

**MINUTES OF THE
SPECIAL MEETING OF THE BOARD OF DIRECTORS
OTAY WATER DISTRICT
March 24, 2004**

1. The meeting was called to order at 4:30 p.m. by President Lewis.

2. **ROLL CALL:**

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

Staff Present: General Manager Robert Griego, Asst. GM Finance and Administration German Alvarez, Asst. GM Engineering and Operations Manny Magana, Chief Financial Officer Joe Beachem, Chief of Engineering Mehdi Arbabian, Chief of Water Operations Pedro Porras, Chief of Administration Rom Sarno, General Counsel Bonifacio Garcia, District Secretary Susan Cruz and others per attached list.

3. **PLEDGE OF ALLEGIANCE**

President Lewis led the pledge of allegiance.

4. **APPROVAL OF AGENDA**

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

Ayes:	Bonilla, Breitfelder, Croucher, Lewis and Lopez
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.

BUDGET WORKSHOP I

6. **DISCUSSION OF FISCAL YEAR 2005 BUDGET**

- BUDGET SCHEDULE
- REVENUE AND EXPENSE OVERVIEW
- SAN DIEGO COUNTY WATER AUTHORITY RATE PROJECTIONS

General Manager Robert Griego indicated that this is the first workshop of the budget development process. The following information will be presented to the Board: a budget schedule, a review of revenue and expenses, and information regarding San Diego County Water Authority Rate Projections for Fiscal Year 2004-2005. Agenda Item 6 is listed on the agenda should the Board wish to provide direction to staff.

Rita Bell, Finance Manager, presented an overview of the FY 2004-2005 budget calendar and process. In April, staff will be reconciling the budget data, updating the rate study and reviewing the CIP budget and coordinating all the information. At that time, the preliminary data will be presented. In May, staff will present further refined numbers after reviewing CWA proposed rate increases and potential pass-through rates. Staff will present a final balanced budget to the Board in June for approval.

She indicated that last year's budget operating revenues were \$44 million and 80 percent of that was due to water sales. The expense budget was also \$44 million. One of the most significant items was water purchases, which is almost one half of the operating budget.

Regarding the cost of water, CWA has changed the rate structure over the past several years. There are basically eight different charges that Otay pays to CWA and MWD. They include the supply charge, transportation charge, tier II charges, capacity reservation, readiness to serve, customer service charge, emergency storage and infrastructure access charge. Some of these charges are through MWD; others are through CWA. More detailed information regarding these charges can be obtained on the Inet.

Challenges this year include CWA pass-through rates, system conversion of OIS, planning to draw down on reserves, and converting annual CIPs (maintenance CIPs) to the operating budget. Concerning the CWA pass-throughs, staff has been working with the CWA Member Agency Rate Impact Review Committee. This Committee is preparing cost projections based on four different scenarios: (1) a base case, which does not account for growth; (2) CWA building additional water treatment facilities or additional water treatment from MET; (3) receiving water from the north; or (4) receiving water from the west or desalination. The numbers shown are projections or average costs.

The Rate Impact Committee is reviewing agency demands. Demands have increased due to growth. Otay's increased costs due to growth will average \$1.1 million to \$1.5 million. When converted to a rate increase for Otay, it will average 3.3 percent to 4.29 percent rate increase. That's an average rate increase over a five-year period.

In the coming year, the accounting department is converting to the Eden system. Finance will be restructuring the accounting system. The Eden system will allow for better reporting and understanding of District finances. New funds, new departments, new accounts and new projects will be added. Funds will be divided into three basic businesses: potable water, sewer and recycled water. This will give the accounting staff more flexibility in reporting.

Joe Beachem, Chief of Finance, indicated that last year when the rate study was prepared, there was a deficit in sewer operations and staff struggled with identifying the costs related to the recycled system. The prior accounting system did not split potable and recycled costs. With this conversion, staff will be able to identify the costs of each of the individual businesses.

Staff is currently working with Harrell & Company to develop a financing plan to reduce District reserves. Currently, the District has approximately \$96 million in cash reserves and the plan is to reduce that amount to about \$50 million and then hold it at that level.

Mr. Beachem stated that staff recently presented a financing plan to the Administration and Finance Committee. He explained that the District has a significant CIP program, which is the reason over the next three years the funds will be reduced from \$100 million to \$50 million. The purpose of these funds is to build infrastructure. The District needs to be in a position to enter the debt markets in about three years. By reducing the reserves, the District will be in a better position to issue debt.

Ms. Bell continued that the last major challenge for the District this year is the actual process of converting the annual CIPs into the operating budget. Staff will present a comparative format to show changes. CIPs are budgeted much differently than the operating budget. Typically, a CIP is a construction project that is budgeted to last three years. Upon completion, the project is then placed into operations. Operating budgets are used to budget for personnel and all the costs that will go into the maintenance of this project on an on-going basis. This shift will allow tracking of those on-going costs in the operating budget. This will also assist staff in reducing reserves by using the reserves to fund the maintenance projects that will now be in the operating budget.

Mr. Beachem explained that historically, maintenance work was extracted from the CIP budget and was funded by rates via reserves. Maintenance items need to be funded through the operating budget. For the next three years, reserves will be transferred to the operating budget until reserves are reduced to \$50 million.

As a result of the above, staff will be bringing forward a balanced budget which meets the needs of the ratepayers.

There was discussion regarding reducing the budget in the coming years. President Lewis indicated that the District is growing so the budget will increase. However, automation of meter reading and other advanced automation should eventually reduce the budget and overhead. He stated that the strategic plan is also focused on that same objective and as the District becomes more efficient through information technology, the District will grow in terms of revenue and providing services to our customers and at the same time, reduce overhead. The budget and strategic plan go hand-in-hand.

Director Croucher asked for clarification regarding the operating revenue and the operating expenses. With regard to the operating expenses, the debt service reserve versus and debt service, is it necessary to contribute to the debt service reserve through Board policy. If the District had not contributed to the debt service reserve, would the budget still be in the red versus positive income.

Mr. Beachem responded that historically, the District has funded the replacement reserve with net revenues. In the rate study process, the different reserves were evaluated. The replacement reserve was deemed to be fairly healthy and did not need the additional reserves. The reserves were needed in the general fund where the debt service funds were moved. The bonds are paid out of the debt service funds. He stated that when last year's budget was brought to the Board, staff informed the Board that as a part of the rate study, the replacement reserves were needed to pay debt so these monies were shifted to the general fund. If we chose not to fund that reserve, we would have additional money and our revenues would exceed our expenditures. He stated going forward, that reserve will not be funded because the maintenance projects are being incorporated.

Director Bonilla asked Mr. Beachem to clarify for the Board the percentage of income from other sources that the District receives. Mr. Beachem stated that the percentage is currently three percent or \$826,000 of which property rentals were \$450,000, sewer billing fees that the District bills for Chula Vista was \$265,000 which will increase, and \$110,000 projected golf course earnings. The District also leases space to cellular companies.

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

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

to accept staff's information as presented.

Director Bonilla indicated that the Administration and Finance Committee met and discussed the 2005 budget information on March 17, 2004. He stated staff answered all questions by the committee.

President Lewis stated that the budget is a critical item. He commended staff for using the revenues that the District receives responsibly and efficiently.

General Manager, Robert Griego, stated that Otay is one of several agencies selected by the State Auditor's office to be audited. He explained that this process was initiated by the legislature due to concerns that have risen surrounding Special Districts in the Sacramento area.

Director Croucher asked if the LAFCO and Malcolm Pirnie information could be submitted for this state audit to provide the data needed. General Counsel Boni-

facio Garcia explained that this is basically the legislature's auditor. He stated that when the legislature is considering legislation involving certain issues, state auditors are used to gather information to assist in this process.

There was further discussion regarding policies, staff's time required to provide the information, costs to the District and a general outline of information requested by the auditors.

7. ADJOURNMENT

With no further business to come before the Board, President Lewis adjourned the meeting at 5:20 p.m.

President

ATTEST:

District Secretary