

**MINUTES OF THE
BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT
December 15, 2008**

1. The meeting was called to order by President Croucher at 3:32 p.m.

2. ROLL CALL

Directors Present: Bonilla, Breitfelder, Croucher, 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 Bonifacio Garcia, 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, 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

Two requests to speak were received with regard to the proposed rate increases. It was indicated that their comments would be heard during the Public Hearing on rates.

6. APPROVAL OF MINUTES OF THE SPECIAL BOARD MEETING OF SEPTEMBER 18, 2008

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
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Noes: None
Abstain: None
Absent: None

to approve the minutes of the special board meeting of September 18, 2008.

7. CUSTOMER GAN'S APPEAL

Mr. and Mrs. Gans did not appear for the appeal.

8. PUBLIC HEARING ON RATE INCREASES

THE BOARD WILL BE HOLDING A PUBLIC HEARING TO CONSIDER THE PROPOSED RATE INCREASES TO BE IMPLEMENTED IN CALENDAR YEAR 2009. THE BOARD INVITES THE PUBLIC TO PROVIDE COMMENTS ON THESE PROPOSED INCREASES

President Croucher opened the Public Hearing on rates at 3:30 p.m.

Ms. Jeannie Akers, Chula Vista, spoke in opposition of the rate increase. She questioned what she could do to further conserve water. She stated that she is limiting her consumption of water and has cut back her lawn. She is now on a fixed income and the rate increase will certainly affect her. She indicated that she is seeing buildings being constructed when there is not enough water to go around. She stated that she is against a rate increase.

Mr. James Nicolau, Jamul, spoke in opposition of the rate increase. Mr. Nicolau indicated that he had discussed the rate increase with the District's General Manager Watton and was provided an understanding of the current water situation. Mr. Nicolau indicated that he has conserved and cut back on the amount of vegetation, and grass that is growing on his property and he has replaced them with gravel. He feels he would need to cut more trees to conserve, but felt that is would not be good for the environment. He is not sure what else he can do to conserve. He indicated that it is a hardship for those with fixed incomes to determine how they will pay the water rate increases.

General Manager Watton indicated to Mr. Nicolau that he is doing his part in conserving water and the District will not ask him to do more. Mr. Nicolau asked what the basic lifeline is; how many units can he use a month and still be considered within the District guidelines. General Manager Watton responded that Mr. Nicolau is currently using 11 units and if he could cut his use to 10 units then he would keep the benefit of the low cost for the first 5 units of water.

Director Robak commended Mr. Nicolau for the little water that he uses though he lives in Jamul. He agreed with General Manager Watton and stated that the District needs more customers like Mr. Nicolau to do all that they can to conserve.

President Croucher inquired if there were others in the audience who wished to speak on the rate increases. Hearing none, he closed the Public Hearing at 3:40 p.m.

- a) APPROVE THE IMPLEMENTATION OF RATE CHANGES AS PROPOSED FOR THE FISCAL YEAR 2008-2009 OPERATING AND CAPITAL BUDGET; AND ADOPT ORDINANCE NO. 518 REPLACING SECTION 25, RATES AND CONDITIONS FOR WATER SERVICE; AND AMENDING SECTION 53, FEES, RATES, CHARGES AND CONDITIONS FOR SEWER SERVICE OF THE DISTRICT'S CODE OF ORDINANCES

General Manager Watton indicated that since 1991, several large events have helped to shape the water situation today. He stated in 2003, MWD lost their surplus Colorado River supplies, which shifted the base load away from the Colorado River to the more expensive State Water Project supplies.

In 2008, CWA and MWD are replacing some of the lost State Water Project supplies with higher cost "spot" water transfers. The spot water transfers are three to four times more expensive than the base load cost of the State water projects.

The supply issues drive the MWD's water rates and by consequence, the CWA rates, and by consequence the District's rates. He stated that the reduced supplies from the Colorado River, the State Water Projects, spot water transfers, loss of sales, and shortage are all contributing factors to water rates.

He indicated that MWD's rate increase for 2009 was 14% and they are projecting that their increase for 2010 will be in the range of 20 to 25%. They have not yet indicated projections for 2011, 2012 or 2013, but it is expected to be somewhere in the same range as 2010.

He noted MWD reserves is approximately a little less than \$1 billion and a large percentage of the reserves is contractually restricted, a smaller amount is unrestricted and an even smaller amount is for the water rate stabilization fund, which goes back to the 25 percent rate increase as they do not have the reserves in the stabilization fund to mitigate the increases, so they must pass along the full increase.

Director Bonilla inquired what MWD's current reserve levels were. General Manager Watton indicated that he believed they are around \$800 million, but could confirm the figure for the board.

General Manager Watton indicated that MWD's long range finance plans will be presented at next month's meeting and it is expected that they will adopt their revenue requirements and recommended rates. It is expected to be more toward 25%. MWD will hold their hearing for rates and charges in February 2009 and adopt their budget for Fiscal 2010 in March 2009. MWD will take action on its

shortage allocations (if any) and in July 2009 the shortage allocations will take effect if any are assigned.

General Manager Watton indicated that the rate pressures will not abate in the next several years because of the pressure we are receiving from our wholesalers due to the supply issues.

Director Croucher stated that California is no longer in a “historic” drought and that this is more of a permanent change. He stated that CWA invested \$1.8 million into the “20 Gallon Challenge” and it is not making the impact with customers as was hoped and this will impact us financially as well.

Chief Financial Officer Beachem asked that the Board approve the proposed rates as presented in the Proposition 218 notices. He stated with the close of the Public Hearing, the board has met the requirements of Proposition 218. There are three major steps for the Proposition 218 process:

1. Rate Modeling in the Budget
2. Water Rate Study
3. 218 Notice Process

In each of these steps, the Board has been very involved in approving the budget and selecting the rate option that supported strong fiscal stability. The Board also accepted the rate study and selected a rate option to be sent in the Proposition 218 notices. The Board approved the fiscal year 2009 budget on June 23, 2008. The operating budget was supported by an average water rate increase of 12.4% and an average sewer rate increase of 4.6%. This option was selected after a thorough review of various options and after considering a number of economic factors, including the declining housing market, the State budget crisis, CWA and MWD increases and drought potential.

Chief Financial Officer Beachem stated that typically the next step would be for the District to start the Proposition 218 process with an across the board rate increase as identified in the budget. However, it had been a number of years since the District had performed a rate study. Through the strategic planning process, staff and Board identified a need to perform an updated rate study. With the pending drought, there was a greater urgency for the rate study, so the District could develop and implement drought pricing and tiered rates for the District’s customers to promote conservation. Staff hired PBS&J to assist with the rate study, which focused on equity, conservation and simplicity. The resulting rate recommendation still maintained an average overall water rate increase of 12.4 percent, with a few customer classes being higher and a few customer classes being lower. The rate study proposal puts the District’s rates into alignment with the cost of providing service by each customer class. Other significant changes included an energy charge increase of 10.9 percent; increase in the government rate from 8 cents to 28 cents; an implementation of tiered rate structure for all customers; adjustment to residential tiers in both the quantity of those tiers and the pricing; elimination of the overcapacity charge, elimination of the per dwelling unit charge; the grouping of all residential attach customers with

residential customers; 12.4% increase in the fire service charges; resetting of all system fees based on meter size; and a slight shift from variable revenues to fixed revenues in order to increase financial stability.

Chief Financial Officer Beachem indicated that in September 2008 staff, along with PBS&J, presented these rate study changes to the Board and they were approved to be presented in the Proposition 218 notices.

He stated that another significant effort in conjunction with the rate study was the establishment of drought stages. The drought stages were implemented to promote conservation and to maintain revenue neutrality at the District. He noted that if a Stage 2 Drought was declared, only the highest two tiers would be impacted. The highest water use tier would increase by 30% and the second highest water use tier would increase by 5%. Conserving customer would not be impacted by the drought pricing.

Chief Financial Officer Beachem further explained that the last step in the Proposition 218 process was the preparation of the notices. The notices include all changes that were presented to and approved by the Board. The notices were mailed at the end of October 2008 to all customers. The District sent out nine different notices which were customized for each customer class so customers only receive information relevant to their situation. All the rate changes were listed in detail in the Proposition 218 notices to fully inform the customers of the rate changes. The notices also included information on the proposed tiered rates and the drought rate structure and advised the District's customers of today's hearing and instructions on how to protest the proposed rate increases. The District received a total of three written customer protests, which are included in staffs' report and two verbal protests was received at today's Public Hearing.

He indicated with the budget approved, the rate study completed, and the Proposition 218 process requirements met, staff is presenting the proposed changes to the District's Code of Ordinances, Section 25 and 55, for the Board's approval. The proposed changes incorporate all the changes that are outlined in the Proposition 218 Notices.

Director Bonilla inquired the different ways in which the District notified its ratepayers of the proposed rate increases. Chief Financial Officer Beachem indicated that the Proposition 218 notice was mailed to all customers and customers have been advised that a rate calculator will be available on the District's website. Customers will be able to enter their account number and determine how much their bill would be under the new rates by entering their monthly usage. There was approximately 60,000 notices mailed and the District received three letters of protest and two protests at today's hearing.

Director Robak inquired what was the level of the District's rate stabilization fund at the moment. Chief Financial Officer Beachem indicated there is 90 days of reserves to cover operating expenses in the District's general fund which serves the purpose of a rate stabilization fund. Director Robak indicated that the District

held a budget workshop in September where the board voted on a approach to implement the proposed rate increases:

- A full cost implementation which is being discussed today; and
- A three-year phase-in approach

Director Robak indicated that he understood why the District would want to do a full cost implementation, however, in light of the economy and the fact that the District is an appropriately funded agency, the District should reexamine a phased-in approach.

Director Lopez inquired if the District would be the first agency in the County to implement drought pricing. General Manager Watton stated that other agencies have increased their rates, but many of the agencies are still formulating their drought plans. He indicated that the District is ahead of other agencies in that its drought rates have already been incorporated into the Proposition 218 notices and it is being presented for consideration by the Board. He indicated that all agencies, however, will need to adopt drought pricing.

Director Bonilla indicated that it is important to move forward with full implementation because of today's circumstances. He stated the District does not want to be pessimistic, but the economy has not hit bottom yet and full implementation is the right option.

President Croucher noted the slide on MWD's proposed increases and pointed out the dramatic change in their proposed increase from March to December (from 6% to 20-25% respectively). He indicated that they had decided not to increase rates to the appropriate levels in past years and now they must institute double digit rate increases. He indicated that he felt that the District should institute the appropriate increase at the appropriate time to avoid implementing larger increases at a later time. He indicated that he is supportive of a full implementation of the rate increase. Director Lopez indicated that he is also supportive of full implementation.

President Croucher indicated that California is, by no means, out of the drought though the State has been receiving additional rain. He stated, with the legislative drought caused by Judge Wanger's decision, there will be less water flowing to Southern California from the Bay Delta and the soonest that water would be received from the Carlsbad Desalination plant is in approximately 2012.

Director Breitfelder indicated that he felt that full implementation is a responsible way of dealing with the current economic situation. He asked Chief Financial Officer Beachem to share, for the benefit of the guests attending today's meeting, how the increase would preserve the District's finances and ultimately lower costs.

Chief Financial Officer Beachem indicated that the District recently received an additional rating upgrade from Standard & Poors (from an AA- to AA). He noted

that the District received an upgrade from Finch about one and half years ago from a A+ to a AA-. He stated one of the reasons for the additional rate increase was due to the Board's commitment to the financial stability of the District. He indicated with a rating upgrade, it will save the District millions of dollars on its bond issuances. He stated that District may not need to purchase bond insurance and its interest rate will be lower. This is substantial savings for the District.

Director Breitfelder also asked if staff could address preventative maintenance and savings through information technology. Chief of Information Technology Geoff Stevens indicated that one of the strengths of the District is its Strategic Planning process. The District spends a full year planning each of the projects that will be included in the budget and each of the projects are designed to position Otay where it needs to be in the next 36 months. The budget is then developed to support the projects within the plan. He indicated that, as part of this plan, the board had approved investments in information systems. The systems are now in place and these new tools have increased the District's efficiency, accuracy and timeliness which has driven costs down.

General Manager Watton indicated that staff has been continually looking for ways to cut costs and be more efficient. With regard to CIP's, especially those driven by growth, staff is stretching out these projects or delaying them to future years. He noted that this year's budget is less than the year before as staff is very focused on the expenses as well as revenues.

Director Breitfelder indicated about six years ago when he was elected to the board, the District had approximately 176 employees. He inquired how many employees the District has today. Assistant General Manager Alvarez indicated 168 as it has been reduced each year as staff reviews vacancies as they occur and determine if the position's workload can be consolidated and if it is appropriately classified.

Director Robak indicated that he wished to clarify his views. The District has a history, including, the phasing in of sewer rate increases. He indicated that to characterize what the District is doing now as responsible is not an accurate statement. He stated at the budget workshop with the full board, finance staff had indicated that a phase-in approach was financially prudent and it was basically a choice for full implementation or a phase-in of the rate increases rather than a choice of responsible or irresponsible. He stated that he had selected a phase-in approach which was staff's recommendation. He wished to clarify that a phase-in approach being characterized as irresponsible is not a factual statement.

Director Bonilla indicated with the drought and current economic situation, it is our obligation to be fiscally responsible and have the foresight to plan, because if something should happen and the District does not have the resources, ratepayers will not understand. He stated the District has received a lot of awards and recognition over the last six to seven years from other agencies for its budget and the District's Strategic Plan has been recognized by the whole

state. He indicated that the District has worked very hard to get where it is now, financially very solvent. He stated we need to charge only what we need to charge rather than place the funds in a rate stabilization fund. This is fair to all ratepayers, especially for those who move out of the District and would not get the benefit of the rate stabilization fund. Director Bonilla stated that he felt everyone was in agreement, though we may have different ideas or thoughts, that this is the right thing to do. Sometimes it will hurt and some ratepayers will be upset, but the District must look out for the majority of its ratepayers. The District will be in existence for many years after this board has left and this board's only legacy will be what it did at the time it served as the District's Board of Directors. He stated that the board met several times to review the budget and he believes, at the end of the day, staff had supported the board's decision for full implementation of the rate increase.

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

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

to approve the full implementation of the proposed rate changes.

CONSENT CALENDAR

9. 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 Breitfelder indicated that he wished to pull item 8c from the Consent Calendar. Director Robak indicated that he wished to pull item 8b from the Consent Calendar.

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 following consent calendar items:

- a) AWARD A MAINTENANCE CONTRACT TO LAYFIELD ENVIRONMENTAL SYSTEMS CORPORATION FOR THE MAINTENANCE OF THE FLOATING COVERS ON FOUR POTABLE AND TWO RECYCLED RESERVOIRS IN AN AMOUNT NOT-TO-

EXCEED \$119,138 FOR ONE-YEAR AND FOUR ONE-YEAR RENEWAL
OPTIONS AT THE DISTRICT'S DISCRETION

- d) UPDATE REPORT ON DIRECTORS' EXPENSES FOR THE 1ST
QUARTER OF FISCAL YEAR 2009

President Croucher presented consent calendar item 8b for discussion:

- b) AWARD A CONSTRUCTION CONTRACT TO NATGUN CORPORATION
IN THE AMOUNT OF \$2,373,220 FOR THE 1296-3 RESERVOIR – 2.0
MG PROJECT

Director Robak commented that this contract is a little different in terms of how this project was bid in that staff was looking at steel as well as concrete at the same time. Engineering Manager Ripperger confirmed that staff was looking at two different alternates, one steel and one concrete Type III. He stated that staff only received bids for the Type III concrete reservoirs and did not receive any bids for steel type reservoirs.

General Manager Watton added that staff wished to be sure that they were bidding on a level playing field. He indicated that there are costs associated with maintaining steel tanks that are not in evidence with concrete tanks. This is where you are seeing some differential for maintenance and future painting or coating of a steel tank. The differential was estimated based on the District's experience for the life cycle of both style tanks. This differential was advertised in the bid. It just so happened that we did not receive a bid for a steel tank.

Engineering Manager Ripperger indicated that, as General Manager Watton mentioned, staff provided the maintenance and life cycle cost for both types of tanks and when the bidders reviewed this information, they felt that the concrete type tank was more viable to bid on than the steel. Thus, the seven bids that were received were for the Type III concrete tanks.

Engineering Manager Ripperger explained that Natgun Corporation is from the northeast but they have a large facility in Texas where they house a lot of their equipment. The facility in Texas allows them to expand their services to the west coast.

Director Robak inquired if the tank site is visible. Engineering Manager Ripperger explained that there are two existing reservoirs at the site and this would be the third reservoir at the site. He indicated that the tanks are tucked into the hill where there are a few private homes. Landscaping will be used to camouflage the tanks to make them less visible.

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 staff recommendation.

President Croucher presented consent calendar item 8c for discussion:

- c) APPROVE CHANGE ORDER NO. 5 TO THE EXISTING CONTRACT WITH PACIFIC HYDROTECH CORPORATION FOR THE CONSTRUCTION OF THE 640-1 AND 640-2 RESERVOIRS PROJECT IN THE AMOUNT OF <\$432,652.84>

Director Breitfelder indicated that a \$400,000 plus change order for a \$28 million project is not unusual, but a \$432,000 change order in favor of the District is quite unusual and he wished to hear about the credit.

Engineering Manager Ripperger stated that the 640 Reservoir project was very successful and that this item was basically a “close-out” of the project. When a project is closed out, staff looks at all the items that have an allowance or things that changed during construction which resulted in a credit or additional cost and tally these items. These items are listed in staffs’ report. This particular situation turned out to be a credit back to the project budget. Because of the magnitude of these changes, staff wanted to bring it back to the Board.

Director Breitfelder inquired whether the District is on track for this year to close the fiscal year at “zero” or a little in favor of the District. General Manger Watton indicated that it is estimated that it will be close to tenths of a percent.

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 staff recommendation.

ACTION ITEMS

10. PRESENTATION OF MUNICIPAL INFORMATION SYSTEMS ASSOCIATION OF CALIFORNIA’S AWARD FOR EXCELLENCE IN INFORMATION TECHNOLOGY PRACTICES

Chief of Information Technology Geoff Stevens indicated that the District’s IT and Strategic Planning Department has been presented the MISAC award (Municipal Information Systems Association of California) for the second year in a row. This is the highest award granted by the MISAC. Otay was one of 18 city and municipal government IT departments in California to receive the *Excellence in IT*

Practices award. MISAC is the statewide association of chief information officers and IT managers for city and local governments. He stated that there are several thousand agencies that were candidates for this award.

He stated the second award, *Best of California*, was received from the Center for Digital Government which is also a statewide award. The Center for Digital Government annually selects the best California government in education agencies in eleven categories and presents the excellence in IT operations support and services award to a team showing dedication to operational excellence in daily execution of IT support services to the organization.

The types of agencies who have received the Best in California award have included Los Angeles County Department of Public Works, California Office of Statewide Health Planning, CalTrans, Los Angeles Department of Public Service, California Department of Motor Vehicles, etc. In general, the IT Departments in these organizations are larger than Otay as a whole. Information Technology Chief Stevens feels this was a remarkable achievement for the District.

Chief of Information Technolgoy Stevens asked that the IT staff stand to be recognized for their work in achieving the awards. Each of the Department staff members introduced themselves. The board congratulated the IT Department for their achievement.

11. BOARD

a) DISCUSSION OF THE 2009 BOARD MEETING CALENDAR

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

Ayes: Directors Bonilla, Breitfelder, Croucher, Lopez, Robak
Noes:
Abstain:
Absent:

to approve the 2009 Board meeting calendar.

INFORMATIONAL ITEMS

12. THESE ITEMS ARE PROVIDED TO THE BOARD FOR INFORMATIONAL PURPOSES ONLY. NO ACTION IS REQUIRED ON THE FOLLOWING AGENDA ITEMS.

President Croucher indicated that the following are informational items submitted by staff for the board's review.

a) INFORMATIONAL REPORT ON THE 2007 AND 2008 ANNUAL WATER CONSERVATION BEST MANAGEMENT PRACTICE REPORT

- b) INFORMATIONAL REPORT ON THE PROPOSED REVISIONS TO THE CALIFORNIA URBAN WATER CONSERVATION COUNCIL'S MEMORANDUM OF UNDERSTANDING REGARDING URBAN WATER CONSERVATION IN CALIFORNIA

REPORTS

13. GENERAL MANAGER'S REPORT

- a) SAN DIEGO COUNTY WATER AUTHORITY UPDATE

General Manager Watton recognized and thanked the staff for their support of the 2008 Holiday Adopt-a-Family program that brought Christmas cheer to two families.

He indicated that landscape modifications are currently being done at the front entrance of the District building. Landscape modifications will or have occurred at other District facilities as well. The District is doing its part and is setting the example for conserving water by removing overgrown plants and replacing them with low growth water-wise plants, as well as, evaluating the irrigation systems and modifying them to decrease water use.

He noted that letters were sent to approximately 1000 mixed use (indoor and landscape water on one meter) customers to make them aware of the District's conservation programs. He indicated that the District has received a good response and interest in the programs.

He indicated on page 4 of his report, it includes a summary of the District's Strategic Plan results for FY09. He stated that additional details on the results are available on the board intranet real time.

He stated, as discussed earlier in the meeting, that the District's credit rating was upgraded from AA- to AA. He stated that the District, when issuing bonds, acquires bond insurance. The District now has a better credit rating than most bond insurance companies. He indicated that it takes a lot of work to receive a rating upgrade and the upgrade will be a great benefit to the District financially.

He noted that the District is not invested in the stock market so it was not affected by the stock market decline. The District did have some exposure with regard to its Letter of Credit on the variable rate debt as it was coming up for renewal. The District, however, was able to renew the LOC for the next five years so there is no exposure.

He indicated that revenues are exceeding expenses mainly due to timing and staffs' active management of expenses. Staff has been working to identify what projects/expenses can be delayed without damaging the District's maintenance program.

General Manager Watton stated that the District has gained the City of San Diego's Title XVI grant appropriation from the US Bureau of Reclamation of \$1.1 million as their project was not ready to receive the funds. The District is still slated to receive another \$7 million in Title XVI grant funding.

He indicated that the Treaty extension with Mexico has been executed and Mexico is receiving water deliveries which have been scheduled out to the future. He noted that the water delivered to Mexico is Mexico water. The treaty is a wheeling agreement to deliver Mexico water to Mexico.

San Diego County Water Authority Update:

General Manager Watton indicated that CWA is aggressively pursuing water. He stated that he is not able to provide pricing details as the issue was a closed session discussion. He indicated that he can share that it is very expensive and is precedent setting. He also indicated that the election of officers will be held on Thursday, December 17, 2008, and he is a candidate (General Manager Watton) for Vice Chairman.

Director Croucher also indicated that conservation is one of the subjects being emphasized, however, it is not receiving much success.

14. DIRECTORS' REPORTS/REQUESTS

Director Breitfelder indicated that the Conservation Action Committee discussed the proposed state model ordinance. It is much improved over the initial version. He stated that the original ordinance was very audit dependent, but it now sets thresholds. They are working on the San Diego ordinance and have received feedback from some of the cities and there is some reluctance to comply. However, a state model ordinance will become a fact and it is felt that we would be better off presenting a regional approach.

Director Jamie Bonilla indicated that there is discussion to build an 80 MGD desalination plant in Mexico. Otay is looking at alternate resources and it is hoped that some of the water will be brought over the border to the United States. He stated that the desalination plant is getting support from the Mexican government and there are talks about initiating building the Mexico plant either next year or the year after. He noted that the plant in Carlsbad is still approximately 30 years out.

Director Lopez congratulated staff on a successful holiday dinner. He thanked Communications Officer Armando Buelna for heading the District's participation in the Chula Vista Yuletide parade.

Director Robak thanked staff for leading by example though all the landscape changes the district is instituting. He shared that he attended the ACWA Fall Conference. He indicated he thought about how we take water and sewer services for granted in the United States. He stated that there are organizations that are working to assist countries in developing such services and that drinking

water is just a dream in other parts of the world. He indicated that we should keep in mind what we can do to help and provide our assistance in educating others in the development of water supply systems when there are opportunities to do so.

15. PRESIDENT'S REPORT

Director Croucher indicated that in the past month he has been discussing regional programs, projects and cooperation with other agencies. He met with Mayor Sanders on December 10, 2008 and they discussed some of the missed opportunities between the District and the City. Mayor Sanders agreed and they discussed that our agencies should look to the future and what we can accomplish together.

RECESS TO CLOSED SESSION

16. CLOSED SESSION

The board recessed into closed session at 4:45 p.m. to discuss the following matters:

- a) CONFERENCE WITH LEGAL COUNSEL – PENDING LITIGATION
[GOVERNMENT CODE §54956.9(a)]
 - (I) MULTIPLE CASES RELATED TO THE FENTON BUSINESS CENTER AND FILED WITH THE SUPERIOR COURT OF THE COUNTY OF SAN DIEGO CONSOLIDATED UNDER CASE NO. 37-2007-00077024-CU-BC-SC
 - (II) AMERICAN PROTECTION INSURANCE V. OTAY WATER DISTRICT, DISTRICT COURT, SOUTHERN DISTRICT OF CALIFORNIA, #08-CV-0662-JM-POR
- b) CONFERENCE WITH LEGAL COUNSEL – POTENTIAL LITIGATION
[GOVERNMENT CODE §54956.9(b)]

3 CASES

RETURN TO OPEN SESSION

17. 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 5:05 p.m. General Counsel Marie Mendoza indicated that the board took three actions in closed session:

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 deny a claim filed by South Bay Expressway.

A second 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 authorize the General Manager to settle a claim with Plan Handlers.

A third motion in closed session 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 ratify the settlement agreement in the matter of American Protection Insurance Agency versus Otay Water District.

There were no other reportable actions taken in closed session.

18. ADJOURNMENT

With no further business to come before the Board, President Croucher adjourned the meeting at 5:08 p.m.

President

ATTEST:

District Secretary