

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

FINANCE AND INSURANCE COMMITTEE

April 9, 2012

Chair Grunfeld called the meeting to order at 8:30 a.m. in Committee Room 2-456 at Metropolitan's Headquarters.

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

Member absent: Director Evans.

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

Staff present: Arakawa, Bennion, Breaux, Brooks, Cetina, DeBacker, Dunn, Goldstein, J. Gonzales, J. Green, Ivey, Kightlinger, G. Johnson, Man, Mares, Marumoto, Muir, Norris, Odwak, Riss, Jose Sanchez, Skillman, Soper, Sotoodeh, Waade, Wolfe, and B. Yamasaki.

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

The following members of the public spoke in support of Item 8-1:

David Pettijohn, Manager of Water Resources, Los Angeles Department of Water and Power
Judi Erickson, Los Angeles County Business Federation
Arun Tozia, Chair, San Gabriel Valley Legislative Coalition
Cliff Finley, Ventura County Water Works
Nancy Steele, Council for the Watershed Health
Connor Everts, Southern California Watershed Alliance

The following members of the public spoke in opposition to Item 8-1:

Alex Ruiz, City of San Diego Public Utilities Department

Chief Financial Officer Breaux advised that on April 6, 2012, letters supporting Item 8-1 were received from the following agencies, which are available from the Office of the Chief Financial Officer and have been placed in the record of this meeting:

Eastern Municipal Water District
National Resources Defense Council
Southwest Regional Council of Carpenters

A letter of opposition was received from the following agency:

City of San Diego, Mayor Jerry Sanders

2. APPROVAL OF THE MINUTES OF THE MEETING OF THE FINANCE AND INSURANCE COMMITTEE HELD MARCH 12, 2012

Approved

Moved: Hawkins

Seconded: Little

3. MANAGEMENT REPORTS

a. Subject: Report of investment activity

Presented by: Treasurer Roger Marumoto

Mr. Marumoto discussed the investment portfolio for the month of March detailing the 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: Controller Tom DeBacker

Mr. DeBacker presented the financial summary for the first nine months of fiscal year 2011/12, which ended March 31, 2012. He discussed 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 March 31, 2012.

4. CONSENT CALENDAR ITEMS — ACTION

None

5. OTHER BOARD ITEMS — ACTION

- 8-1 Subject: Approve proposed biennial budget for fiscal years 2012/13 and 2013/14 and adopt recommended water rates and charges, and resolutions to impose water rates and charges, for 2013 and 2014

Presented by: Chief Financial Officer Gary Breaux

Chair Grunfeld advised that at the March 12 public hearing there were 43 speakers, 11 letters received, and a considerable number of documents received from the speakers of the San Diego County Water Authority. At the conclusion of the public hearing, the committee voted to defer action on the budget and rates to the April 9 committee meeting.

During the past month, staff reviewed the information provided by the SDCWA on Metropolitan's rates. In response, a memo from General Manager Jeff Kightlinger and General Counsel Marcia Scully was sent to the Board and member agencies. Based on staff's review of the information provided by the SDCWA, staff found no basis for making any changes to the cost-of-service methodology and to the proposed rates.

Chief Financial Officer Breaux discussed the budget and rate process, information received at the public hearing, proposed budget expenditures, the rate options, and staff's recommendation.

- Motion: Option #1:
Adopt the CEQA determination and
- a. Approve the FY 2012/13 budget and:
 - i. Appropriate \$1,099.3 million for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP capital charges; demand management programs including the local resources and conservation credits program; and costs associated with supply programs;
 - ii. Appropriate as continuing appropriation, \$342.0 million for FY 2012/13 debt service on Metropolitan general obligation and revenue bonds; and
 - iii. Authorize the use of \$55.0 million in operating revenues to fund Replacement and Refurbishment expenditures.
 - b. Approve the FY 2013/14 budget and:
 - i. Appropriate \$1,081.0 million for the for Metropolitan O&M and operating equipment,

- power costs on the Colorado River Aqueduct, SWP operations, maintenance, power and replacement costs and SWP capital charges; demand management programs including the local resources and conservation credits program; and costs associated with supply programs;
- ii. Appropriate as continuing appropriation, \$344.8 million for FY 2013/14 debt service on Metropolitan general obligation and revenue bonds; and
 - iii. Authorize the use of \$125.0 million in operating revenues to fund Replacement and Refurbishment expenditures.
- c. Determine that the revenue requirement to be paid from rates and charges is \$1,378.0 million in FY 2012/13 and \$1,452.2 million in FY 2013/14;
 - d. Approve water rates effective January 1, 2013, and January 1, 2014, as shown under Option #1 in Table 2 in the board letter;
 - e. Adopt the Resolution fixing and adopting water rates to be effective January 1, 2013 and 2014, in the form of Attachment 8 to the letter, using the rates shown under Option #1 in Section 1 of the Resolution;
 - f. Adopt the Resolution Fixing And Adopting A Readiness-To-Serve Charge For Calendar Year 2013, in the form of Attachment 9 to the letter, using the charge shown under Option #1 in Section 5 of the Resolution; and
 - g. Adopt the Resolution Fixing And Adopting A Capacity Charge Effective January 1, 2013, in the form of Attachment 10 to the letter, using the charge shown under Option #1 in Section 6 of the Resolution.

Moved: Little

Seconded: Blake

Director Lewinger made a substitute motion, seconded by Director Wilson, and requested it be made part of the minutes: Cap rates at 3% for FY 2012/2013 and FY 2013/2014, and direct staff to implement the cap rate by bringing back to the Board a revised budget that: (1) Reduces operation of maintenance spending by 10%; (2) Suspends conservation subsidies for the next two years; and (3) Not change the scheduled OPEB funding, or relying on reserves, or reduce the PAYGO funding, as proposed in staff's recommended budget. This budget will allow Metropolitan to meet all of its core objectives, including maintenance of its infrastructure and would allow our water ratepayers some relief from the rate impacts of reduced water sales at a wholesale level. These steps are in line with

actions already taken by cities and other local government agencies throughout Southern California.

A total of six votes were taken by the Committee, but none obtained the support of 50% of the Committee:

- Option 1 (7.5%/5.0%) came up for a vote once and received 4 votes in favor;
- Option 2 (5.0%/5.0%) came up for a vote twice and similar to Option 1 received 4 votes in favor on each occasion;
- Option 3 (6.5%/5.0%) came up for a vote twice and received 3 votes in favor each time; and
- The substitute motion (3.0%/3.0%) by Directors Lewinger and Wilson came up for a vote once and received 2 votes in favor.

At the conclusion of this series of votes in which no one option received a majority, the committee decided to refer all options to the members of the Board for their consideration and action at the April 10 board meeting.

8-2 Subject: Authorize execution and distribution of the Official Statement in connection with the issuance of the Water Revenue Refunding Bonds (Index Mode), 2012 Series B

Presented by: Assistant General Counsel Syd Bennion

Ms. Bennion gave an overview of the offering statement, the updates to Appendix A, the timing of the refunding, and staff's recommendation.

Motion: Adopt the CEQA determination and

- a. Approve the draft Official Statement substantially in the form attached to this board letter, with changes approved by the General Manager and General Counsel;
- b. Authorize the General Manager to execute the Official Statement; and
- c. Authorize distribution of the Official Statement in connection with issuance of the bonds.

Motion Carried Approved
Moved: Blake Seconded: Wunderlich
Directors Lewinger and Wilson voted no

Director Wilson advised that the SDCWA submitted a letter to Chair Foley regarding Item 8-2. SDCWA reviewed the draft Official Statement and find that it is materially the same as the last Official Statement provided in connection with the remarketing of bonds in February 2012. For the reasons described in prior correspondence, the SDCWA remain unable to vote in favor of

authorizing the execution and distribution of the Official Statement. (A copy of the letter is attached. The attachments to the letter are on file in the Office of the CFO.)

6. BOARD INFORMATION ITEMS

None

7. COMMITTEE ITEMS

None

8. FOLLOW-UP ITEMS

None

9. FUTURE AGENDA ITEMS

None

The next meeting will be held on May 7, 2012.

The meeting adjourned at 9:45 a.m.

Aaron Grunfeld
Chair

Attachment



San Diego County Water Authority

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April 9, 2011

John V. Foley, Chairman
and Members of the Board
Metropolitan Water District of Southern California
700 N. Alameda Street
Los Angeles, CA 90012

MEMBER AGENCIES

- 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
 - Oliverain Municipal Water District
 - Oray Water District
 - Pacific Dam Municipal Water District
 - Camp Pendleton Marine Corps Base
 - Rainbow Municipal Water District
 - Romana Municipal Water District
 - Rincon del Diablo Municipal Water District
 - San Diego Gas & Electric Company
 - South Bay Irrigation District
 - Calipatria Water District
 - Valley Center Municipal Water District
 - Vista Irrigation District
 - Yuma Municipal Water District
- OTHER REPRESENTATIVE**
- County of San Diego

Dear Chairman Foley and Members of the Board:

Re: Board Memo 8-2: Authorize the execution and distribution of the Official Statement in connection with the issuance of the Water Revenue Refunding Bonds (Index Mode), 2012 Series B. (F&I)

We have reviewed the draft Official Statement and find that it is materially the same as the last Official Statement provided in connection with the Remarketing of bonds in February of this year. Accordingly, for the reasons described in prior correspondence (copies attached), we remain unable to vote in favor of authorizing the execution and distribution of the Official Statement.

Sincerely,

Lynne Heidel
Director

Keith Lewinger
Director

Fern Steiner
Director

Doug Wilson
Director

Attachment:

February 13, 2012 letter re: Board Memo 8-2: Authorize the execution and distribution of Remarketing Statement in connection with the remarketing of the Water Revenue Refunding Bonds (Index Mode), 2011 Series A-1 and A-3, in the amount of \$128,875,000

cc: Jeffrey Kightlinger, General Manager
Gary Breaux, Chief Financial Officer
San Diego County Water Authority Board of Directors

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