# Thomas S. Babcock Director to the Metropolitan Water District Representing the City of Fullerton, California

March 2, 2013

To: Mayor Bruce Whitaker
Mayor Pro Tem Doug Chaffee
Council Member Greg Sebourn
Council Member Jennifer Fitzgerald
Council Member Jan Flory

# Report on MWD Director activities

## February 2013 Events:

- February 5, 2013 Meeting with Amy Rego regarding March State Water Project trip
- February 7, 2013 Orange County Caucus meeting
- February 7, 2013 LA Chamber of Commerce 125<sup>th</sup> anniversary dinner
- February 11, 12, 2013 Committee meeting and Board of Directors Meeting
- February 19, 2013 Inspection of San Jacinto tunnel portion of the Colorado River Aquaduct shutdown. The San Jacinto is a 13 miles long tunnel under the San Jacinto Mountains. It is a 16-foot diameter tunnel that cleaned and inspected annually.
- February 21, 2013 OCWD forebay tour with Michael Marcus, General Manager. The OCWD forebay consists of multiple reservoirs specifically designed to ground filter water into the aquifers supplying ground water to city utilities.
- February 26, 2013 Other MWD committee meetings cancelled due to ACWA Legislative conference in Washington, DC

I have also included the February summary report of Board meetings.

#### **Planned March 2013 Events:**

- March 7, 2013 Orange County Caucus meeting
- March 8, 9, 2013 State Water Project Inspection trip with Fullerton Council and city personnel
- March 11, 12, 2013 Committee meeting and Board of Directors Meeting
- March 26, 2013 Other Committee Meetings
- March 27, 2013 Engineering and Operations Committee project tour



## Metropolitan Water District Board and Committee Highlights February 2013

#### **Finance and Insurance Committee**

- Treasurer Roger Marumoto reported that in January, the short-term portfolio underperformed the benchmark by -0.07% primarily due to Federal Agencies and Treasuries. For January, the long-term portfolio underperformed the benchmark by -0.13%, due primarily to Treasuries.
  - The Committee discussed the process for selecting an asset manager. Mr.
     Marumoto commented that MWD has utilized the same asset manager for over 10 years. There has been continuity because they have had excellent performance over time and because MWD has negotiated lower fees.
- CFO Gary Breaux reported that water sales through January 2013 were 53.2 TAF above budget, and revenues are \$45 million, or 5% above budget. Expenses are \$121 million, or 11% below budget.
- The committee voted to authorize the execution and distribution of Official Statements.
  - MWD anticipates issuing Water Revenue Refunding Bonds, 2013 Series A (Tax-Exempt), Series B (Taxable), and 2013 Series C (Tax-Exempt Put Bonds) in the near future.
  - MWD will look to refund variable rate bonds and to unwind all or a portion of interest rate swaps. These actions would save approximately \$500,000 and reduce various risks with the variable rate debt and interest rate swap portfolios.
  - Director Wilson (SDCWA) asked staff to produce a report of historical revenues and expenses by year.
  - Staff stated that a letter of support for the Official Statements was received from MWDOC.
  - o Director Lewinger (SDCWA) commented that the SDCWA has submitted a letter regarding this issue, and confirmed that MWD staff plans to respond.

#### Water Planning and Stewardship Committee

- Staff provide an oral report on Water Surplus and Drought Management
  - The State Water Project (SWP) "Table A" Allocation remains at 40%, providing MWD with a total supply of 786 TAF.
  - The Colorado River Aqueduct Supplies are estimated at 867 TAF, with 317 TAF in Colorado River System programs and exchanges.
- Staff provided a presentation on fish restrictions affecting the State Water Project. The
  presentation included a description of the history and evolution of fishing restrictions, an
  overview of the current Biological Opinions that are impacting deliveries and the key triggers
  and off ramps affecting current SWP supplies.
  - Conditions have been more restrictive this year as a result of high salvage rates and turbidity levels, resulting in export impacts of 290 TAF on SWP supplies.
- Bill Hasencamp provided the following report on Colorado River conditions.
  - The Colorado River is experiencing another dry year, with the areas that produce the most water being the driest. The current runoff forecast is 54%, or 6 MAF below average. If conditions remain dry, Lake Powell could lose as much as 10 MAF in 2½ years, reaching an all-time low point by next summer. Lake Mead could lose 2 MAF and be near the shortage trigger again by next summer. The

- current drought forecast predicts continued dry conditions in California and the Colorado River Basin.
- Deven Upadhyay reported that over the next month, staff will begin discussion with the committee on principles for a local storage program.

#### **Engineering and Operations Committee**

- The Committee voted to appropriate \$1.58 million and authorize final design of bromate control systems for the Mills and Weymouth Treatment Plants.
  - Director Edwards (Western MWD) commented that in light of the current surplus in revenues, there might be and opportunity to expedite this project and complete more work within the current year.
- The Committee voted to authorize new agreements with Southern California Edison for the sale of renewable energy from the Red Mountain and Venice Hydroelectric Power Plants.
  - On October 19, 2012, Edison notified MWD that it will terminate the existing contract for the purchase of renewable energy from five of MWD's hydroelectric plants on October 31, 2013.
  - Edison accepting bids from small generators. MWD's bits for Red Mountain and Venice were the only ones that qualified for this program.
  - Edison will select bidders on February 28, and selected bidders will have only until March 7, 2013, to submit executed agreements.
  - The Committee discussed that some of the items in the agreement remain unclear, such as whether Edison will have the ability curtail generation, and whether penalties that could be applied to MWD. The new agreements would provide approximately the same revenues.

#### **Communications and Legislation Committee**

- Brad Hiltscher provided the monthly report on activities from Washington D.C.
  - President Obama has announced Sally Jewell as his nominee to replace Ken Salazar as Secretary of the Interior. Jewell is currently president and CEO of REI.
- Kathy Cole provided the monthly report on activities from Sacramento, including an update on committee assignments.
  - MWD staff met with staff from the California Air Resources Board (CARB) to develop a method for the state to allocate Cap and Trade revenues to MWD and the SWP. They are proposing to work through the annual state budget process. This is in line with the governor's investment plan for Cap and Trade revenues.
  - AB 145 by Rep Perea (D-Fresno) and SB 117 by Senator Rubio (D-Bakersfield) would move responsibility for the state's drinking water programs from the Department of Public Health (DPH) to the State Water Resources Control Board. There are concerns that the California Health and Human Services Agency, which includes DPH, is not focused on safe drinking water issues. There are also concerns that it is not responsive to disadvantaged communities, and not adequately administering state revolving funds. This issue is a high priority for the leadership, and the Association of California Water Agencies (ACWA) and California Municipal Utilities Association (CMUA) have expressed opposition unless amended, and want to be part of the discussion going forward.
  - AB 115, by Rep. Perea and AB 118 by Alejo (D-Salinas) would address hurdles in Safe Drinking Water Revolving Fund (SDWRF) access. The governor's administration will also be providing recommendations.

- There have been discussions regarding options to create a new drinking water office within the California Environmental Protection Agency in order to give water more attention. The Senate will hold hearings in March.
- O AB 72 by Rep Holden (D-Pasadena) is sponsored by Three Valleys MWD and would require directors to take office on the first Friday of December following elections. This would address the 60 day lame duck period after Municipal Water District directors are elected. There was discussion by the Board as to whether MWD should have a discussion about this bill. GM Jeff Kightlinger commented that the bill would have no impact to MWD.
- Kathy Cole provided an update on the 2014 Water Bond. The presentation included a brief overview of the history and allocated amounts within the \$11.14 billion bond.
  - Concerns have been raised with overall size of the bond by Governor Brown, Senate President pro-Tempore Steinberg, and Assembly Speaker Perez, among others.
  - Four new bills have been introduced, including SB 36 (Rubio, D-East Bakersfield), SB 40 (Pavley, D-Agoura Hills), SB 42 (Wolk, D-Davis), and AB 142 (Perea, D-Fresno).
  - Staff will provide an action item to the committee in March on priorities and principles in the bond.
  - Top priorities in the bond include: funding the state share of public benefits such as habitat restoration to support the coequal goals of water supply reliability and Delta restoration; funding the public benefits associated with Delta sustainability projects such as flood protection; water supply reliability projects that reduce reliance on imported water; and statewide system improvements such as surface and groundwater storage.

#### **Board of Directors**

- Director Michael Touhey was inducted to the Board of Directors representing Upper San Gabriel Valley Municipal Water District.
- Director Robert Apodaca was inducted to the Board of Directors representing Central Basin Municipal Water District.
- Director Leticia Vasquez was inducted to the Board of Directors representing Central Basin Municipal Water District.
- The Board approved the following committee assignments:
  - Director Touhey was assigned to the Finance and Insurance Committee and Water Planning and Stewardship Committee; Director Apodaca was assigned to the Operations, Personnel and Technology Committee and Communications and Legislation Committee; Director Vásquez was assigned to the Finance and Insurance Committee, Legal and Claims Committee, and Real Property and Asset Management Committee; Director Camacho was appointed Chair of the Real Property and Asset Management Committee.