

**MINUTES OF THE  
SPECIAL BOARD OF DIRECTORS MEETING OF THE  
OTAY WATER DISTRICT  
April 28, 2009**

1. The meeting was called to order by President Croucher at 3:01 p.m.
2. PLEDGE OF ALLEGIANCE
3. ROLL CALL

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

Directors Absent: None

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 Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Accounting Manager Rita Bell, Engineering Manager Jim Peasley, Engineering Manager Ron Ripperger and District Secretary Susan Cruz and others per attached list.

4. APPROVAL OF AGENDA

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

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

to approve the agenda.

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

No one wished to be heard.

WORKSHOP

6. REVIEW OF PROCESS TO DEVELOP THE OPERATING AND CAPITAL IMPROVEMENT PROJECT BUDGETS

Accounting Manager Rita Bell indicated that in January of each year, the finance department prepares budget workbooks for each department in which information is requested from each department. The workbooks include:

- Budget submittal deadlines
- An overview of the budget and instructions on what is a capital item and where it should be budgeted, which forms to use, etc.
- Historical expenditure data of past budgets
- Operating budget worksheets from the prior year which helps staff see what they had budgeted for in the past year and determine any changes required
- Personnel procedures and forms which are submitted to the Human Resources Department for review and evaluation.

She indicated with regard to the personnel procedures, each department evaluates their staffing needs and submits forms requesting new personnel, reclassifications, advancements or temporary staffing needs to Human Resources. Last year, departments were also required to prepare long-term staffing plans to determine staffing needs based on changes and new efficiencies at the District. It was indicated that the long-term plans are determined over a six-year timeframe and includes reviews of any vacancies/anticipated vacancies to evaluate if personnel can be shifted based on changes in workload and priorities.

It was discussed that the District has been reducing its staffing for many years as the District had noted the trend in 2005 and 2006 that the real estate market was slowing. It was indicated that when a vacancy occurs, the duties of the position are reviewed and it is determined if they still apply and if the position is still required or can be reallocated. Staff also notes when workloads are peaking and decide if the needs can be filled with temporary staffing instead of hiring a new staff member.

Accounting Manager Bell indicated that the Human Resources Department reviews staffing requests with each of the Chiefs and then makes recommendations to the Assistant General Managers and General Manager. Once staffing plans are complete, the information is submitted to the Finance Department and it is input into the "Position Budgeting Module." This tool is utilized to calculate salary, benefits, etc. The module is very sophisticated and can adjust salaries and leave based on length of service and will calculate total benefits and salary costs. The costs are then allocated to funds (operating and CIP) based on Labor Budget Worksheet allocations submitted by each department.

She stated with regard to the Administrative and Materials Budget, staff utilizes a budgeting module and submits budget requests that must be justified and aligned with:

- The Strategic Plan
- Regulatory Requirements

- Daily Workload Requirements
- Cost and Volume Changes
- Prior and Current Year Expenses (to Ensure Budget Request are Reasonable)

It was noted that the budget is developed from the bottom up and each item included in the budget is evaluated (a percentage inflator is never utilized). Staff provides detailed information for each line item to justify its need (line item budget) and the information is maintained within the budget for future reference.

Finance then reviews each budget line item request with the General Manager and Assistant General Managers. Any changes or questions are reviewed with each department chief and changes are input into the Rate Model. These final requests are reviewed again with the General Manager and Assistant General Managers.

Finance also examines current water sales volume and determines water sales for the current fiscal year. They then estimate future volume water sales based on projected growth (as determined by the Engineering Department), consumption demands/conservation, and the weather. This year, CWA also determined water allocations for each of the member agencies due to the water shortage. Staff, thus, must ensure that the water sales projection is within the District's allocation.

Water purchase volume is based on projected water sales and includes District usage needs and estimated water loss. The water purchase price is obtained from the District's water suppliers, CWA, MWD and City of San Diego.

To determine the budget for sewer, staff obtains projected costs from Metro Wastewater and the Spring Valley Sanitation District. Staff then determines sewer customers' winter-average water use and calculates ASU's for commercial customers. Staff then determines rates based on projected sewer treatment costs and customers' sewer volume.

Power is also very connected to water sales due to pumping costs. Staff examines current power use for potable, recycled, sewer, and the administrative buildings and utilizes the information to project power costs based on SDG&E projected rates.

Staff also projects anticipated revenues from fees and charges which include:

- Capacity Fees which are based on anticipated workload in the planning and development services areas of Engineering. Capacity fees support these activities.
- Betterment Fee which is based on anticipated workload for preventative and corrective maintenance on the District's facilities in the betterment IDs. This fee supports maintenance and construction expenses.
- Meter and Annexation Fees are based on meter sales as projected by Engineering.

They also project non-operating revenues which include:

- Rents and Leases which are based on current and projected leases and scheduled lease increases.
- Grants which are based on input from department staff of anticipated grant funding to be received.
- Miscellaneous revenues based on analysis of each item and the related revenue sources such as work orders, reimbursements, etc. These items are difficult to anticipate, so staff looks at what has occurred in the past and assumes about the same.

Accounting Manager Bell indicated that once all of this data has been collected and reviewed by staff and management, it is loaded into the Rate Model along with other rate model data, such as, the CIP budget, grant revenue, interest rates, debt issuances, etc. based on the rules of the District's Rate Model. The rules are defined by the District's Reserve Policy, Investment Policy, etc.

It was noted that there are two main issues the District must consider when looking at the Rate Model. Due to the economy, actual growth was not in line with the budget. The District's Financial Advisor feels that the rating agencies will require that the District increase its debt coverage ratio targets to maintain its rating. The big challenge is determining what the debt coverage ratio target should be (how much net revenue vs. debt payment should the District have; the more net revenue the stronger your debt coverage ratio). The other challenge is determining what conservation level we expect our customers to achieve. Determining what the District wishes to set for these targets is what will drive rates along with the rate increases from CWA.

Director Breitfelder inquired if Chief Financial Officer Beachem could provide the board an idea of how a percentage increase in the debt ratio would impact rates. Chief Financial Officer Beachem indicated that the District's Financial Advisor had indicated that without growth revenues, 100% debt coverage ratio is strong. With growth revenues, the debt coverage ratio should be at 125%. For the District to get to 125%, it would add about 2 or 3% on the rate increase. The District is close to 120% even without debt ratio considerations. He noted, however, that the District does not have CWA's rates at this time and that it is premature for him to talk about specific rates. The projections, however, are within this zone.

Chief Financial Officer Beachem also indicated that if there was greater conservation than what is projected in the budget, it would translate into lower sales and the District would need to raise rates to compensate for the fixed costs that are not being recouped from sales. He indicated that staff will present to the board in approximately a month the scenarios for the board to consider and the final recommendations will be presented in June 2009.

He stated the District is looking at issuing \$40 million in debt in Fiscal Year 2010 in order to build planned facilities. Having a strong credit rating is essential so the District may lower the costs of these planned facilities.

At the May budget workshop, Accounting Manager Bell indicated that staff will be presenting the:

- Proposed Operating and CIP budgets
- Rate Model assumptions and results
- Recommended rate increases
- Draft Proposition 218 notices
  - It was noted that General Counsel will be distributing an opinion to the board that the District can propose rate increases over a five-year period within the Proposition 218 notices as long as a schedule is provided

The board requested that staff provide, for the budget workshop, a five-year history of the grants received by the District and projections for FY 2010.

Staff will be requesting that the board adopt the proposed Operating and CIP budget, recommended rates and approve the Proposition 218 notices in June. It was discussed that a date for a hearing will be determined for sometime in August 2009.

Accounting Manager Bell indicated that once the budget has been approved by the board, each department monitors and reviews their budget to actual variance reports and explains any variance that is more than 10% over or under budget or that is more than \$3,000. Finance staff also monitors water sales, purchases, and other revenues and expenses and compiles a monthly comparative report. The monthly comparative report is reviewed by Senior Management and presented to the board.

President Croucher requested that staff provide information to the board that discusses the areas where the District has scaled back expenses so that they may answer questions from the public. He noted a few items:

- Staffing has been reduced over the last five years through the implementation of Information Technology. The implementation of technology has assisted the District in creating efficiencies and, thus, reducing staffing needs. It was requested that staff present where the District is (actual headcount reduction) over the last five years.
- Should Proposition 1-A be implemented, are there other areas that the District can reduce costs.
- How does the District assure that it is maximizing reclaimed water use and if the 85% fee is still appropriate?
- Budget impact of Steele Canyon Golf Course's unexpected reduction in water consumption through their use of well water for irrigation purposes.

- Are there options for groundwater storage? Should the District's water consumption be under CWA's allocation, can the water be placed in storage and utilized during times when the District is over its allocation.
- When does the District expect to receive water from the Rosarito Desalination Project?

Director Breifelder inquired if the District is hearing news about developments. It was discussed that there will be minimal growth and that construction is not expected to improve until the end of calendar year 2010.

Director Breifelder also inquired how much is spent on Strategic Planning over a year. It was indicated that there are many meetings with staff, monthly updates are entered, etc. It would be very difficult to estimate. The Strategic Plan is also looked at every day and is linked to daily tasks. Staff would need to review and see how a value can be placed on it.

Director Robak inquired if staff is comparing the AWWA benchmarks with the District's budget. General Manager Watton indicated that the District is just starting with the AWWA benchmarking. Staff is currently working on correlating some of the benchmarking information with the District and establishing good metrics/data to compare against the industry.

Chief of Engineering Rod Posada then presented on how staff develops the District's CIP Budget. He indicated that the development of the CIP Budget is a multi-department endeavor and the process starts with reviewing the growth projections for the next couple of years and determining through developer projections and internal tools the meter sales for the next six fiscal years.

Staff also evaluates construction costs through the Engineering News-Record Construction cost Index (ENR) which reports on the cost trends for construction materials and labor and their numbers are utilized within staff projections.

The Integrated Water Resources Plan, Water Resources Master Plan, Sewer System Management Plan, Sub Area Master Plan and Urban Water Management Plan are utilized to determine required facilities. Staff also reviews the condition of existing facilities; operating system requirements; water, recycled, and sewer system deficiencies; regulatory and permitting requirements, etc. to develop the six-year CIP Budget.

Chief of Engineering Posada indicated that the departmental chiefs also indicate their needs within the CIP Budget. Staff then reviews the CIP and determines which projects must be budgeted within the next six-year CIP Budget and compares last year's CIP Budget with the proposed FY 2010 budget. He indicated that last year staff had projected that the District would spend \$26.8 million in FY 2010 and after reviewing, it is proposed that the FY 2010 budget should be \$36.9 million. The reason for the increase is the 36-inch Pipeline Project was not constructed, as planned, in FY 2009 and the cost for construction has been moved to the FY 2010 CIP budget. It was noted that the delay was due to the District needing to terminate the design contractor's contract for the

project. Staff also indicated that major projects represent approximately 70% of the FY 2010 CIP Budget at a cost of \$25.6 million. There are approximately 100 projects planned for the upcoming fiscal year for a total cost of \$36.9 million. Staff expects that CIP expenditures for the next six years will total \$172.6 million.

It was discussed that the bids on the 36-inch pipeline were very good. The engineer's estimated cost for the project was \$19 to \$22 million and the lowest responsive bid was \$16.2 million for the project. There were three bids that came in at the same level; between \$16.2 and \$16.6 million. It was indicated that CCL was the top bidding firm and is an excellent firm.

President Croucher inquired if the much lower cost for the 36-inch pipeline project was taken into consideration when determining the FY 2010 budget. Staff indicated that the lower cost was integrated into the budget.

The board recessed at 11:05 a.m. and reconvened at 11:14 a.m.

## 7. DISCUSSION OF BOARD GOVERNANCE AND PROCESS

President Croucher indicated with regard to Directors' reports that they should be more of a report and to comply with the Brown Act, there should be no interaction or questions. He indicated that he would like to try to keep the board meetings to a two hour limit and he has received this input from other members of the board as well. He stated that if there are items that still need discussion and would extend the meeting to three or four hours, they should be scheduled for another meeting.

He indicated that the use of committees has helped streamline the review process as members have an opportunity to review agenda items and the committee discussion prior to board meetings. He stated that he has also received feedback from the committee and directors that items for discussion must be reviewed by the appropriate committee. He indicated he recognized this and that an effort will be made to do so.

President Croucher indicated with regard to board meetings that if only one member will be unable to attend a meeting, that a scheduled meeting would continue as scheduled unless the topic of discussion is very important. He asked board members to notify District Secretary Susan Cruz when they will be unable to attend a meeting and if she receives notification that two or more board members will be unable to attend a meeting, she can alert the President of the Board and the General Manager.

He noted with regard to closed session, there was a request to receive closed session items prior to board meetings. It was indicated that direction has been to provide closed session reports at meetings, however, they can be provided in advance. President Croucher indicated that he felt that we are at a point where closed session reports can be forwarded prior to board meetings so members may have an opportunity to review the reports prior to the meetings. It was requested that hard copies be forwarded with the board materials.

With regard to emails to the board, President Croucher requested that all emails addressed to board members be sent to the members as a blind copy. This would prevent board members from accidentally replying to all and violating the Brown Act. It was noted that all board member emails regarding District business is a public record. President Croucher indicated that he would also like to try and implement an AB 1234 form where Board members may provide a written report on per diem meetings that they have attended rather than providing an oral report at board meetings. The form would satisfy the oral reporting requirements of AB 1234 and would also assist with the time efficiency of board meetings. He stated that board members would forward the form to District Secretary Cruz and it would be published with the minutes. It was indicated that District Secretary Cruz would email the form to the Board members following today's meeting.

## 8. CROSS BORDER UPDATE

General Manager Watton indicated that he had invited the District's consultant, Mr. Hector Mares, to provide a cross border update to the board. However, Mr. Mares had a conflict on his schedule and was unable to attend. General Manager Watton indicated that Mr. Mares had provided an update report and powerpoint presentation which he will present on his behalf. He noted items on Mr. Mares report which included:

### Mexico Politics:

- The elections to renew the Federal Congress in Mexico will take place this year. This will be very important to the Mexican President reforms regarding the issues of the foreign investments in PEMEX.
- Currently, the surveys indicate that the PRI Party will win the majority in the Congress, but it will not be enough to rule it, so the President must negotiate with the PRI.
- In the case of BAJA Politics, Governor Osuna Millan is working well and has strong political control in the Baja Congress where his party rules and in four of the five cities of the State.
- In the issues of the new maritime Port in Punta Colonet has been stopped at this moment due to the global financial crisis.

### Security Issues:

- At the Federal level, President Calderon has confronted organized crime and there has been a strong backlash from criminals.
- In the states of Baja California and Chihuahua, kidnappings and murders have gone up, but with cooperation from the Mexican Army and the United States Government have caused crime to go down by 80%.

### CESPT:

- CESPT Director, Hernando Duran will be presenting at SANDAG on May 5 and staff from Otay has been invited. Chief of Engineering Rod Posada will attend on the District's behalf. The presentation that Mr. Duran will be

providing at SANDAG is the same powerpoint presentation that will be provided at today's meeting (see attached copy of presentation).

- Mr. Duran announced on live radio and television the joint venture project with Otay and indicated that they are currently looking for a site.
- CESPT is working with the City of Imperial Beach on the 2009 Investment Program where the objective is to eliminate the raw wastewater discharges to the Tijuana River, Tijuana and Rosarito Beaches.

General Manager Watton then presented Mr. Duran's presentation for SANDAG. He indicated that CESPT is the state water and wastewater utility that provides service to the cities of Tijuana and Playas de Rosarito. They have 1,764 employees and serve over 500,000 homes and businesses. Ninety percent of CEPT's water supply comes from the Colorado River. He presented a slide which shows the Tijuana River watershed which is shared between the United States and Mexico. He noted that a majority of the water drains into the Tijuana River Valley and Imperial Beach. He stated that this is the area which Mr. Duran has indicated that he wishes the United States and Mexico to work together as the water shortages become more critical. It was noted that both countries have signed minutes in 1944 to avoid transboundary discharges and, in 1985 and 1990, the United States and Mexico signed minutes to rehabilitate Tijuana's sewage system and for the construction of an International Treatment Plant in San Ysidro. CESPT's initiative is to eliminate raw wastewater discharges to the Tijuana River, Tijuana and Rosarito Beaches. The initiatives include:

- New wastewater infrastructure
- Contingency Plan for preventative maintenance and emergency backup generators in pump stations
- Sampling, inspection and stream discharge audits

CESPT also has developed objectives for the use of recycled water within their services area which includes:

- Considerably increasing the green areas for Tijuana and Playas de Rosarito
- Increasing the consumption of recycled water to 20% in the year 2013
- Installation of purple pipe lines throughout the city where recycled water is available
- Reduce treated water discharges to the Pacific Ocean

The board expressed interest in touring Tijuana's water and wastewater facilities. Staff indicated that tours would be scheduled in the near future.

## 9. LEGISLATION UPDATE

Ms. Chris Frahm, consultant to the District, provided an update on the legislative bills that they track for the District. She indicated that in the handouts she distributed, the first tab provides a list of legislative bills wherein she has highlighted those that the District might have an interest in; the second tab provides a list of the water bonds that have been proposed; the third tab reviews

the State budget; and the last tab is a report on what the California State Governor has developed for the Federal Stimulus monies.

She stated that she and General Manager Watton would be reviewing the bills at the staff level. She noted that many times the reports from CWA do not cover all the District's issues. She stated that at the capital everyone pushes their own interests and often the local retail agency positions are "traded" as everyone must "trade out" positions. She stated that it is helpful to have information about the big picture, however, it is not a substitute for looking at your own particular situation at the local level.

Director Robak indicated that he would like to see recycled water regulations loosened so its use could be expanded. Ms. Frahm indicated that she believed that there would be more funding available for recycled water and that there are many groups that are working to fix the regulatory challenges. She stated that it still has a long way to go, but because of the water supply crisis, you will see people willing to do things and move in directions that have been challenged in the past.

General Manager Watton indicated that staff would be handing out a survey on potable reuse at the May board meeting. He stated in 2005, the survey indicated that 80% of the respondents were not interested in discussing potable reuse. However, today that figure is 12% and 60% would consider potable reuse ( $\pm 3\%$  error).

Ms. Frahm indicated that with regard to the Delta, there are three main issues that are being discussed:

- Protecting the Delta
- Conveyance
- Governance

She stated that there likely would be a battle between northern and southern California and it is felt that if a package was developed, it would be very limited with regard to water supply and certainly would not take the place of locally developed resources. With regard to the federal stimulus package, it is felt that the monies would most likely go to fix the State's budget issues. It was noted that if the state is unable to pass some of their budget-related propositions, the State deficit will climb to approximately \$55 billion.

Director Bonilla inquired what percentage of the District's budget grants represented. General Manager Watton indicated that the District received \$5 million from the State with Ms. Frahm's assistance. The District also received a few million from the Federal Government under Title XVI and Congressman Filner was able to acquire funding for this fiscal year and it is estimated that the District will receive approximately \$3 million of that funding.

It was discussed that the water district's in Sacramento are also being cut back on their Delta draws, similar to the full State. Ms. Frahm indicated that the key to the future is taking control of those issues that you can control.

10. ADJOURNMENT

With no further business to come before the Board, President Croucher adjourned the meeting at 1:18 p.m.

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President

ATTEST:

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District Secretary