

**MINUTES OF THE  
BOARD OF DIRECTORS MEETING  
OTAY WATER DISTRICT  
November 1, 2006**

1. The meeting was called to order by Vice-President Lopez at 3:34 p.m.

2. ROLL CALL

Directors Present: Breitfelder, Croucher, Lopez and Robak

Directors Absent: Bonilla (had business matters that he must attend to and was unable to attend the board meeting)

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 Operations Pedro Porras, Chief of Engineering 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 Croucher, second by Director Breitfelder

Ayes: Directors Breitfelder, Croucher, Lopez and Robak

No's: None

Abstain: None

Absent: Director Bonilla

to approve the agenda.

5. APPROVAL OF MINUTES OF THE REGULAR BOARD MEETING  
SEPTEMBER 6, 2006

District Secretary Susan Cruz indicated that Director Breitfelder requested that a sentence in the first full paragraph on page 13 of the minutes for September 6, 2006 board meeting be amended as follows:

*He stated that in this one instance he wished to make an exception and would like to share that it has always been very clear to him from his conversations with President Bonilla over the years that he cares very much about all the employees of the District and wished for everyone to have a good family ~~life~~ **like work environment.***

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

Ayes: Directors Breitfelder, Croucher, Lopez and Robak  
No's: None  
Abstain: None  
Absent: President Bonilla

to approve the minutes of September 6, 2006 as amended above.

6. 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

Mr. Oscar G. Polster of Chula Vista wished to address the board to request the installation of a separate water meter for landscape water use at his home. This would allow the separate metering of landscape water and, thus, would not be included in the City of Chula Vista's calculation of sewer fees. He suggested that the additional landscape meter could be installed at the homeowner's expense and the homeowner would also pay a fee for the District to read the additional landscape meter. He asked the District if they could please develop a program for homeowners who would like to install a separate landscape meter.

Vice-President Lopez asked staff if they could please review Mr. Polster's request. General Manager Watton indicated that staff would research and bring back its findings to the next board meeting.

CONSENT CALENDAR

7. ITEMS TO BE ACTED UPON WITHOUT DISCUSSION, UNLESS A REQUEST IS MADE BY A MEMBER OF THE BOARD OR THE PUBLIC TO DISCUSS A PARTICULAR ITEM:

Director Robak requested that item 6d, APPROVE UTILITY AGREEMENTS NO. 31756 AND 31817 WITH CAL-TRANS FOR THE SR 905 UTILITY RELOCATIONS, be pulled from the consent calendar for discussion.

A motion was made by Director Croucher, seconded by Director Robak and carried with the following vote:

Ayes: Directors Breitfelder, Croucher, Lopez and Robak  
No's: None  
Abstain: None  
Absent: Director Bonilla

to approve the following consent calendar items.

- a) APPROVE A RESOLUTION OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT FIXING TERMS AND CONDITIONS FOR THE ANNEXATION TO OTAY WATER DISTRICT IMPROVEMENT DISTRICT OF THOSE LANDS DESCRIBED AS "CHAVEZ ANNEXATION" (APN 595-020-17) AND ANNEXING SAID PROPERTY TO OTAY WATER DISTRICT IMPROVEMENT DISTRICT NO. 22/27 (WO 00210-20.282/DIVISION 4)
- b) RECEIVE INFORMATION ON THE DISTRICT'S SCHOOL EDUCATION PROGRAM
- c) RECEIVE INFORMATION ON THE 2006 CUSTOMER SURVEY
- d) AWARD A CONSTRUCTION CONTRACT FOR THE LOWER OTAY PUMP STATION ACCESS ROAD TO KOCH-ARMSTRONG GENERAL ENGINEERING, INC. IN THE AMOUNT OF \$76,800
- e) APPROVE AN AGREEMENT BETWEEN THE SAN DIEGO COUNTY WATER AUTHORITY (CWA) AND THE OTAY WATER DISTRICT FOR THE DESIGN, CONSTRUCTION, OPERATION, AND MAINTENANCE FOR THE OTAY 14 FLOW CONTROL FACILITY MODIFICATIONS CONTINGENT UPON CWA BOARD OF DIRECTORS APPROVAL OF SUBSTANTIALLY THE SAME

INFORMATION / ACTION ITEMS

- 8. ENGINEERING AND WATER OPERATIONS (Does this belong here?)
  - a) APPROVE UTILITY AGREEMENTS NO. 31756 AND 31817 WITH CALTRANS FOR THE SR 905 UTILITY RELOCATIONS

General Manager Watton indicated that he had a discussion with Director Robak regarding this item as it is a little confusing in determining from the attachments what each agency is responsible for paying. He stated that staff has provided on the dias a new table to better delineate the responsibilities of each agency and the cash flow.

Director Robak indicated that he understands that there are two lines that are being relocated due to the construction of the 905 in which the District is planning to make some upgrades (betterment). He inquired if CalTrans would be paying for the construction cost as it was not very clear in the staff report and if the District would only be responsible for the cost difference for the upgrade it is requesting. Asst. Civil Engineer Martha Riendeau indicated that that was correct. She stated per Utility Agreement #31756, the District is responsible for \$809,820 of the total construction cost of the pipeline of \$1,094,730. She stated that because the majority of the pipeline (approximately 2/3) is being constructed outside of CalTrans right-of-way and the line is being upgraded from a 12" line to a 20" line at the request of the District, Otay must pay a majority of the

construction cost. She stated that CalTrans' responsibility would only have been to replace 900 linear feet of 12" pipeline at a cost of \$284,910 without the District's requested improvements. It was noted that because the District has prior rights, CalTrans is responsible for the design, inspection and construction less the cost of betterment and depreciation.

Asst. Civil Engineer Riendeau indicated that Utility Agreement 31817 is completely different. She stated that the District had completed 100% of the design plans of the water line and CalTrans requested, after the plan were complete, that they wished to add a storm drain. She indicated the cost to redesign that portion in-house was \$8,600. The District has prior rights and, thus, CalTrans has agreed to reimburse the District through Utility Agreement 31817 for the cost of the redesign.

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

Ayes: Directors Breitfelder, Croucher, Lopez and Robak  
No's: None  
Abstain: None  
Absent: Director Bonilla

to approve staffs' recommendation.

Director Croucher thanked Director Robak for requesting clarification prior to the meeting so staff had time to prepare a response to his questions.

## 9. ADMINISTRATION AND FINANCE

- a) ACCEPT THE DISTRICT'S COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR), INCLUDING THE INDEPENDENT AUDITORS' UNQUALIFIED OPINION, FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Accounting Manager James Cudlip indicated that the CAFR was reviewed by the Finance and Administration Committee at a meeting held on October 20, 2006. He indicated that staff is once again pleased to report that the District's auditor has performed an audit of the District's financial statements for Fiscal Year 2006 and has issued an "Unqualified Opinion" which is the highest rating that can be issued. He stated that the audit found no material weaknesses, no exceptions or issues, and no weaknesses in internal control. He stated that the District's balance sheet shows a/an:

- Decrease of current assets of \$6.9 million
- Increase in Capital Assets of \$35.5 million
- Decrease in Restricted Cash of \$14.4 million

- The decrease is directly related to the increase in Capital Assets due to the amount of construction and major projects during the fiscal year.
- Increase in Accounts Payable of \$3.1 million
  - Which is directly related to the capital expenditures.
- Decrease in Long Term Deb of \$1.5
  - Which is the normal annual draw down of the current debt issues.

Accounting Manager Cudlip noted that the District's income statement showed an Increase in Operating Revenue of \$6 million due to a/an:

- Increase in Water Meter Sales: 835 sold this fiscal year
- Decrease in Rainfall: 16.45 inches of rain this fiscal year
- Increase in Potable Rate of 3.9%
- Increase in the Sewer Rate of \$4/ASU

He noted that the District also had increased investment income of \$1.1 million as the federal fund rates have been slowly increasing and increases in property values have provided taxes and assessment revenue of \$.5 million. He stated on the expense side, the District had an increase of \$1.3 million in pension and insurance cost and capital contributions of \$11 million. Total net assets increased by \$11 million over the fiscal year.

He stated that, as in the past two years, the CAFER would be submitted to the Government Finance Officers Association (GFOA) and to the California Society of Municipal Finance Officers (CSMFO) for consideration for awards.

The District's auditor, Mr. Rich Teaman of Teaman Ramirez and Smith, Inc., indicated that his firm has issued an "Unqualified Opinion" or clean opinion which is the highest level opinion that can be presented from the audit community. He stated that it is their role to review the financial numbers and determine if the numbers are fairly presented and not misleading to the public and he is happy to report that they have found that the financial numbers are fairly presented.

Mr. Teaman noted that this is third year that the District has put together a CAFR. He noted that this year's CAFR includes a new footnote, footnote number 6, related to segment information. He stated that the footnote provides a little more detail by breaking down some of the assets, liabilities, revenues and expenses between water and sewer activities. He stated that the statistical section, located at the back of the CAFR, has been completely redone in accordance with GASB pronouncements as required.

Director Breitfelder indicated that in conversation with other directors, not all within government agencies, there seems to be a common desire to have interaction with the auditors in the early part of the audit. Mr. Teaman indicated that they are seeing that there is a trend going in that direction, more within the government sector recently. He stated the commercial segment of the market was moving in that direction the past two years. He stated that such interaction

is generally through a committee of the governing body or an Audit Committee. He stated prior to the commencement or the beginning of the initial phase of the audit, the audit team, members of the district staff and the Audit Committee would meet and discuss the audit in terms of the areas of specific concern or in general how the audit will be approached. He stated that focus of the audit is to state an opinion on the agency's financial statement, so discussions would be focused on the financials. He stated at the conclusion of the audit, the audit team, district staff and the committee would meet and discuss the findings of the audit.

General Manager Watton indicated that there was discussion by the District's Finance and Administration Committee in January 2006 in involving the committee in the discussions of the audit process as it is one of the most important functions of the board. He stated that staff has developed a schedule for the audit next year in which the Finance and Administrative Committee would meet with staff and the auditors in the early part of the audit process. He noted that part of the audit is the element of surprise and, thus, the auditor will not reveal to the client (the District) what he will be reviewing. However, if the board had an interest in certain areas that they would like the auditor to specifically review it can be added to the auditors work plan.

Director Robak indicated that the Finance and Administration Committee received a copy of the draft CAFR. He stated that the committee had not expected to have a completed audit presented for review as it was thought that they would meet with the audit firm on the work plan progress prior to the audit. He indicated that it was good that the Finance and Administration Committee has been included in the schedule for the audit review process next year. He stated as the CAFR was very detailed, he had indicated that he would take the time to review it prior to today's board meeting and that he had reviewed it in detail with General Manager Watton yesterday. He stated that he did have additional questions and inquired with regard to the Statement of Net Assets concerning "Cash and Cash Equivalents" went from \$6.62 million in 2005 to \$0 in 2006. He indicated that he reviewed "Note 2" as indicated and it did not address the reason for the large balance change.

Mr. Teaman indicated that the footnotes do not explain fluctuations between balances. He stated that such fluctuations are addressed in the management discussion analysis section where management makes its interpretation of the financial impact of what happened during the year. Footnotes typically explain policies and procedures of how things are accounted for. It covers required disclosures from a compliance aspect, such as, did the district follow the law, etc. He stated that the money in this particular case was used primarily for capital outlay purposes and, as noted earlier, was utilized to fund a substantial amount of capital asset increases this year. Director Robak inquired if it should not be cross referenced with the management discussion. Mr. Teaman indicated that there are specific guidelines in GASB as to tying together the statements and management discussions. He stated the reason may be that because many organizations do not present a CAFR and management discussions are not

included with financial statements if the organization does not present a CAFR, they, thus, do not include tie backs to the management discussion because they would not exist. He stated that he believed that the final document (CAFR) would have the added reference to the management discussion.

It was noted that all items which Director Robak discussed with General Manager Watton had been incorporated into the new copy of the CAFR distributed at today's meeting.

Director Robak inquired with regard to the authorized unissued debt from 1960 through 1989, if it is pretty clear that the District has no intention of issuing the debt. General Manager Watton indicated that that was correct. Director Robak inquired what would be required to remove the authorized unissued debt from the district's reporting requirements. General Manager Watton indicated that it is not certain, but staff will refer the question to General Counsel for guidance on how and if it can be done.

Director Robak inquired if a glossary of terms, similar to the District's Investment Policy, could be added to the CAFR for next year as he felt it would make it more user friendly. Mr. Teaman indicated that he has never seen such a glossary added to financial statements. He suggested that the District, as it submits the CAFR to the GFOA and the CSFMO for award consideration, speak with them on how such a glossary would impact the presentation and the District receiving an award for its CAFR.

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

Ayes:	Directors Breitfelder, Croucher, Lopez and Robak
No's:	None
Abstain:	None
Absent:	Director Bonilla

to accept the District's Comprehensive Annual Financial Report (CAFR), including the independent auditor's unqualified opinion for the Fiscal Year ended June 30, 2006.

b) INFORMATIONAL ITEM. IN LIGHT OF THE SUPREME COURT'S DECISION IN BIGHORN DESERT VIEW WATER AGENCY V. VERJIL, THE DISTRICT WILL BE SCHEDULING A PUBLIC HEARING ON JANUARY 3, 2007, DURING ITS REGULARLY SCHEDULED BOARD MEETING, TO CONSIDER PUBLIC COMMENT AND INPUT RELATED TO ITS RATE STRUCTURE AND THE RATE INCREASE PROPOSED IN MAY 2006 FOR IMPLEMENTATION IN JANUARY OF 2007

General Counsel Yuri Calderon indicated that because of the State Supreme Court's decision in the Big Horn matter, which he discussed in a previous board meeting, there is some uncertainty created by the court as it did not address

whether the decision was retroactive or became effective from the date of the ruling. As such, it is difficult for bond counsel to make a conclusive opinion to assure the purchasers of the bond that their bonds were valid. The District's situation is also unique in that the rate increase was approved prior to the Big Horn ruling, however, the increase will not take effect until January 2007 after the ruling. Thus, it is recommended that the District comply with Proposition 218 requirements and solicit comments from the District's ratepayers. The board then revote or reaffirm the rate increase.

Chief Financial Officer Beachem indicated that a notice (copy attached to staff report) was being sent to customers regarding the rate increase and hearing. He stated, at this time, approximately half of the District's customers have received the notice. Another mailing to approximately 5000 customers who are owners but not occupants will be sent out very soon. He stated that the District has received one letter of opposition and one phone call from customers who have received the notice. He indicated that based on past hearings for sewer increases, the District does not expect that many customers would attend the hearing. It was noted that this process would be followed in future for all rate increases.

Director Croucher suggested that staff develop a document with speaking points indicating the reasons the rate increases are needed for the customer service staff members as they would be receiving the calls/questions concerning the proposed rate increases.

Director Breitfelder inquired if the current bond issuance is tied to future rate increases. Chief Financial Officer Beachem indicated that they are directly tied. He stated that staff utilizes the rate model to determine how much debt the District will need to issue in two, three and five years from now. He stated the amounts are input into the rate model and if the amounts are changed, it changes the rates that the District will need to implement to maintain its finances. He stated that the District must meet a debt coverage ratio of 120%, that is, its revenues must be 120% above debt payments. He stated that the District sets a target slightly above at 125%. By doing so, it makes the rating agencies and bond market feel comfortable with the amount of debt the District issues.

Director Breitfelder inquired if after the bonds are issued today, future boards of the district decide not to raise rates, what would occur? General Manager Watton indicated that staff has presented a six year budget and rate projections. He stated that everything the District does – capital projects, debt issuances, finance plan, reserves, etc. – is all tied into the rate model and rates. If any of these items/policies are changed, it will affect rates. If the board in future made decisions concerning capital projects or rates, those decisions could be input into the rate model and the result is either rates go up if wish to expand capital projects or rates go down if wish to reduce spending on capital projects. He stated that essentially, if the District decided it will not increase rates as planned/projected in the rate model, the District would need to either reduce its reserves or reduce capital projects.

10. BOARD INFORMATION / ACTION ITEMS

a) DISCUSSION OF 2006 BOARD MEETING CALENDAR

Director Croucher indicated that he would be out-of-town from December 5 thru 7, 2006 and will be unable to attend the December board meeting. He will be traveling to Maryland.

REPORTS

11. GENERAL MANAGER'S REPORT

General Manger Watton indicated that staff is starting to get information back on the compensation study and the health care issues. He stated that the information from the compensation study will be shared with the Employee Association and the Ad Hoc Employee Negotiations Committee very soon.

He stated that the District received a Certificate of Achievement from the California Highway Patrol for six consecutive years of Satisfactory Fleet Safety Inspections. He noted that this is a large program in which the shop, its records, and vehicles are inspected. He stated that every fleet manager strives for this certificate and he wished to congratulate staff who is responsible for the fleet.

General Manager Watton indicated that Chief Information Officer Geoff Stevens presented a paper at the Business Process Innovation Summit Conference on October 17' 2006. He indicated that he presented on the District's information systems and how well the District has been able to integrate those systems. He stated that it is something most businesses strive for today and though it sounds simple, in practice, it is extremely difficult and many companies have had expensive starts and stops in trying to integrate their systems.

He indicated that staff has been talking to underwriters, insurance companies and the rating agencies in preparation of the \$27.5 to 28 million bond sale. He stated that staff will be meeting with the rating agencies to provide them an update on what the District has been accomplishing in hopes to improve the District's rating.

He also shared that the fee to pay water bills at the Postal Annex has increased from \$.50 to \$1.00. He stated that staff has not heard any complaints on the increase, but he wished to note the increase to the board should they happen to hear from their constituents.

General Manager Watton indicated that with regard to the East County Regional Treated Water Improvement Program, the Flow Control Facility No. 14 Agreement to increase the capacity of the facility to 16 MGD has been finalized with SDCWA and the design contract has been awarded. He stated that the

project is very important for the north district water supply and is moving along well.

He lastly shared that the District has received the first disbursement of approximately \$2.5 million of the \$4 million Proposition 50 grant money. He stated that staff expects to apply for the remaining balance in March 2007 upon completing the supply link to the City of San Diego's South Bay Water Reclamation Plant. He stated that the District also received the first payment of \$1.2 million from the Bureau of Reclamation Title XVI grant for the reclamation project as well.

## 12. SAN DIEGO COUNTY WATER AUTHORITY UPDATE

General Manager Watton indicated that a big topic of discussion at CWA currently is if the meeting of the agency general manager's prior to each CWA board meeting should be open to the CWA board members. It has become a complicated discussion and has been agendized for discussion at a workshop to be held tomorrow. He stated that they will also be discussing CWA's \$3 billion CIP program at the workshop and the timing of these projects as costs are escalating. He also shared that CWA would be electing officers at the end of the month of November. He indicated that it is pretty clear who the officers will be for the upcoming year as each officer position is running unchallenged. It is expected that Fern Steiner will be elected chair, Bud Lewis will be elected vice-chair and he (General Manager Watton) will be elected secretary. He indicated that the city of San Diego appointed their Water Department Director, Mr. Jim Barrett, to serve on CWA's board. It is expected that Mr. Barrett will also be appointed as a CWA delegate to MET. The delegates will be Mssrs. Jim Bond, Bud Pocklington, Joe Parker and Jim Barrett.

Director Croucher congratulated General Manager Watton for receiving the CWA board's support in his nomination for Secretary. He stated that there were other individuals nominated, however, they declined the nominations in support of General Manager Watton. He stated that the new leadership at CWA will be working to improve CWA's working relationship with MWD. General Manager Watton indicated that he wished to clarify that the CWA members have a very good social relationship with MET, however, they wish to focus on improving the business relationship with MET.

## 13. DIRECTORS' REPORTS/REQUESTS

Director Robak thanked staff for the new graphical representation of the District's investments that was included with the investment report. He shared that the Water Conservation Garden Festival was success. He indicated that approximately 1500 people attended the event and the new CWA chair, Ms. Fern Steiner also attended. He stated that he was very encouraged by her show of support. He stated that Mr. Scott Tullock from the City of San Diego has moved to the City of Chula Vista as their Director of Engineering. He indicated that he has had an opportunity to get to know Mr. Tullock through the Metro Commission

and felt that he would be a good asset to the City of Chula Vista. He lastly requested that staff provide an update on the regional Joint Agency Shared Resources Committee and the work that they are currently doing.

Director Croucher indicated that he attended the Special District Risk Management Authority (SDRMA) educational training and he wanted to assure that the District received credit for his attendance from SDRMA. He asked District Secretary Cruz if she could please follow-up to assure that the credits are received. District Secretary Cruz indicated that she would work with Chief of Administration Rom Sarno as he oversees the SDRMA policy.

Director Breitfelder indicated that he attended the Water Agencies Association meeting and they discussed the fluoridation issue and the comments that can be expected from the community when fluoridation is implemented. He also shared that he attended the Council of Water Utilities meeting and an author spoke about water issues from a historical perspective with regard to Southern California and the state of California as a whole. He stated that he was impressed that during the height of the great depression, the public had voted to approve huge investments in many water projects. He stated that during that time many of the people with decision making power were involved at the grass roots level and were always out in public meetings explaining why water projects were very critical. He stated that the environment was quite extraordinary. Director Breitfelder also inquired if staff could please update the board on the details of the District's investments. It was discussed that an update would be provided to the Finance and Administration Committee.

Director Lopez indicated that the Ad Hoc Negotiations Committee met and that he was very pleased with the information they received and with the direction of negotiations.

Director Croucher noted that the premium increase for the San Miguel Consolidated Fire Protection District's PERS retirement system came in much higher than expected. He asked if the same situation occurs at Otay, if it can be presented to the Ad Hoc Negotiations Committee for discussion. General Manager Watton indicated that the District has been made aware that the District's PERS retirement premium has increased 6/10 of a percent. He indicated that staff will present it to the Ad Hoc Committee.

## RECESS TO CLOSED SESSION

### 14. CLOSED SESSION

The board recessed to closed session at 5:05 p.m. to discuss the following matter:

- a) POTENTIAL LITIGATION [GOVERNMENT CODE §54956.9]  
ONE (1) NEW CASE]

RETURN TO OPEN SESSION

15. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION. THE BOARD MAY ALSO TAKE ACTION ON ANY ITEMS POSTED IN CLOSED SESSION.

The board reconvened from closed session at 5:22 p.m. General Counsel Calderon indicated that no reportable actions were taken in closed session.

The board discussed a claim submitted by Mr. Samuel Q. Brown in closed session. A motion was made by Director Croucher to deny Mr. Brown's claim as the investigation was not yet fully complete in the matter. The motion was seconded by Director Breitfelder and carried with the following vote:

Ayes:	Directors Breitfelder, Croucher, Lopez and Robak
No's:	None
Abstain:	None
Absent:	Director Bonilla

16. ADJOURNMENT

With no further business to come before the Board, Vice-President Lopez adjourned the meeting at 5:23 p.m.

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President

ATTEST:

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District Secretary