

**MINUTES OF THE
BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT AND
OTAY SERVICE CORPORATION
January 3, 2007**

1. The meeting was called to order by President Croucher at 3:31 p.m.
2. SWEARING IN OF OFFICERS CEREMONY

General Manager stated that Director Croucher took the oath earlier today with the District Board Secretary.

John McCann congratulated the re-elected Boardmembers, Larry Breitfelder and Gary Croucher. Mr. McCann officiated Director Breitfelder's swearing in as Director for Division 1. Director Breitfelder addressed the Board and members of the audience indicating his gratitude to serve on the Board as a representative for Division 1.

3. 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 Rod Posada, Chief of Operations Pedro Porrás, Chief of Administration Rom Sarno, District Secretary Susan Cruz and others per attached list.

4. PLEDGE OF ALLEGIANCE
5. ELECTION OF BOARD PRESIDENT

A motion was made by Director Robak, 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 elect Director Croucher as president.

6. ELECTION OF BOARD VICE PRESIDENT

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

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

to elect Director Lopez as vice president.

7. ELECTION OF BOARD TREASURER

A motion was made by Director Robak, 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 elect Director Bonilla as treasurer.

8. APPROVAL OF AGENDA

A motion was made by Director Bonilla, 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.

9. PUBLIC HEARING ON RATE INCREASE

The Board opened a public hearing at 3:52 p.m. to hear the publics' comments on the proposed rate increase to be implemented in calendar year 2007. The Board invited members of the public to address the board on the proposed increase. No one wished to be heard.

- a) APPROVE THE IMPLEMENTATION OF THE RATE INCREASE AS PROPOSED BY THE FISCAL YEAR 2006-2007 OPERATING AND CAPITAL BUDGET (BEACHEM)

Chief Financial Officer Beachem indicated that the rate increases were approved by the board with the adoption of the Fiscal Year 2007 budget at a Special Board Meeting held on May 30, 2006. He stated that a public hearing is required to comply with Proposition 218 in order to implement the proposed increases effective January 3, 2007. He stated that holding such a hearing would also support the planned debt issuance.

Mr. Beachem explained that the District's Reserve Policy defines the desired financial stability and strength of the District. It drives the rate model which assists staff in calculating rates and the budget for a six year period. The rate model helps determine a smooth rate structure to meet the identified reserve targets.

He stated that the second best management practice is the District's strategic plan. This plan defines the District's desired level of efficiency and professionalism. The Strategic Plan also drives the operating and capital budget and defines the financial requirements in order to attain the strategic objectives.

He stated that staff is proposing a rate increase of 5.4% for water and 5.8% for sewer effective January 3, 2007. These increases are consistent with the District's operating budget and will fund a balanced budget and increased costs. The increased costs include rate increases from the District's water suppliers CWA and MWD, increased energy costs, system-wide facility upgrades, such as emergency storage and reliability programs (recycled and desalination projects).

A small portion of the revenue generated from the rate increase will fund new regulatory requirements such as air-vac relocations, reservoir covers and the valve exercising program. It will also cover the AMR program which is building efficiencies for the future.

Mr. Beachem concluded that even with these increases in water rates, Otay's rates are still slightly less than average compared to other water agency rates in San Diego County. Staff requests that the Board approve the implementation of the rate increase as proposed by the fiscal year 2006-2007 Operating and Capital Budget.

General Counsel Calderon indicated that the letters received from customers in opposition to the rate increase be made a part of the permanent record of this public hearing. Copies of these letters were provided to the Board with the staff report.

Director Breitfelder indicated that it would cost the public more in the long run if rates were not raised at this time. He asked the General Manager to explain the repercussions if rates were not increased now and how it would impact rates in the future.

General Manager Watton indicated that present actions of the District will have consequences in the future. Over the past couple of years, staff has worked with the Board on different policies concerning the budget and rates. In particular, the debt plan, financial plan, and the reserve plan all are very interactive to the financial health of the District. He explained that the Board's decision to raise rates or not raise rates has a direct impact on the operations of the District. A more moderate increase now will prevent sharp rate increases in the future when the District encounters unexpected expenses such as changes in safety and health standards by other governmental agencies such as the APCD and other regulatory agencies.

There was discussion concerning how staff can better communicate and distribute information to ratepayers regarding rate increases and the impact of such issues as Proposition 218. Director Robak expressed the need for the District to keep the ratepayers informed of increases that are passed along from Metropolitan Water District and San Diego County Water Authority to Otay. It was noted in order to keep the system running and prevent breaks, the District has to be proactive in maintaining the system which also calculates into the District's costs and rate increases.

President Croucher indicated that the District is concerned about maintaining the system and being responsible to its ratepayers while maintaining reasonable rates.

Director Bonilla indicated that he would like to suggest that the District allow the ratepayers to contact the District by email with regard to Proposition 218 notices.

A motion was made by Director Robak, 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 approve the implementation of the rate increase as proposed by the fiscal year 2006-2007 Operating and Capital Budget.

The Board concluded the public hearing regarding the rate increase at 4:12 p.m.

10. 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. Kevin McGill addressed the Board regarding his water bill. He indicated that he and his wife have been ratepayers in the District since 1968 and have always paid their water bill on time. He indicated that an unexplained credit had

appeared on their bill and they had paid the remaining balance of \$8 on time. They then received a tag to call the Otay Customer Service Department. When they called, the customer service department indicated that they owed \$81 on their account due to an incorrect billing. Ms. McGill requested a new bill indicating the amount owed. They never received a new bill and received another tag on their door and their water service was discontinued. Ms. McGill called Customer Service and had paid the outstanding balance by credit card to restore their water service. Mr. McGill asked that the Board please look into this matter as he felt that more communication is needed between customers and the District before water service is discontinued.

President Croucher asked that General Manager Watton look into the matter. General Manager Watton apologized to Mr. McGill and assured him that he would look into his situation and respond to him on his findings.

11. RECESS FOR A PRESENTATION TO OUTGOING BOARD PRESIDENT AND RECEPTION

The Board recessed at 4:18 p.m. for a presentation to outgoing Board President Bonilla. Director Bonilla thanked the Board for their support and thanked General Manager Watton for his work and support.

12. RECONVENE OTAY WATER DISTRICT BOARD MEETING

The Board reconvened at 4:36 p.m.

13. RECESS OTAY WATER DISTRICT BOARD MEETING

The Board recessed at 4:36 p.m.

14. CONVENE OTAY SERVICE CORPORATION BOARD MEETING

President Croucher convened a meeting of the Otay Service Corporation at 4:36 p.m.

15. ROLL CALL

Directors Present: Bonilla, Croucher, Breitfelder, Lopez and Robak

16. ELECTION OF OFFICERS

A motion was made by Director 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 elect Gary Croucher, Jose Lopez and Jaime Bonilla as the Otay Service Corporation's president, vice-president and treasurer respectively.

17. APPOINTMENT OF OFFICERS

A motion was made by Director 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 appoint General Manager Mark Watton, Chief Financial Officer Joe Beachem and District Secretary Susan Cruz as the Otay Service Corporation's executive director, chief financial officer and secretary respectively.

18. ADJOURN OTAY SERVICE CORPORATION BOARD MEETING

President Croucher adjourned the Otay Service Corporation board meeting at 4:37 p.m.

19. RECONVENE OTAY WATER DISTRICT BOARD MEETING

The Board reconvened at 4:37 p.m.

CONSENT CALENDAR

20. 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:

A motion was made by Director Bonilla, 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 following consent calendar item 19a.

- a) APPROVE THE PROPOSED PRINCIPLES OF UNDERSTANDING WITH THE SAN DIEGO COUNTY WATER AUTHORITY AND CITY OF SAN

DIEGO FOR THE SAN DIEGO 17 PUMP STATION AND FLOW CONTROL FACILITY

Director Robak requested that Item 19b be pulled for further discussion.

- b) AWARD A PROFESSIONAL SERVICES AGREEMENT TO RBF CONSULTING FOR PROVIDING CONSTRUCTION MANAGEMENT SERVICES FOR THE 640-1 AND 640-2 RESERVOIRS PROJECT FOR AN AMOUNT NOT-TO-EXCEED \$1,196,735

Director Robak inquired if RBF Consulting's experience with Pacific Hydrotech had a strong bearing in their being selected as the construction management firm. Chief of Engineering Rod Posada indicated that it did not, however, it was an attribute that was in their favor. Director Robak indicated that the committee discussed that it is the construction management firm's highly specialized expertise that is required for the project and which the District did not have in-house. Director Croucher inquired if the District was considering developing an employee to the level of specialized expertise that will be provided by the construction management firm. General Manager Watton indicated that it would not as the specialized expertise was not utilized for every project and it would not be effective in doing so.

A motion was made by Director Robak, 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 award a professional services agreement to RBF Consulting to provide construction management services for the 640-1 and 640-2 Reservoirs project for an amount not-to-exceed \$1,196,735.

INFORMATION / ACTION ITEMS

21. FINANCE AND ADMINISTRATIVE SERVICES

- a) ADOPT RESOLUTION NO. 4092 AMENDING THE DEBT POLICY BOARD OF DIRECTORS POLICY NO. 45 (CUDLIP)

Staff requests that the Board adopt Resolution No. 4092 amending the Debt Policy (Policy No. 45).

It was indicated that the existing Debt Policy, Policy 45, was approved by the Board on April 13, 2004. The Debt Policy is being updated to meet best management practices, to obtain a certification of the policy, and to strengthen

the District's presentation to the national bond rating agencies. This effort will improve the District's financial management and help to obtain the highest practical credit rating and reduce the cost of the 2007 debt issuance.

The proposed changes have been added to the policy to further clarify guidance in the following areas:

- Legal and Regulatory Requirements: Specifies that the CFO will coordinate activities with legal counsel.
- Alternative Funding Sources: Adds State and Federal grants.
- Competitive and Negotiated Sale Criteria: Calculating true interest costs (TIC), and the payment of management fees.
- Continuing Disclosure: Posting copies of financial reports on the internet.
- Investment & Arbitrage Compliance: Investing bond proceeds in accordance with the District's Investment Policy.
- Rating Agency Applications: Obtaining a bond credit rating from more than one rating agency.
- Glossary: Provides additional financial definitions.

The proposed policy was submitted to several professional Finance organizations such as the Government Finance Officers Association, the Association of Public Treasurers of the United States and Canada, the California Municipal Treasurers Association and the California Society of Municipal Finance Officers. The District's policy was awarded the Debt Policy Certificate of Excellence.

It was discussed that in order to issue the new debt, the Board of Directors must approve the sale and the parameters (interest rate, etc.) of the bond issuance.

A motion was made by Director Robak, 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. 4092 authorizing the General Manager to execute the Principles of Understanding (POU) for San Diego 17 Pump Station and Flow Control Facility.

b) RECEIVE THE FINANCING PLAN FISCAL YEAR 2006 UPDATE (BEACHEM)

Mr. Beachem indicated that the Financing Plan was being updated to demonstrate the District's capacity to fund the approved six-year CIP budget.

This will require adequate coverage ratio from operations and capacity fees, maintaining targeted reserve levels and provide a sound financial foundation for future CIP projects.

The 2004 Financial Plan recommended implementation of a series of rate increases in anticipation of future financing of a portion of the CIP. The plan also anticipated that \$27.5 million in COPs be issued in 2007. This information was based on the rate model developed in 2003.

The current CIP projects underway are large-scale, regional projects. Construction for these projects is on budget or ahead of schedule which creates additional short-term cash flow demands. As a result, staff will need to increase the recommended amount of financing in 2007 to \$42 million.

He indicated that future financing in 2009 will be \$20 million and by 2011 it will be \$12 million. This will result in approximately 34 percent of the 2007-2012 CIP budget being funded with debt financing.

He indicated that the increase in the debt issuance would help maintain the reserves at the policy target levels which are an important component of the District's long-term financial strength. Debt issuance will also soften the impact on near-term rates allowing steady rate increases over time. This will allow the District to collect an additional \$14 million over the term of the financing of the debt (30 years). Maintaining reserve funds provides a cushion for rate increases and for unforeseen expenditures.

He indicated that the rate model estimates increases based on the analysis of operations, reserves, rate covenants and Capital Improvement Projects as follows:

2007	5.4%	2010	5.1%
2008	5.4%	2011	5.1%
2009	5.4%	2012	5.1%

Staff requests that the Board accept the recommendations presented and approve the 2007 debt issuance in the amount of \$42 million with a 30-year maturity to provide more flexibility for rate setting, continue implementation of rate increases projected in the rate model, and maintain the targeted reserve levels.

A motion was made by Director Robak, 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 staffs' recommendation.

22. BOARD

a) DISCUSSION OF 2007 BOARD MEETING CALENDAR

The board discussed changing the date of the Board meeting which is currently scheduled on the fourth of July holiday. The board requested that District Secretary Cruz poll the board for an alternative meeting date in July and present the new date at the next scheduled board meeting.

REPORTS

23. GENERAL MANAGER'S REPORT

a) UPDATE ON THE 30" RECYCLED WATER PIPELINE PROJECT (SEE ATTACHMENT "A")

General Manager Watton indicated that Ortiz Construction has completed the installation of the recycled pipeline. Staff is working with the City of San Diego in getting the pipeline on-line. He stated the reservoir and pump station are also moving along.

He indicated that the "Monte Sereno" neighborhood within the Otay Ranch Village 12 and Brookfield's "Trellis" neighborhood in Windingwalk have installed 105 high efficiency toilets (HET) through the new construction program. He stated that this is the first significant activity since the program was implemented and the District would like to see if it can encourage the installation of HET's in a way that it is not really voluntary for developers through a type of cooperative effort as the HET's are more efficient than the ultra low-flush toilet.

He indicated that the financing plan and debt policy was presented at this afternoon's meeting and was approved by the board. He noted that the revised debt policy was submitted to the GFOA for "Certification" and received the certification.

General Manager Watton noted that the required disbursement documentation for the third progress payment related to the State Water Resources Control Board's (SWRCB) \$4.0 million Proposition 50 grant was sent to the SWRCB. The total received to date is \$2,929,425. Upon completion of the three recycled water projects that will link the South Bay Water Reclamation Plant supply to Otay Water District's recycled water system, staff will submit a final disbursement request for the total of \$4.0 million grant. It is expected that the final grant request will be submitted after March 2007.

He noted that meter sales have slowed, however, it is close to what was anticipated in our budget.

b) SAN DIEGO COUNTY WATER AUTHORITY UPDATE

General Manager Watton indicated that there was not a CWA board meeting in December. However, CWA had their first officers meeting with MET directors. There were two directors from the San Diego County Water Authority and two from Los Angeles. He indicated that the Imported Water Committee is being chaired by President Croucher. General Manager Watton will be involved in the IID transfer Ad Hoc Committee at CWA. He stated that he has also been elected as Secretary to the CWA board.

24. DIRECTORS' REPORTS/REQUESTS

President Croucher indicated that he and General Manager Watton have worked and have had success in placing Otay in a position where it can influence some of the direction/focus at County Water Authority through General Manager Watton's election as secretary and each having been appointed to seats on CWA committees. He also indicated that CWA chair, Fern Steiner, is coordinating a Washington, DC trip for meetings with legislators. He asked Director Breitfelder if he had an interest in attending the meetings in DC to let him know.

Director Breitfelder indicated that he attended the Council of Water Utilities meeting where MWD chairman, Timothy Brick, was the speaker. Chairman Brick's goal is to implement a new cooperative approach at MWD that focuses on working together to solve problems and respond to tough issues.

Director Lopez commended and thanked staff for their work on the Holiday Dinner. He indicated that all seemed to have a very good time.

Director Robak requested that the committee packets be posted to the District's website. He also commented that a friend of a friend had indicated to him that his water was turned off though he had a credit on his account. He suggested that maybe the Board and staff needs to look at the policy regarding water shutoffs. President Croucher requested that staff research this matter.

Director Bonilla indicated that he attended one meeting in December in which the items to be presented at the January board meeting was discussed. He also congratulated Gary Croucher on his election as Board President.

President Croucher thanked the Board for their support in electing him to serve as Board President. He indicated that he would be reviewing the board appointments to the District Committees and asked that directors forward their interest/preferences to serve on committees to District Secretary Cruz.

RECESS TO CLOSED SESSION

25. CLOSED SESSION

The board recessed into closed session at 5:25 p.m. to discuss the following matters:

a) CONFERENCE WITH LEGAL COUNSEL – PENDING LITIGATION
[GOVERNMENT CODE §54956.9(a)]

(i) DONNA BARTLETT-MAY, et. al. v. OTAY WATER DISTRICT

Director Bonilla did not participate in the closed session because he had a prior commitment.

RETURN TO OPEN SESSION

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

The board reconvened at 5:35 p.m. General Counsel Calderon indicated that the Board took no reportable actions in closed session.

27. ADJOURNMENT

With no further business to come before the Board, President Croucher adjourned the meeting at 5:35 p.m.

President

ATTEST:

District Secretary