

**MINUTES OF THE  
BOARD OF DIRECTORS MEETING OF THE  
OTAY WATER DISTRICT AND  
June 23, 2008**

1. The meeting was called to order by President Croucher at 3:40 p.m.
2. PLEDGE OF ALLEGIANCE
3. ROLL CALL

Directors Present: Bonilla Breitfelder, Lopez and Robak

Director Croucher participated via teleconference.

Staff Present: General Manager Mark Watton, Asst. GM Administration and Finance German Alvarez, Asst. GM Engineering and Water Operations Manny Magana, General Counsel Aerobel Banuelos, Chief of Information Technology Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Chief of Operations Pedro Porras, Chief of Administration Rom Sarno, Assistant District Secretary Connie Rathbone and others per attached list.

4. APPROVAL OF AGENDA

A motion was made by Director Breitfelder, 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 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.

## WORKSHOP

6. ADOPT RESOLUTION NO. 4124, APPROVING THE FISCAL YEAR 2008-2009 OPERATING AND CAPITAL BUDGETS; APPROVE FUND TRANSFERS FOR POTABLE, RECYCLED, AND SEWER; AND DIRECT STAFF TO PROCEED WITH THE RATE STUDY AND PROPOSITION 218 HEARING AND NOTICES

Chief Financial Officer Joe Beachem indicated that following the presentation of the budget at the June 10, 2008 Board meeting, the Board requested additional information. Staff will be presenting three options for approval of the Operating Budget, a \$30.9 million CIP Budget, and associated fund transfers.

Finance Manager Rita Bell indicated that on June 10, 2008 San Diego County Water Authority (CWA) announced a 13.2% increase in water costs to its member agencies. She further explained that because of this decision to increase the water costs from CWA was announced on the same day of the Otay Water District Board meeting, June 10, 2008, staff did not calculate this higher cost in the rate model presented to this Board on June 10. Staff had estimated an increase from CWA of 6.4% to 10.3% in fiscal year 2009. The 2.9% higher water rate added an additional \$409,600 to the budget.

To respond to the Board's concerns regarding economic challenges, Staff developed three scenarios as follows:

- No Growth – Assumes that no meters will be sold in FY 2010 and 2011 and associated reduction by \$54 million over a six-year period in the CIP Budget
- State Property Tax Shift – This is a new law which allows the State to “borrow” property tax revenue from local entities. The most the State could take in one year is \$1,240,000. The State would have to repay the amount borrowed before it could borrow again.
- Combined No Growth and Tax Shift – This scenario combines the effect of the two individual scenarios above.

Staff presented three debt coverage ratio options which are expected to maintain the District's financial strength so that the AA- credit rating can also be maintained:

- Option 1 – 95% Debt Coverage Ratio proposes an Operating Budget of \$66.8 million, a rate increase of 11.4% and transfers of \$27 million.
- Option 2 - 100% Debt Coverage Ratio proposes an Operating Budget of \$67.1 million, a rate increase of 12.4% and transfers of \$27.3 million

- Option 3 – 125% Debt Coverage Ratio proposes an Operating Budget of \$68.2 million, a rate increase of 17.2% and transfers of \$28.4 million.

Staff indicated that these are “base” options.

Mr. Beachem introduced Suzanne Harrell from Harrell & Company Advisers. Ms. Harrell explained the debt coverage ratio options in greater detail emphasizing the long-term targets of the District. She also explained how the debt coverage ratio scenarios can protect the District’s assets in case of no growth. (See PowerPoint Presentation for charts and details.) She reiterated that the District has a very good credit rating and it would be difficult to improve that rating at this point.

Mr. Beachem indicated that the budget supports the District’s Strategic Plan objectives, 66 CIPs in Fiscal Year 2009 along with a high level of service to our customers and will assist in meeting reserve targets.

There was discussion regarding non-operating income. Staff indicated that the District has approximately 30 leases which generate income. There are 29 cell site leases. The contracts for these leases are renegotiated every five years to ascertain market value. There is one golf course lease. It is anticipated that six or seven new cellular agreement leases may be completed in the next six months.

In conclusion, Staff is requesting the Board approve one of the three options for the Operating Budget. These options are supported by rate options for potable and recycled water and a recommended sewer increase. The options and percentages of increases are:

- ✓ Option 1 – 11.4%
- ✓ Option 2 – 12.4%
- ✓ Option 3 – 17.2%
- ✓ Sewer Rate increase of 4.6%

Staff is also requesting Board approval for the CIP Budget of \$30.9 million.

Director Bonilla indicated that in selecting one of the three options, Board members should consider which option will give the best cash flow for the District. He indicated that since Otay is a non-profit organization, the Board should pick an option to keep the District financially strong. He feels Option 2 will be the best option for the best financial stability.

President Croucher commended staff for the work that was put into the PowerPoint presentation and options available for selection. He indicated that he supports Option 2 as the best choice for the District.

There was discussion regarding the decrease in sewer revenues. Mr. Beachem indicated the figure presented is winter-based averaging.

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

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

to adopt Resolution No. 4124 to approve the FY 2008-2009 Operating and Capital Budgets.: Director Robak abstained from voting because the information that was posted on-line for his review was the FY 2007-2008 budget. He indicated he did not have the proper information to make an informed vote.

ACTION ITEMS

7. CONSIDERATION TO PROVIDE A SPONSORSHIP OF \$500 TO THE OAK BROOK MIDDLE SCHOOL AND STEEL CANYON HIGH SCHOOL STUDENTS WHO WILL REPRESENT THE STATE OF CALIFORNIA IN THE NATIONAL HISTORY DAY COMPETITION IN MARYLAND WITH A PRESENTATION ON THE HISTORY OF CALIFORNIA WATER WARS

Staff indicated that they wanted to make the Board aware of this sponsorship. No motion was necessary.

8. ADJOURNMENT

With no further business to come before the Board, President Croucher adjourned the meeting at 4:40 p.m.

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President

ATTEST:

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Assistant District Secretary