

**MINUTES OF THE
SPECIAL BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT
August 24, 2009**

1. The meeting was called to order by Vice President Lopez at 3:04 p.m.
2. PLEDGE OF ALLEGIANCE
3. ROLL CALL

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

Directors Absent: Croucher (out of town on business)

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 Robak and carried with the following vote:

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

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

Ms. Bonnie Stanley of Rancho San Diego stated that she opposed the District holding a Public Hearing at 3:30 p.m. She also indicated that many who live within the District's service area live in apartments, condominiums and townhouses and are billed for their water services through a sub-metering company. She stated because of this, such residents do not receive information from the District and are unaware of the water issues and what they should be doing. She stated if the District had been more aggressive in getting the drought/conservation message out, customers could have been conserving more

water and would not be looking at a rate increase. She stated that she felt the District did not do its job.

6. PUBLIC HEARING ON RATE INCREASES

THE BOARD WILL BE HOLDING A PUBLIC HEARING TO CONSIDER THE PROPOSED RATE INCREASES TO BE IMPLEMENTED IN THE FISCAL YEAR 2009-2010 OPERATING AND CAPITAL BUDGET. THE BOARD INVITES THE PUBLIC TO PROVIDE COMMENTS ON THE PROPOSED INCREASES

Vice President Lopez indicated that this is the location and time set for the District's public hearing on whether to implement proposed changes to rates and charges and to adopt a five-year schedule of fees and charges and authorize the District to pass-thru increases implemented by public entities who supply wholesale water to the District. He stated that this hearing is to comply with the requirements set forth in the provisions of article 13d of the California Constitution (generally referred to as Proposition 218). Vice President Lopez opened the public hearing at 3:40 p.m.

General Manager Watton indicated that staff has a short presentation reviewing the budget issues and providing additional information on the rates that will be considered today. He indicated that the District is faced with a rate increase and is also faced with a State-wide water issue. He indicated that this type of hearing is not unique to Otay Water District and is being replicated across the entire southland due to the wholesale increases that all water district's are experiencing. The State has enjoyed the State Water Project for many years and has not really done much to improve the State Water Project since former Governor Pat Brown's administration. There has been a lot of debate regarding the Bay Delta and its environmental situation, and the neglect of it over the years. He indicated that by neglect, he means that the State has not directed its attention to the Bay Delta either technically or politically for many years and, thus, we are where we are today; environmental restrictions which are constraining the State's ability to move water from the northern part of the State to the southern portion. He indicated that the Bay Delta provides approximately 30% of the water supply to Southern California and the other 30% to 40% comes from the Colorado River which is currently in a drought situation. He stated that the County Water Authority (CWA) has been able to acquire agreements for transfers that have mitigated some of the shortage, but the transfers have cost quite a bit more than what traditional supplies have cost. Thus, we have unprecedented issues that have increased the cost of water. He noted on the local level, CWA has raised the San Vicente Reservoir to increase its storage capacity at a cost of about \$600 million. This will make the water supply more reliable, particularly, during an emergency situation, such as an earthquake, which causes an outage (damage to aqueducts that supplies water from the north). Other projects includes new infrastructure to move local supply around the county, which we have not been able to do before. The cost of these projects, together with the project to raise the dam, is in the billions of dollars. These costs translate into increased rates from our wholesale water providers.

The District supports these projects to assure reliable water supplies, unfortunately, they are very expensive.

- a) APPROVE THE IMPLEMENTATION OF RATE CHANGES AS PROPOSED FOR THE FISCAL YEAR 2009-2010 OPERATING AND CAPITAL BUDGET; AND ADOPT ORDINANCE NO. 520 AMENDING SECTION 25, RATES AND CONDITIONS FOR WATER SERVICE; SECTION 28, CONNECTION FEES AND CHARGES FOR POTABLE OR RECLAIMED WATER SERVICE; SECTION 34, ISSUANCE AND PAYMENT OF WATER BILLS; AND SECTION 53, FEES, RATES, CHARGES AND CONDITIONS FOR SEWER SERVICE OF THE DISTRICT'S CODE OF ORDINANCES

Chief Financial Officer Beachem reviewed the Proposition 218 process which requires that the District send notices to its customers 45 days prior to a public hearing to take action on rates. The District is then required to hold that hearing, which it will do today, and only when the hearing is complete, may the board take action on rates.

He noted that the Board had approved the Fiscal Year 2010 budget on May 21, 2009 and notices were forwarded to customers and property owners within the District's service area (approximately 64,000 notices) to make them aware of today's Public Hearing on rates.

He indicated that staff is proposing not only a rate increase, but a 5-year pass-thru of water wholesaler costs and a 5-year, with a maximum increase of 10%, of Otoy controlled costs, though the District does not anticipate it will be as high as 10%. He indicated that the rate increase supports the District's strategic plan initiatives and its financial strength. He stated that there are unprecedented water cost increases and, as General Manager Watton mentioned earlier, the increases are motivated by the water shortage and the cost to develop infrastructure that can address the water shortage. Additionally, water sales are lower than anticipated, thus, fixed costs are being spread over a smaller base of customers which is causing a compounding effect on rates. He stated that the District's wholesale water providers have increased their rates (MWD increased its rate 21.1% and CWA increased its rates 18.1%) which has a significant impact to the District's budget as water purchases represent approximately 49% of the District's budget.

He stated that 61% of the increased revenues over the next two years are directly related to cost increases from MWD and CWA, 19% will be utilized to maintain the District's reserves at their minimum levels, 13% will be used to strengthen the debt coverage ratio and 7% will be utilized for new debt issuances (approximately \$68 million over the next two years).

He indicated that rates fund operations and debt payments. He stated that the District has been fortunate and has been able to demonstrate to the rating agencies its fiscal soundness which has resulted in a rating upgrade from both Fitch Ratings and Standard & Poors. He stated to maintain its ratings the District

must maintain its reserves at proper levels and that its revenues must exceed expenses by a certain percentage. The District's credit rating has saved the District \$1.5 million in interest in a previous debt issuance. In this pending debt issuance, it will save the District \$5.4 million over the life of the debt.

He stated that the proposed 19.9% rate increase for potable and recycled would support:

- \$41 million of debt issuance to finance the CIP
- \$10.4 million of transfers to maintain reserves and finance the CIP
- Strengthen the Debt Coverage Ratio to 140%
- Incorporate greater levels of conservation
- Pay the higher cost of CWA and MWD water
- Maintain the District's relative position with other water providers

Director Breitfelder inquired what the consequences are for not doing the above. Chief Financial Officer Beachem indicated that MWD and CWA increases represent approximately \$4 million over one year of the District's budget. He stated that the rating agencies wish to see that the District has a plan for its reserves (a Reserve Policy that identifies a minimum, maximum and target level for reserves) as it is important that the District is able to withstand some economic difficulties. He indicated about \$2 million will be utilized to build the District's reserve levels up. He noted that the general fund reserve is equal to three months of the District's operating expenses. As operating expenses from our wholesale supplier go up, the District must build up its reserves to meet its target level. The District also should have approximately six months of CIP funding on hand at the end of the year to assure that the District has enough time to go through the process to issue debt so it does not run out of funds. He stated the replacement reserve represents 4% of the District's fixed asset value which is industry standard. He stated that this is a focus to assure that reserves are set at levels which would be positive to the District.

Director Breitfelder additionally inquired what the consequences would be if the District kept its water expenses the same and just bought fewer gallons. Chief Financial Officer Beachem indicated that if the District limited what it will buy for water supplies due to an increase in rates, then customers may need to be rationed wherein allocations would be set for each customer. Additionally, if the District did not meet its debt coverage ratio, it would be very difficult to issue debt. He stated that the markets will note that the District is not meeting the targets that they had promised to meet and thus, can we trust the District to pay back debt. This will mean that the District's betterment and replacement projects cannot be built which is not an option.

Director Breitfelder inquired how much the District is saving in interest due to its good credit rating. Chief Financial Officer Beachem indicated that in the recent two debt issuances, it equates to approximately \$5 million. Ratepayers would then need to come up with the \$5 million which would have been saved through its good credit rating.

Director Breitfelder further inquired if the District under funded its reserves for infrastructure what would occur. Chief Financial Officer Beachem indicated that if the District could not increase its rates, then it would need to review the District's various reserves to determine from which it could pay its bills. This will work over time, however, it would not be long before the reserves are at levels where the District could not issue debt. The District's would be unable to build new infrastructure and maintenance of facilities would be impacted. It was also noted that of the District's \$75 million in reserve funds, a good portion is restricted as they are developer funds which are to be utilized for the construction of infrastructure for growth areas (growth paying for growth: facilities).

Chief Financial Officer Beachem continued his presentation and indicated that with the new proposed increase the District would be the 10th lowest cost provider among the local water agencies for those customers utilizing 15 units of water (average customer) per month. For those conserving customers, utilizing 10 units per month, the District would be the 4th lowest cost water provider among the local water agencies and for those customers utilizing 5 units per month, the District would be average in cost among the local agencies.

With regard to sewer, staff is proposing a 7.2% increase over a six year period. He indicated that the increase is to cover statewide general waste discharge requirements and the sewer system management plan. These are new programs the District must comply with. He stated that the District will utilize some Reserves from sewer to support the General Fund in the short term as the reserve is over target (exceeding the maximum level as defined in the District's Reserve Policy). He noted that the utilization of the reserves was also approved during the budget process by the board. He indicated that with the rate increase, the District would still be the 7th lowest cost (lower 1/3) sewer service provider with in the county.

Finance Manager Rita Bell reviewed the budget expenditures in detail. She noted that the Otay "controlled costs" (labor and benefits, administrative expenses, materials and maintenance) have decreased \$793,100 for the upcoming fiscal year. She stated that CIP cost funding has increased \$5,585,700 mainly due to the funding of the District's reserves. The reserves are funded through user rates, restricted revenues (such as capacity fees, etc.), and by issuing debt. She indicated that MWD/CWA cost increases for fiscal year 2010 will total \$3,861,200. She stated that the District's cost per AF of potable water was \$766 in 2009 and will increase to \$905 per AF in 2010 which is an 18% increase. It is estimated that in 2011 it will further increase to \$1,063 per AF which is another 17.5% increase.

She stated that CWA bills the District a variable price (cost per AF) and a fixed price (cost per AF regardless of how much water the District purchases) for its water purchases. This is similar to how the District's customer bills are structured. Customers pay a system fee and then for the water they use. She indicated that the District's variable rate increase per AF from CWA on January 1, 2009 was 13.2% (from \$614/AF to \$695/AF) on September 1, 2009 the variable cost was increased again by 17.1% (\$695/AF to \$814AF). The

combined or weighted price increase for the variable portion of CWA's bill is 16.3% per AF. She also noted that the District sold 5.8% less water than budgeted in 2009 and the District budgeted this year to sell another 4.8% less than the volume sold in 2009. The District is selling less water, however, its costs are going up which will impact rates.

Director Breitfelder inquired why it is not a viable option to stop encouraging customers to conserve though conservation is causing the price of water to increase. Chief Financial Officer Beachem indicated that in the short term, yes, the impact is increased costs. However, in the long term, without conservation the cost of water will increase much more as the agencies must build infrastructure to meet the growing water demand in Southern California. It was also indicated that MWD and CWA have punitive pricing in effect based on allocations. If the District goes over its allocation (at the moment the District is comfortably below its allocation), the penalty is two to four times the current AF rate. The penalty pricing would cause an additional rate impact. Thus, it is good that customers are conserving and the District is not facing penalties because it is below its allocation.

Finance Manager Rita Bell indicated that the other portion of the District's cost from MWD and CWA is fixed costs. She stated that the fixed costs are increasing 22% or \$1,189,900 and represent fees paid to MWD and CWA for Emergency Storage, Infrastructure Access, etc.

As was noted earlier, the District's sewer costs are increasing \$411,300 due to the need to comply with Statewide General Waste Discharge Requirements and the District's Sewer System Management Plan (SSMP).

She stated that the District has had a long term plan to gain efficiencies. The District has implemented an Automated Meter Reading Program, invested in information systems, etc. and has been able to decrease staffing. The District has gone from 173 employees to 169 in fiscal year 2009 and in fiscal year 2010 the District will drop to 166 employees. The District is just beginning to see the investments in efficiency pay off for Otagy. She additionally shared that this can also be demonstrated by how many customer accounts there are per employee. In fiscal year 2000, there were 249 customer accounts per employee and in fiscal year 2010 there will be 316 customer accounts per employee. She stated that the decrease in employee headcount was accomplished through attrition. As staff retire or leave district employment, staff reviews the vacancy and, because of efficiencies, have been able to shift duties and/or reassign staff.

She noted that this is also evidenced in the District's Labor and Benefits budget. Despite cost of living and benefit costs increasing, the District's salary and benefits budget has only increased \$27,000 through the reduction of headcount and reassignment of staff.

Director Breitfelder noted that many of the protest letters concerning the proposed increases inquire why the District does not avoid the proposed increases by lowering its employee costs. He inquired if the District were to try to

avoid the rate increase by laying employees off, what percentage of the workforce would need to be laid off to achieve this. Finance Manager Bell indicated that the District's total salary and benefits cost in the operating budget is \$17 million. The cost increases for water and reserves is approximately \$8.6 million which equates to approximately half of the salary and benefits budget. The District would need to be eliminated approximately half the salary and benefits budget to avoid the rate increase and balance the budget. Chief Financial Officer Beachem added that the rate increase proposed by MWD and CWA next fiscal year would then require that the remaining budget for salary and benefits be eliminated. He shared that half the District's budget is for the purchase of water and approximately 25% of the budget is slated for salary and benefits. He stated to try to absorb the cost increases through eliminating an expense which is only 25% of the District's budget is not feasible, especially when considering the size of the increases from MWD and CWA proposed each year. He indicated the District is looking at all opportunities to find efficiencies, however, the whole of the answer to mitigating rate increases could not be solved through eliminating payroll.

General Manager Watton indicated that in future budget cycles, the District will continue to challenge the budget numbers and increase efficiencies to reduce costs as much as possible.

Finance Manager Bell indicated that Administrative Expenses decreased by \$605,900. She stated that much of these savings (approximately \$600,000) were attributed to projects moving from the Operating to the CIP budget. She indicated that the reason for shifting the cost for these particular projects is that they are projects for the benefit of future customers. By shifting their costs to the CIP budget, future customers would pay for these projects through capacity fees and current water customers wouldn't pay for the future projects. There were also some cost increases in this area, such as, paving required at various facilities and increases in the District's bad debt expense (write-off of customer delinquent accounts) due to the economy.

She indicated with regard to Material and Maintenance Expenses the District had an overall decrease of \$71,200. The expense reduction was mainly due to fuel prices dropping which provided a savings of \$137,600. The District's Metro O&M costs also decreased \$60,900 (cost to the City of San Diego for sewer services). These savings were off-set by the funding the District's Emergency Operations Center, an item in the District's Strategic Plan, at a cost of \$124,000.

She indicated in summary:

- The District faces unprecedented water cost increases from its wholesale water suppliers; MWD rate increase of 21.1% and CWA rate increase of 18.1%.
- Water sales volumes have decreased due to water conservation and the economy.
- Neighboring water agencies are facing the same increases in costs and similar rate increases

- The District must maintain its debt coverage ratio to lower borrowing costs, and ensure compliance with bond covenant.
- The District must maintain its reserve levels in compliance with its Reserve Policy.
- District controlled costs have been reduced by increasing efficiencies to try and minimize rate increases.

PUBLIC COMMENT:

Ms. Phyllis Comer of Chula Vista stated that she received the District's notice regarding the proposed rate increase of 19.9%. She indicated in these trying economic times, the proposed 19.9% rate increase was too high and requested that the District re-review and propose a lower rate or a better solution. She indicated that retired people, such as herself, only receive 2% salary increases each year and while she can handle the proposed increase this year, if the current recession continues, she may not be able to handle such an increase in 2014.

Ms. Connie Crusha of El Cajon indicated that she reviewed the proposed rate increases and stated that her water bill would double. She stated that she has an acre of property and the proposed rate structures are punitive to those with large properties. She indicated that she is asking that the District re-review the proposed increases and not institute the tiered rate structures. She has reduced her water consumption by 40% and cannot conserve further. She stated that she understands that the District needs to raise rates by 20%, but feels that all users should share in the increase equally and that all customers should receive a flat rate increase of 20%.

Mr. David Shaw of El Cajon indicated that he would like to address the portion of the proposed rate increases which is not related to water cost. He stated that the *Notice of Public Hearing* forwarded by the District proposes rate increases to cover non-water related cost increases, such as power, labor, benefits, materials, etc., at a maximum of 10% per year for five years. He indicated that the proposed budget presented today showed significant cost reductions in these areas and felt that increases should not be higher than general inflation rates and suggested that the Board adopt a resolution giving the management team cost control targets and challenges that are oriented around beating the general cost of living. He stated that he opposes the current proposal and urges the board to reject the proposal until these suggested adjustments are made.

Mr. Tom Gregory of Chula Vista indicated that the question is what we can do to prevent someone else dictating what we pay for water. He suggested that the State build desalination plants along the coast of California so that the State is not reliant on anyone for water. He stated that if we continue to do what we are doing, prices will continue to go up. He asked that the District consider building a desalination plant in Chula Vista.

Mr. David Nichols of Spring Valley indicated that he is on a fixed income and is not able to pay the proposed increases. He stated that he felt that higher rates

would not result in more conservation and that it was detrimental as it would perpetuate our current economic situation. He asked the District to find another way and indicated that desalination was a great idea and should be studied further.

Mr. Michael Casinelli of Jamul indicated that he acknowledges that there is a water shortage and there is a need to conserve, however, he is opposed to the rate increase as it is currently proposed. He objected that the notice did not inform the ratepayers that they do have a voice in the proposed increases and that the hearing was during the day of a work day. He indicated that he also opposed the District setting one hearing for increases proposed for the next five-years. He stated that the rate increase does not take into consideration the size of the household or property, and felt that they should be taken into consideration. He urged the board to reconsider the implementation of the rate increase until it was better thought out and proposed.

Mr. Dan Mathiasen of La Mesa indicated that he understood the need to pass through the cost of water to ratepayers, but opposed the five year increases without holding hearings. He stated that he felt it did not make sense to increase rates 10% when the cost of living has only been increasing about half that amount.

Ms. Karen Hurr of El Cajon asked how water conservation and the District having a good credit rating benefits customers. She stated that she also opposed the hearing being held during the day on a work day. She asked the District how it can be more creative to save more money as every company – SDG&E, banks, gas companies, etc. – are all asking consumers to dig deeper into their pockets and at some point there will be no more to dig. She asked that the board think about the proposed increases before agreeing to the increases.

Vice President Lopez inquired how many letters the District has received regarding the rate increase. District Secretary Cruz indicated that the District has received 35 written protests. General Counsel Calderon indicated that the written protests should be made part of the public record (included as part of the minutes of the meeting). District Secretary Cruz indicated that she would assure that the written protests were included with the meeting minutes.

Vice President Lopez inquired if there were other individuals from the public who wished to address the board on the rate matter. No one wished to be heard.

Vice President Lopez asked if staff would like to respond to any comments from the public. General Manager Watton indicated that there are some small adjustments to the tiers, but the rate increase is 19.9% across all customers. He indicated with regard to future increases, the public would be provided notice and a hearing. He noted the comment concerning local control of water resources and shared that if he had heard a couple years ago that alternative water supply resources, such as desalination, were within the cost of the wholesale rate, he would not have believed it. Today, the wholesale rate is increasing, and alternative water supplies are now within striking distance of this cost. He

indicated that staff has included in the District's Capital Improvement Plan budget, plans to look at alternative water supplies and the District is currently seeking possible alternative supplies.

He also indicated that the District will continue to look at ways to reduce costs and to economize. The District has laid the groundwork for information technology and is now reaping the benefits of the efficiency of having an integrated system. He stated that the District also builds its budget from the ground up every year – "0" based budgeting – and every line item is reviewed each year. He stated while the notice indicates a maximum 10% increase, the District will not necessarily increase rates 10% each year. He noted that the District is not certain today what that number will be for next year, but the District will be very careful in determining that increase.

Chief Financial Officer Beachem clarified that the proposed increases discussed today would go into effect on September 1, 2010 to coincide with CWA's increase which is scheduled to go into effect on the same day. Following this increase, CWA does not expect to raise their rates until January 2011. General Manager Watton added that the increase in expenses discussed at today's meeting, for example the 22% increase in fixed costs, must be matched up from a revenue and cash flow standpoint. If the District waits to increase its rates, the difference begins to compound and it gets very difficult to catch up. This is the reason that the District is proposing to match the timing of the increases with its wholesalers.

General Manager Watton stated that the desalination plant planned in Carlsbad has been in the works for many years now. The project does have some permits and is getting some success, but they still have some hurdles to jump. CWA is also looking at proposed desalination projects at Camp Pendleton and the South Bay region. These sites will be faced with the same challenges as the Carlsbad project, but we just need to face each challenge and keep moving the project forward. It will not be easy, but desalination plants are in the works.

President Lopez closed the public hearing at 5:10 p.m.

General Counsel Calderon indicated that the board has not received protests from a majority of the ratepayers, so it may consider whether or not to adopt the rates and charges proposed by staff.

Director Robak thanked the customers for attending today's hearing. He noted that we live in a desert region and if it weren't for imported water, the area could not be sustained. He stated a slide in staff's presentation noted the increase in water cost. If the projection holds true, in six years we would see an increase of 88%. This is unprecedented in the water industry. Past years the cost increase was around the cost of living increase, give or take 3-4%. During this economic situation, it is certainly the worst time to be faced with increased costs. However, this is something that we have to share though we are not happy about it. The District cannot control what happens at MWD and CWA. Their increased cost in buying and delivering water is something we have to deal with. The District is

pursuing desalination and working with other districts to achieve savings and acquire additional water supplies. The District has debated the approach it wishes to take on its water rates and opted for a price point (customers pay based on the amount of water they utilize). The more you utilize, the more you will pay. Each district has decided to take slightly different approaches, however, in some comparisons with other agencies there is not a large difference in billing. He asked staff if they could provide him information on the billing difference among the agencies for consumption of 30 units of water.

He indicated, to the District's credit, it has done a good job in promoting water conservation. The District is also a partner in the Water Conservation Garden which is located within the District's service area and is the model showcase for water efficient landscapes and irrigation. The District has also sent out letters to its high water use customers who have been taking advantage of the District's program for water landscape surveys to help them more efficiently water their landscapes. These surveys are available to all customers. He indicated that the District does not have an allocation method and asked that staff look at ways in the future to address the conservation aspect for those customers who have done all they can to save water. He stated that he felt that whatever the District could do to recognize and encourage conservation measures is paramount.

He noted that the District sewer cost is on the lower end of the graph compared to other agencies. He stated, however, the City of El Cajon has a sewer rate that is 93% lower than Otay (\$19.55 vs. \$37.58). Director Robak asked if staff might research to determine the reason for the cost difference between the District and its neighboring agency. Director Breitfelder indicated that it could be attributed to economies of scale. When you have a much larger system, you can divide your fixed cost among a large customer base. The District's system is fairly small, servicing approximately 1500 households which does not benefit much from economies of scale. However, the District is doing a remarkable job in keeping its cost low based on the size of its system and receiving little benefit from economies of scale.

General Counsel Calderon noted that State law does not permit the water district to be anything other than revenue neutral. State law requires that the District cannot pass on anything more than what its actual costs are. He stated that the notice indicates that the District would only pass along its actual cost increases up to a maximum of 10%.

Director Breitfelder thanked the District's customers for taking the time to attend today's meeting and share their thoughts. He stated that it is no secret that the State is facing economic challenges. He indicated that the tradition in government, generally speaking, seems to be to spend in good times and accumulate liabilities. Then whenever there is something difficult that needs to be done for the public benefit, they try to put it off for the next incumbent. Each incumbent does the same and before you know it the deficits are huge and infrastructure is crumbling. He stated that it is the public who really bears the true cost of this neglect. He indicated that the Otay Water District has a great legacy of investing: information technology, strategic planning, new water

resources, recycling, improving its credit rating, etc. The District, I'm certain, could provide the cheapest water rates in San Diego. However, to do this it would need to neglect the maintenance of its systems and do a variety of other things that would be invisible to the public for years to come. He stated that this board is not of this mindset. The board would like to do what is best for the long term public interest. He stated if the District stays on the course that it has set with investments in information technology, etc., water will not be cheap 10 or 20 years from now, but it would be less costly than if the District took an irresponsible course of action. He indicated that he does not expect the customers to like the 20% increase as he himself does not like it. However, it is done with the best intention for the public's interest.

Director Bonilla indicated that this is a very difficult decision to make and certainly not a very popular one. He indicated that he has served the District for almost nine (9) year and he wished to address the comment that the board made fat salaries. He stated that the board members are not paid, they receive stipends for attending meetings. He indicated that he has never collected a stipend from the District. He is serving the District because he is also a ratepayer and lives in the Division which he represents. He ran because he felt he could make a difference and has, during his tenure, encouraged the development of the District's Strategic Plan, implementing automation for efficiency, etc. He stated that he listens to customer comments and has asked General Counsel to look into a special tier for retired / fixed income customers. However, it is not legal by State code.

Director Bonilla indicated that he really believes that Otay is the best run District in the County. He stated that the District has won almost every award and does not have a wall large enough to display all the awards it has won in the last ten (10) years. He indicated that he is very proud of this staff.

He stated that the District must provide safe and reliable water service; this is the District's goal. He indicated that the District is committed to desalination and finding other resources. However, the development of new water resources will cost money. The District has budgeted this cost within its Capital Improvement Program. He noted that the District is recognized for looking long term and that there is nothing more expensive than not having water. He stated that the members of the board serve because they have a commitment with the community. He indicated that if he must do something that is not popular, he will do it if it is for the best interest of the District and community. He indicated that the District is not the most expensive in the County, but he can guarantee that it is the most efficient. He stated that the District will fight for its ratepayers as much as it can, but there is only so much that it can do.

Vice President Lopez thanked everyone attending today's meeting and their speaking so eloquently. He stated that some members of the board must take time off from their work to attend board meetings and he understands and empathizes with customers. He stated that everything he wished to say has already been commented upon by his fellow members. He indicated that the cost of water at the wholesale level will continue to increase. The State is

impacted by issues in Sacramento and the Bay Delta. These issues are not in the District's control. He indicated that unfortunately the District will need to continue to pass along those costs as it must sustain a viable, reputable agency. He indicated that the District is a showcase to the industry and Otay has been visited by water officials from around the world as they wish to see how this District operates. The technology is the best for an agency such as this and staff is committed to maintaining the agency in a very productive and efficient manner.

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

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

to approve staffs' recommendation.

Director Robak indicated that as unpleasant as rate increases are, the District is essentially passing along costs beyond the District's control. He stated that the District runs an efficient operation and administrative costs are something that the board and staff are very cognizant of managing. He stated that there is nothing wrong here, the reality is that water cost more money. He stated it is the board's commitment to keep costs in check and whatever it can to minimize further cost increases.

7. ADJOURNMENT

With no further business to come before the Board, Vice President Lopez adjourned the meeting at 5:50 p.m.

President

ATTEST:

District Secretary