa1 and Standard and Poor's AAA.

The General Manager also reported that this is shutdown season. The Jensen shutdown, which is one of the longest we have had at 23 days, is almost ended. There is one more shutdown scheduled, and then Metropolitan will be done with the significant repair work scheduled for this season.

This season has been the driest on record but there is significant precipitation forecasted for the weekend. The General Manager stated that the Board will be informed on this when the next report on water supply is presented.

Metropolitan's State Water Project allocation has been reduced from sixty to fifty percent which very rarely occurs.

c. Subject: Interim General Counsel's report of Legal Department activities

Presented by: Interim General Counsel Marcia Scully

The Interim General Counsel reported that Metropolitan and some of the member agencies and subagencies in Orange County have received claims relating to leaks in copper piping from several parties. Metropolitan received a lawsuit filed by Lennar homes claiming that water quality is the cause of these leaks. Metropolitan is anticipating that additional litigation will be filed.

d. Subject: General Auditor's report of Audit Department activities

Presented by: General Auditor Gerry Riss

The General Auditor reminded the Board that although the Executive Committee is meeting with the Audit and Ethics Committee, there will be a separate Audit and Ethics Committee meeting after this meeting at which the budgets of both the Ethics and Audit Departments would be heard.

e. Subject: Ethics Officer's report of Ethics Department activities

There was no report from the Ethics Department.

f. Subject: Update on biennial budget for fiscal years 2012/13 and 2013/14

Presented by: Chief Financial Officer Gary Breaux

The Chief Financial Officer stated that this was a follow-up to a request at the Board workshop in February, to propose some alternatives to the 5% - 5% rate increase that would not include reductions in conservation. He stated that all the alternatives presented today would include commercial paper and a reduction of debt service. He announced that there will be a public hearing on the water rates and charges on March 12, 2012. All the information will be available at the Finance and Insurance Committee if they choose to take action on the budget that day. Otherwise there is the option to defer action to the April 9, 2012 Finance and Insurance Committee meeting.

There was general discussion by the directors of the proposals which focused on the impact of the various reductions.

Director De Jesus moved, seconded by Director Brick, that the approval of the biennial budget be moved to April 9, 2012 and not be considered at the March 12 meeting at all. The motion failed. Director Brick, De Jesus and Evans voted for the motion.

7. REPORTS FROM COMMITTEES

- a. Director Grunfeld, Finance and Insurance Committee Chair, stated that he echoes the recommendations of the Chief Financial Officer and the General Manager and he further commended Metropolitan's staff for their diligence. The public hearing on water rates and charges will be held on March 12, 2012 as scheduled with the adoption of the rates to follow.
- b. Director De Jesus, Water Planning and Stewardship Committee Chair, reported that in the face of changing water conditions, Metropolitan's supplies are projected to be

more than adequate to meet demand in 2012. At the next meeting of the Water Planning and Stewardship Committee, an updated report on snowpack conditions will be presented as part of the monthly Water Surplus and Drought Management report.

The Committee will also consider a series of action items to approve new contracts under the Local Resource Program to support recycled water projects within the region.

- c. Director Evans, Engineering and Operations Committee Chair, reported that Colorado River Aqueduct shutdown begins on February 29 and is scheduled for three weeks. Several directors will be inspecting the San Jacinto tunnel on March 13 and 14, 2012.

In March the Committee will have eight action items for consideration including five conveyance and distribution system projects, two water treatment projects, and a contract for the replacement turbine generator at the Yorba Linda Hydroelectric Power Plant.

- d. Director Murray, Organization, Personnel and Technology Committee Chair, had no report.
- e. Director Wunderlich, Legal and Claims Committee Chair, reported that the committee will hear two reports: one on the *San Diego County Water Authority v. Metropolitan* litigation and the second on the *Orange County Water District v. Northrop Corporation* lawsuit. The Committee will be asked to authorize increases in legal services contracts for both matters.

The Committee will also receive a report on the *Bay-Delta* litigation.

- f. Directors Ackerman and Peterson, Communications and Legislation Committee Chair, and Vice Chair, respectively, were both in Washington, DC so Chair Foley dispensed with this report.

8. FOLLOW UP ITEMS

There were no follow-up items.

9. FUTURE AGENDA ITEMS

There were no future agenda items.

- 10. Chair Foley adjourned the meeting at 10:47 a.m. to the joint meeting.

**JOINT MEETING OF THE EXECUTIVE COMMITTEE
and AUDIT AND ETHICS COMMITTEE**

February 28, 2012

Chair Foley called the joint meeting to order at 10:48 a.m. in the Board Room at Metropolitan's Headquarters.

Audit and Ethics Committee Vice Chair Quiñonez stated that the contract for Metropolitan's Ethics Officer will expire on March 3, 2012. The Audit and Ethics Committee in its discussions made the following recommendations relating to the Ethics Office.

11. COMMITTEES' ITEMS

- a. Subject: Authorize designation of the Ethics Officer position as a full-time position with a salary range of \$120,000 - \$150,000 per year

Presented by: Director Quiñonez, Audit and Ethics Committee Vice Chair

Board Vice Chair J. Murray moved, seconded by Director Edwards, designating the Ethics Officer as a full-time position with a salary range of \$120,000 - \$150,000.

The motion passed. Directors Dick and Evans voted no.

- b. Subject: Authorize and instruct Human Resources to conduct the search and prepare an appropriate job description/list of qualifications

Presented by: Director Quiñonez, Audit and Ethics Committee Vice Chair

Audit and Ethics Committee Vice Chair Quiñonez moved, seconded by Director Edwards, that Human Resources conduct the search and prepare the appropriate job description and qualifications.

The motion passed. Director Dick voted no.

- c. Subject: Adopt a process for the selection of an Interim Ethics Officer

Presented by: Director Quiñonez, Audit and Ethics Committee Vice Chair

Director Morris suggested that the same system be employed as was used with the General Counsel position. A staff person filled the Interim position while the recruitment was being conducted.

Director Grunfeld asked if the running of the Ethics Office could be handled under the General Counsel's Office.

Director Dick agreed with Director Grunfeld on the Ethics cases being handled through the General Counsel's Office. The Ethics Office started off as a part-time job and evolved into a full department with staff. He requested that Human Resources also designate the scope and size of the Ethics Office.

Board Vice Chair J. Murray asked the Interim General Counsel whether that would be an appropriate position for the Board to take.

Interim General Counsel Scully responded that the language of SB 60 calls for the Ethics Officer to be independent. That has been construed to mean that the Ethics Officer is a direct report to the Board.

Audit and Ethics Committee Vice Chair Quiñonez suggested that the Board consider Director Morris' suggestion that a current staff person within the Ethics Office serve on an interim basis until the position is filled.

- d. Subject: Consider entering into a consulting contract with Dr. Deni Elliott to assist with the recruitment for a new Ethics Officer

Presented by: Director Quiñonez, Audit and Ethics Committee Vice Chair

Director Evans suggested the recruitment process be conducted through Human Resources as planned and this option only be considered later on if the recruitment does not run effectively.

Chair Foley adjourned the meeting at 10:58 a.m.

John V. Foley
Chair of the Board