MINUTES OF THE
BOARD OF DIRECTORS MEETING
OTAY WATER DISTRICT
May 30, 2006

1. The meeting was called to order by President Bonilla at 3:35 p.m.

2. ROLL CALL

Directors Present:	Bonilla, Croucher, Breitfelder, Lopez and Robak
Staff Present:	General Manager Mark Watton, Asst. GM Administration and Finance German Alvarez, Asst. GM Engineering and Water Operations Manny Magana, General Counsel Yuri Calderon, Chief of Information Technology Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Mehdi Arbabian, Chief of Operations Pedro Porras, Chief of Development Services Rod Posada, Chief of Administration Rom Sarno, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

A motion was made by Director Breitfelder, seconded by Director Lopez and carried with the following vote:

Ayes:	Directors Bonilla, Breitfelder, Croucher, Lopez and Robak
Noes:	None
Abstain:	None
Absent:	None

to approve the agenda.

5. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

No one wished to be heard.

<u>INFORMATION / ACTION ITEMS</u>

6. ADOPT RESOLUTION NO. 4079, APPROVING THE FY 2006-2007 OPERATING AND CAPITAL BUDGET; ADOPT ORDINANCE NO. 510 AMENDING ITEMS IN SECTION 9, ANNEXATIONS AND DETACHMENTS; SECTION 25, RATES AND CONDITIONS FOR WATER SERVICE; SECTION 34, ISSUANCE OF PAYMENT OF BILLS; AND SECTION 53, FEES, RATES,

CHARGES AND CONDITIONS FOR SEWER SERVICE OF THE DISTRICT'S CODE OF ORDINANCES; AND APPROVE FUND TRANSFERS FOR POTABLE, RECYCLED, AND SEWER

Accounting Manager Rita Bell stated staff was presenting for the board's approval the $59.1 million Operating Budget and the $34.5 Capital Improvement Plan (CIP) Budget. She stated that the budget was developed to support the Strategic Plan initiatives which indicate:

- to meet the projected growth of the District
- maintain existing programs and implement new mandated programs
- providing a high level of service the District wishes to deliver to its customers
- maintaining reserves at target levels per the approved reserve policy
- maintaining the Debt Coverage Ratio

She stated staff is proposing in this budget:

- a 5.4% rate increase for potable and recycled customers
- a 5.8% increase for sewer customers
- an increase of $102 in annexation fees
- a $27.5 million bond issue to support the CIP
- the implementation of the Reserve Policy's target levels:
    - spending down some reserves to target levels
    - building up other reserves to target levels through fund transfers totaling $12.6 million

Director Croucher inquired if the District could develop a guide indicating how staff determines our rates. He stated that everyone in the county determines their rates differently and it is difficult to compare the rates of one agency to another. Accounting Manager Bell agreed that it was difficult. She stated some of the rate changes that staff is recommending is to bring the District a little more in line with what other agencies do. She stated that staff also wished to bring more stability to the District's rates so if there were weather fluctuations or other situations that affect revenue, there would be more stability to the District's rates.

Accounting Manager Bell reviewed the process staff followed to develop the budget and indicated that the Rate Model is a mid-range financial plan that partners with the budget. She stated that the reserve policy was also utilized to determine the best way to finance all items in the budget. She indicated that staff took the proposed budget and carried it out six years and reviewed all items that would change such as:

- water purchase costs
- where water would be purchased, etc.

She indicated the objective of the Rate Model was to formulate the financing plan and to utilize a mix of debt, rates and reserves to fund the initiatives in the budget. She indicated the assumptions in the Rate Model were:

- meet reserve target levels in every reserve in every year
- increase the debt coverage ratio to above 150%
- minimize rate increases

She indicated that the benefits of the rate model is that it:

- provides a financial tool to develop a financing plan
- helps promote confidence in the District's financial standing
- will help the District when it enters the bond market with bond rating agencies and insurers

Accounting Manager Bell stated that staff also included board direction:

- pass-through CWA / MWD increases
- steady small increases
- maintain adopted target levels for each reserve (as defined in the Reserve Policy)

She noted changes to the Rate Model included new mandated requirements or cost increases that all agencies were experiencing. She stated if the District did not have these increases it would have been able to maintain the historical 3.9% increase that it adopted last year. She reviewed the cost increases that were taken into consideration over a six year period in the Rate Model which included:

- cost of power which was $3.2 million more than last year over the next six years
- CIP increased by $27.7 million due to growth and cost increases in the industry
- new mandated requirements for flexible line and cover reservoir ($1 million)
- new mandated Airvac replacements ($3.5 million)
- new mandated valve exercise and replacement program ($1.9 million)
- AMR program ($6 million)

Chief of Water Operations Pedro Porras reviewed the new mandated requirements:

- Flexible Line and Cover Reservoir
    - California Department of Health Services strongly recommended that the District follow the American Waterworks Association's recommendation to inspect (dive) reservoirs once a year and clean the exterior of the reservoir at least twice a year

  - The program is expected to cost the District approximately $1 million over the next six years

- Air and Vacuum-Relief Valve Program
  - In 1992 the California Code of Regulations required that all air-vacuum assemblies be installed above ground (prior to 1992, all such assemblies were installed underground).
  - Since 1992, the District has improved some air-vacuum facilities and has brought them above ground. There is approximately 1250 potable airvacs. The District must still upgrade 850.
  - Staff has budgeted $500,000 to replace approximately 120 airvacs in Fiscal Year 2007.
  - It is expected that the replacement of the remaining 850 airvacs can be accomplished in the next six years at a cost of approximately $3.5 million.

- Valve-Exercise Program
  - The US Environmental Protection Agency (USEPA) and the California Department of Health Services (CDHS) had originally recommended that water district's exercise all valves at least once per year.
  - Due to the cost of such a program, the USEPA and CDHS now recognize that as long as the water agencies have a practical program it is acceptable.
  - This is not mandated by the California Code of Regulations, but it is a good business practice.
  - The district has over 17,000 potable valves and 1,100 recycled valves and plans to exercise approximately 390 valves per month (or 4,700 valves annually).
  - The district may find approximately 100 valves that are not functioning properly which will require repair/ or replacement.
  - It is expected that the program will cost the district approximately $1.9 million over the next six years.

- Automated Meter Reading Program
  - As directed in the CIP, the district will replace the remaining 2,790 RAMAR units in FY2007.
  - The district is also budgeting under a separate CIP in FY07 the retrofit of 1,100 meters (there is a total of 3,890 meters to be retrofit).
  - Over the next nine years the district will be retrofitting over 4,000 meters per year at a cost of $1 million per year. This is an increase over last year's estimate of approximately 3000 meters per year.

Accounting Manager Bell presented a slide showing the district's current reserve levels and its target levels (see attached presentation). She indicated that the district was getting closer to its target levels and the District's goal is to get as close to target levels as possible. She reviewed the district's cash reserves indicating that the reserves were being spent down to the appropriate levels and stated the total cash reserves will be spent down from $84.2 million in 2007 to $76.8 million in 2012. She also reviewed the proposed fund transfers of $12.6 million and presented a slide showing the details of the requested transfers:

- Potable:
    - $7,800,00 from General Fund to Replacement Fund
    - $2,130,000 from General Fund to Betterment Fund
- Recycled:
    - $2,150,000 from General Fund to Replacement fund
    - $285,000 General Fund to Designated Betterment Funds
- Sewer:
    - $100,000 Replacement fund to Designated Betterment Funds
    - $140,000 General Fund to Designated Betterment funds

She indicated that without the transfers, the district would need to issue more debt and increase rates. She noted that the transfers are in compliance with the district's reserve policy guidelines.

She stated staff is also recommending that the district issue debt in FY2007 (fall) totaling $27.5 million and also recommends that more debt be issued in 2009 and 2011. She indicated that most of the monies would be spent on expansion and a portion will be spent on betterment and in 2011, replacement.

She indicated that one of the main goals of the district is to maintain its debt coverage ratio. She stated that staff recommends that the district stay at 150% debt coverage ratio which will be met with the financing plan presented today.

President Bonilla inquired that by keeping the district's debt ratio at 150%, if there were any implications on the district's ability to issue bond debt. General Manager Watton indicated that Chief Financial Officer Joe Beachem had a discussion with CWA's financial advisor (as CWA will soon be issuing $100's of million in debt soon) and the financial analyst provided advise on what the rating agencies would be looking for when an organization issues debt. He stated that by keeping the organization's debt ratio at about 150%, it would provide the best rating of bonds, best interest rates, least expensive insurance, etc. He stated that Chief Financial Officer Beachem had decided to take CWA's advisor's lead and set the district's target debt ratio at 150% as well. President Bonilla asked, by taking this route, what were the possible circumstances the district could experience. Accounting Manager Bell indicated that to increase revenues, the district must increase its rates. So the flip side is to reduce revenues, by not increasing rates, however the district could run into issues of increased cost to issue debt. President Bonilla indicated that he wished it understood that there is a fine line in the balance (everything is balanced).

Accounting Manager Bell indicated that if the District did not have to meet the new mandates, it would have been able to keep its rate increase at 3.9% as in past years. She stated that staff is proposing a temporary increase of 5.4% over the next three years and then dropping back down to a 3.9% rate increase following the three years. She noted that the district is also in its last year of implementing the15% sewer rate increase and would drop the increase down to 5.8% per year over the next six years.

She indicated that the recommended rate increases would place the district's water rate of $46.60, lower than the county average of $49.82 for 15 units of water. It was discussed that the 15 units was based on CWA's standard when comparing rates among agencies. Accounting Manager Bell also noted that the district's proposed rates would make it second lowest when compared to its neighboring agencies (Helix, Sweetwater, Padre Dam East and Padre Dam West) and based on 10 units of water use, the District would be well below the County average at $32.54 versus $38.22.

She reviewed the proposed rate increases in detail:

- Recommend a 5.4% rate increase which is primarily a pass-through of supply cost increases and also to cover increases in district programs.
    - Variable Water Rate Increase of 2.5%
        - There will be small increases in the potable water rates based on the units use:

Units Used	**Existing Rate**	**Proposed Rate**
Lifeline	$1.05	$1.08
0 - 10	$1.73	$1.77
11 - 35	$1.88	$1.93
over 35 hcf	$2.75	$2.82

    - Fixed Costs
        - System Fee Increase of 10%
            - Average Residential Customer fee will go from $10.25 to $11.30
            - The system fee has not been increased since 1993
            - The advantage of increasing the system fee is that it gives the district more stability in revenue stream and reduces financial risks when experience a wet or dry year
            - Brings the district closer to the average fee charged by other local water agencies

        - Pass-through $.70 increase in CWA/MWD fixed charge (24% increase in the monthly amount). A slide was presented showing the fixed charge pass-through increase per meter size (see attached copy of presentation).

Director Croucher indicated that it would be nice to have a standardized rate format to allow agencies to compare rates. It was discussed that possibly CWA could take the lead and lay out a standard format (survey) to send to the local agencies to which they then respond to. General Manager Watton indicated that he would make this recommendation to CWA.

President Bonilla inquired when staff reviews the wheeling rate it charges to Mexico for transporting emergency water to Mexico. General Manager Watton indicated that the rate is reviewed annually as per their contract. Staff would bring this information back to the board.

Accounting Manager Bell continued the review of the proposed rate increases:

- Recycled Rate Increase
    - Recommend a 5.4% rate increase which is primarily a pass-through of supply cost increases and also to cover increases in District programs
        - Fixed System Fee Increase of 10% consistent with potable customers
        - The balance will be recovered through the variable water rate which staff is recommending a 4.85% increase

- Sewer Rate Increase
    - Recommend a 5.8% increase in monthly sewer rate based on cost increases
        - This increase is based on increases in operating costs (a Metro increase of $175,000 and a $10,500 increase in Spring Valley Sanitation District charges)

    - The sewer rate per Assigned Service Unit will increase from $30.90 to $32.70
    - FY06 was the last year of the 3-year rate increase approved three years ago. This new increase is the first review of sewer cost since the rate study three years ago.
    - The increase meets the legal requirements to have a nexus between cost and rates (this will balance the cost and revenues)

President Bonilla asked how the district's sewer rates compare to the City of Chula Vista. Customer Service Manger Elaine Henderson indicated that Otay bills its sewer customers on a flat rate, whereas the City of Chula Vista bills its customers based on their water use during the winter months. She stated that Otay's rate is equal or slightly lower than Chula Vista's average sewer bill.

Director Robak requested a comparison graph of the sewer rates, similar to the bar graphs for potable water rates. It was discussed that staff could provide such a graph after all agencies have adopted their increases.

- Annexation Fee
    - This fee is charged to developers at the time a meter is purchased

- The purpose of the fee is to have new customers pay for excess capacity in the existing system
- The annexation fee was recalculated and staff is recommending an increase of $102 (from $1309 to $1411)
- The annexation fee calculation is:
  - Present Value of Excess Capacity divided by Future Customers when excess capacity is readily available (tanks and pumps)
  - (Present Value of all Facilities divided by All Customers) – (Present Value of Future Facilities divided by All Customers) when excess capacity is not readily available (pipelines)

Director Breitfelder inquired if this was the same formula that the district has always utilized. Accounting Manager Bell indicated that the only change is the District must use a combination of CWA's methodology and the District's methodology as it is very difficult to calculate excess capacity on a pipeline. She stated that staff met with engineering and felt that this was the best way to come up with a fair and reasonable annexation fee.

- Customer Service Fee Increases
  - The following are recommended rate increases for customer service fees to bring fees to appropriate level based on cost and survey of other Districts
    - Returned check fee from $10 to $25
    - During Business Hours Meter Turn-on Charge from $20 to $25
    - After Business Hours Meter Turn-on Charge from $20 to $65

There was discussion regarding the proposed after business hours meter turn-on charge of $65 and that the charge should be the actual cost to the district to turn-on ("unlock") a meter. Staff noted that the proposed fee was based on the average cost to the district and that the cost would be different per customer based on how far they were located from the District. The board asked that staff bring back what the cost would have been for each meter unlock handled after hours and the areas in which the "unlocks" occurred.

Chief of Development Services Rod Posada reviewed the Capital Improvement Projects (CIP) for fiscal year 2007. He indicated that Otay water sales has increased by 83% over the last 10 years and while the City of Chula Vista remains one of the fastest growing cities in the United States, the housing market is slowing. He stated that the district expects to sell 800 meters in FY06 and it is projected that sales in FY07 will be approximately 870 which is a drop from approximately 2,500 in 2004. He stated that it is expected that in the next five years sales will be back to the levels experienced in 2004.

He indicated that CIP projects were selected based on CIP criteria and the Water Resources Master Plan which are then reviewed with the finance department who analyzes cash flow models and if the CIP expenditures meet financial objectives. This is an interactive process until all are satisfied and the proposed CIP budget is then presented to the General Manager and then to the board.

Chief of Development Service Posada presented the assumptions on which the CIP is developed. He noted that growth is expected to continue at 1.8% and it is expected that material and labor costs would increase by as much as 33%. He noted that facilities expansion, betterment and replacement, as well as, vehicles and equipment, are included within the CIP. Projects under $20,000 and 2 year life spans are not capitalized. He presented articles indicating that PVC and steel prices would continue to increase and that the large hikes in the cement price would not taper off until the end of 2006. He stated that staff tries to level the six-year CIP expenditure plan as much as possible.

He indicated that the 6-year CIP budget estimate for FY06 thru FY11 was $19.4 million and the 6-year CIP budget for FY07 thru FY12 is $219.1 million which is an increase of $27.7 million over the last period. He indicated the difference is due to: projects have been added, deleted and completed and construction costs have increased. He presented the various projects included in the FY07 thru FY12 CIP budget and the breakdown in planned expenditures (see presentation).

President Bonilla noted that the CIP Budget Breakdown Slide indicated that portions of the expenses were moved into the operating budget. He asked if the board was consulted. Chief of Development Services Posada indicated that staff had consulted with the board through the budget process last year. President Bonilla asked if staff could provide him information to help him recall the change last year.

Director Robak asked if project construction contracts have a fixed price. Chief of Development Service Posada indicated that they do. The contractor obtains a guaranteed price from vendors for materials required for projects.

Director Croucher inquired where the district shows savings from grants that have been received by the district and its effects on rates. Accounting Manager Rita Bell indicated that the grants are incorporated into the rate model, however staff did not do a comparison in rates. She indicated that staff could do so by backing out the grant and recalculating the rates. He indicated that he would also like to see major projects included in the rate model (such as FCF#14, the interconnect) to show their affect on reducing rates. He indicated that he would like to highlight what staff has done to help reduce rates.

Chief of Information Technology Geoff Stevens highlighted Information Technology (IT) CIP projects. He indicated that he was pleased that the overall IT capital budget was down by over $1 million from the previous year. He stated that this reflects that the District is completing major portions of the IT projects with the installation of the OIS system (financial, GIS and work order systems). He indicated these pieces are largely in place and staff will be working on improving the reliability of the Data Center and the quality and accuracy of input data so that the District's business processes will operate more efficiently. He stated that staff continues to look for improvements in work processes which is being accomplished through adding GIS based applications (designing meter routes, routing of work orders in the field, etc.). He stated that additional funds are also included in the budget to continue to roll out the field mobile computers. He stated that these items are the major pieces of the IT capital program.

Director Croucher indicated that Otay is well known for its work on its GIS system and had assisted the San Miguel Fire Protection District in implementing their GIS system. He thanked and complimented the District's GIS staff for the assistance in this project.

Account Manager Bell indicated that she would review the details of the Operating Budget for 2007. She stated that the District is faced with the same cost increases as its neighboring water districts and costs relating to maintaining facilities as the District's infrastructure ages and as more facilities come on-line. She reviewed the budget process and highlighted some items within the budget which included:

- Diversified Water Supply
    - Purchase of potable and recycled water from CWA and the City of San Diego
- Annexation fees included as operating revenue
- Interest revenue and banking fees included as operating revenue and expense
- Debt is no longer funded by the General Fund and is now funded from the expansion, replacement and betterment reserves
- Return of property tax revenue (ERAF) from the State

Director Breitfelder inquired why annexation fees have been switched to the operating budget. Accounting Manager Bell stated that the fees have always been incorporated into the general fund, however, this is the first time that it has been included in the operating budget to show it as a source of revenue. She stated that this is similar to the interest revenue which has also been shifted to the operating budget. Accounting Manager Bell indicated that staff has been reviewing items and identifying those that should be shifted to the operating budget. She stated that this change was a benefit as it shows more clearly what sources are available to pay for operating costs.

She noted that the growth projections for Fiscal Year 2007 (FY07) has slowed to 1.8% from 3% in Fiscal Year 2006. She stated that the District estimates that it will sell 800 meters in FY07 which is the lowest sales in quite some time. She noted that the projections were developed by reviewing the Sub-Area Master Plans and contacting the developers and inquiring when they would be bringing their different developments on-line. Staff utilizes this data along with economic factors (such as what is currently happening in the housing market) to develop the growth projections.

President Bonilla asked what amount the District expects back in property taxes. Accounting Manager Bell indicated that the District will receive $1.2 million in property taxes and expects a total of $3.4 million in tax revenue in FY07. She stated that the monies will be placed in the General Fund.

Director Breitfelder asked how the District's budget would be affected if meter sales stayed close to 800 in 2008 and 2009. Accounting Manager Bell indicated that capacity and annexation fees would be affected as they are directly tied to meter sales. In light of this, income from meter sales have been excluded in calculating the District's debt ratio so that the District's rating is not affected by the volatility of meter sales. It was noted that rating agencies look at the volatility of income streams to rate organizations.

Ms. Bell presented a slide showing water sales since 2002 (see attached copy of presentation) and noted that the district lost revenue due to lower than expected water sales in FY05 due to the heavy rains. She stated that the proposed increase in the fixed fees will bring more stability to revenue from water sales.

She noted that potable water sales are expected to increase 8.3%, recycled sales to increase 26%, sewer charges to increase 11.8% and meter fees to drop 33.2% due to slowing growth. She stated that sewer is growing on average, over the past five years, at a rate of 1.6%. She stated that capacity fee revenues would drop 18.2% due to slowing operating projects funded by capacity fees, non-operating income will increase by 43.9%, and tax revenues will increase by 21.8%. She indicated that new items to the operating budget include annexation fees, interest revenue and a draw down of the General Fund for sewer customers. She stated that there was currently too much money in the fund and rather than raise rates, per the reserve policy, the monies should be transferred from the general fund reserves to the operating budget. She stated that this was a one time transfer and it was not included in the list of transfers as it was noted as a line item in the operating budget (approximately $280,000).

President Bonilla asked if Accounting Manager Bell can explain how interest is handled. She stated that in the past the collected interest on investments would be reduced by banking fees and made appropriate allocations of a portion of the interest to each of the reserves. She stated, however, this was not shown in the operating budget. Staff now shows the interest revenue from the general funds in the operating budget. She noted that it does not include interest on the expansion fund as it is not a general fund revenue.

Accounting Manager Bell then reviewed the expenditure details in the budget. She stated that expenditures are increasing 13% in FY07. She indicated that the largest expenditure in the budget was water purchases. She noted that CWA potable water purchases will be going down over the next six years and reclaimed purchases are expected to stay constant. She indicated that the district will begin to take untreated water from the Lower Otay Pump Station on July 1, 2006 and will pay the City of San Diego to treat the water at a lower cost than CWA. However, the district will have a pumping cost associated with this which shows up in the fuel budget. The cost is comparable to CWA (cost neutral), however, it greatly increases the reliability of the districts system as it is another source for potable water. She noted that reclaimed water will also be taken from the South Bay Water Reclamation Plant in which the District will receive credits from both CWA and MWD for the water purchased from the treatment plant. She stated that overall, water costs will increase 12.3% or a total of $2.9 million.

She reviewed the variable costs for water which included increased water purchases due to growth and the increase in the cost of water. She stated that the cost of water is projected to increase $27/acre foot (5% increase over last year's cost). She noted the fixed costs which included increases in emergency storage charges of 28% ($272,100), infrastructure access charges of $29.9% ($231,200), customer service charges of 13.6% ($101,400) and other increases totaling $110,300 for a total fixed costs increase of $715,000. She also noted that SDG&E indicated that they would be raising energy rates by 7% effective July 1, 2006 and that they will be discontinuing their rebates in FY07 which will increase the districts power costs by another 7%. She stated that overall power costs are expected to increase a total of 15.1%.

Accounting Manager Bell indicated that expenditures for labor and benefits will increase 8.5%. She indicated the increase is due to a 5.1% increase in labor cost and 3.4% increase in labor cost to CIP and developer deposits. She stated that as growth slows down labor will be shifted away from some of the developer work which will increase the operating budget. She stated, however, that benefits have gone down in cost by a total of 38.2% due to the implementation of the Blue Cross Program and the reduced cost in the Workers Compensation Insurance.

President Bonilla inquired what the impact would be to the budget if the District did not move to the Blue Cross Program. Accounting Manager Bell indicated that the increase in benefit costs would have been 8% versus 1.2%. President Bonilla indicated that he would like staff to note this in the reporting somehow.

Chief of Administration Rom Sarno indicated that the FY07 budget does not include any staff increases. He stated that there were nine positions requested by various departments. The senior management team reviewed the critical staffing needs and identified two vacancies (Engineering Technician within Development Services and a Scheduler/Planner within Operations) and converted the vacancies into a Customer Service Representative in Finance and a Database Administrator for Information Technology. It was discussed that the workload for the Scheduler/Planner was part of the IMS project and it was felt that it was not needed at this time (possibly in a year or two) and the Engineering Technician was a plan checker whose functions were moved to Engineering and Planning. Chief of Administration Sarno indicated the district's need for customer service and meter reading will be augmented with temporary positions until staff identifies long term permanent needs and the impact of the AMR program. General Manager Watton indicated that as positions open, staff is utilizing the openings as an opportunity to reconfigure work or skills sets without impacting the existing workforce. President Bonilla indicated the board would like to see staff who have an interest in moving up to have an opportunity to apply for open positions prior to hiring from the outside. Chief of Administration Sarno indicated that statistics show that last year 80% of hires were from internal candidates and the year prior it was 20%. General Manager Watton indicated that the district has very good internal candidates who are working hard and are preparing themselves to be promoted.

Accounting Manager Bell indicated that administrative expenses are increasing by 25.1% ($1.1 million) due to:

- Increased cost from Strategic Plan Initiatives
    - Clean and maintain reservoir floating covers and divers for inspection ($148,000)
    - New agreement with Sweetwater Authority and the hiring of a Grant Applicant Consultant ($25,000)
    - Human Resources for Negotiations and a Class and Compensation Study ($90,000)
- New Items to Budget
    - Banking Fees ($117,500)
    - Collection Services ($15,000)
    - Real Estate Appraisals ($12,000)
- True-up of Budget to Actual Expenses
    - Legal Outside Counsel Services ($146,000)
    - HR for Recruitment Expenses ($18,000)
    - IT for Network Services ($30,000)
    - Conservation Incentives Expenses that were previously netted against revenue ($29,000)
    - Office furniture and equipment which was previously budgeted within the CIP ($35,000)
- Cost or Service Level Increases
    - Cathodic Protection Contract ($85,000)
    - Paving Contracts ($47,000)
    - Outsource Lab Analysis ($30,000)
    - Increased Environmental ($48,000)
    - Outsource Meter Box Cleanout ($25,000)
    - Maintenance Contracts ($29,000)
    - Postage due to Volume Increase ($15,300)
    - Facilities Maintenance Contracts and Services ($142,800)
    - Customer Bill Print due to Volume Increase ($27,500)
- Shifts form Materials to Administrative (from contract services to outside services due to a misunderstanding of what the items actually were)
    - o Cathodic Protection ($30,000)
    - o Painting ($200,000)
    - o Paving ($60,000)

Director Robak inquired what the district received on average in interest for its various accounts. Accounting Manager Bell indicated approximately $1 million annually for those accounts that belong within the General Fund.

Accounting Manager Bell reviewed increases in the materials and maintenance budget of 9.1% ($384,400) and the Replacement Reserve of 353.4% ($3,538,700) and a decrease of 100% in Debt Service expenditures. She stated that the Replacement Reserves is now being funded rather than the Expansion Reserve as per the Reserve Policy and the Debt Service was previously shown as an Operating Expense in the General Fund and it will now be shown as an expense of the appropriate reserve. She stated that this change will allow the district to show the full cost of these programs.

She indicated that the District's operating budget for potable, recycled and sewer total $59,070,600 in revenues and expense. Staff believes that a balanced budget is being presented which includes the 5.4% rate increase for Potable and Reclaimed and a 5.8% increase in sewer charges. She requested that the board adopt Resolution No. 4079 to approve the 2007 Operating and CIP budgets; adopt Ordinance No. 510 to approve changes in the water rates, system fee, CWA/MWD fixed fee, sewer rate, annexation fee and customer service fees; and approve the fund transfers of $12.6 million.

Director Breitfelder indicated that he appreciated staff attributing debt to the appropriate reserves rather than the general fund and that the Worker's Compensation savings which certainly helps. He indicated that the true-ups were a step in the right direction and he was appreciative that staff was keeping a close eye on annexation fees. He stated that he was fine with the 5.4% increase, but he took time to think about the distribution of the increases. He stated what sold him on the increases was the fact that it had been 14 years since some of the fees had been adjusted. He stated if there was a similar distribution next year, he would certainly like to discuss it and he wished staff to be aware of this.

Director Croucher inquired how much of the 5.4% increase would be attributed to CWA rate increases. Accounting Manager Bell indicated that 54% of the 5.4% increase will go directly to CWA and the rest is cost increases from the District's CIP and operating costs.

Director Lopez commended staff on their work on the budget and their handling of the dramatic drop in meter sells and its affect on the budget.

Director Robak inquired if the District typically issues bond debt for CIP programs. Accounting Manager Bell indicated that the District has not issued debt since 1996 which was refinanced (in 2004). She stated that it is common and the practice is that the organization should match long term facilities with financing over the long term. She stated that it would not make sense to issue debt to pay for your water bill, however, it would make sense to issue debt for a facility that would last 30 to 50 years. She stated that if the cost was collected through water rates, today's customers would pay for the facility and future customers would not pay their fair share. She stated that it is a way to spread the cost over the life of the facilities. Director Robak indicated that it has been approximately 10 years since the district has issued debt and he wished to know why the district has decided to issue debt this upcoming fiscal year. Accounting Manager Bell indicated that the district has had excess reserves from the large amount of capacity fees received because of the rapid growth of the district's service area and has utilized the reserves for new facilities in past years. She stated that the district is at a point where growth is slowing and the district must either raise rates or issue debt. She stated that staff would rather use a mix of rates, reserves and debt. Director Robak asked how much more debt is planned in the next five to six years. Accounting Manager Bell indicated that staff has gone out six years in the rate model, and staff plans to issue debt three times during the next six years. Director Robak asked when reviewing the budget if staff looks at other possible cost effective solutions than what the district is currently doing. For example, outsourcing the valve exercise program which would take a lot of manual labor.

President Bonilla indicated that yes it has and over the last five to six years the district has reviewed each year the possibility of outsourcing versus the expense of continuing to do the work and how it would fit into the District's business plan. He stated that decisions were based on what was known at the time to the best of the district's knowledge.

Director Robak inquired why there was such a variation in the percentage increases in the different expense categories (ie., labor and benefits increase by 20%, potable water increased 10.9%, recycled water decreased 25%, etc.). Accounting Manager Bell indicated that when staff converted systems, the district moved to a "fund structure" where potable, recycled and sewer costs and revenues can be tracked. The district now has some history on how employees are charging time on their timesheets (potable, recycled or sewer). She stated now that we have a better history of what is actually happening, staff can do a better job of budgeting by system. She stated that all overhead used to stay in the potable fund and now staff is allocating those cost over to recycled, sewer, CIP, developer deposits, etc. She indicated that the goal is to allocate charges for labor fairly to each system so each class pays their fair share of costs. The large fluctuation is not expected next year unless there is a change in focus.

President Bonilla requested that he would like staff to bring periodic updates to the board on the budget. He stated that if there are any considerable changes, he would like to see a mechanism in place to bring the budget back for the board to review the change.

A motion was made by President Bonilla, seconded by Director Breitfelder and carried with the following vote:

Ayes:	Directors Bonilla, Breitfelder, Croucher, Lopez and Robak
Noes:	None
Abstain:	None
Absent:	None

to adopt Resolution No. 4079 approving the FY07 operating and capital budget and Ordinance No. 510 approving the amendments to various sections of the District's Code of Ordinances as recommended by staff.

A motion was made by Director Breitfelder, seconded by Director Lopez and carried with the following vote:

Ayes:	Directors Bonilla, Breitfelder, Croucher, Lopez and Robak
Noes:	None
Abstain:	None
Absent:	None

to approve the fund transfers as recommended by staff.

7. ADJOURNMENT

With no further business to come before the Board, President Bonilla adjourned the meeting at 5:38 p.m.

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President

ATTEST:

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District Secretary