

**MINUTES OF THE
BOARD OF DIRECTORS MEETING
OTAY WATER DISTRICT
June 2, 2004**

1. The meeting was called to order by President Lewis at 3:31 p.m.

2. ROLL CALL

Directors Present: Breitfelder, Bonilla (arrived at 3:50 p.m. due to a previous commitment), Croucher, Lewis and Lopez

Staff Present: General Manager Robert Griego, Asst. GM Administration and Finance German Alvarez, Asst. GM Engineering and Operations Manny Magana, General Counsel Yuri Calderon, Chief Information Officer Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Mehdi Arbabian, Chief of Water Operations Pedro Porras, Chief Development Services Rod Posada, Chief of Administration Rom Sarno, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

Director Breitfelder indicated that he felt that there was more on the agenda than the board could responsibly and comprehensively cover.

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

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

to approve the agenda with the amendments to postpone the following less urgent items: agenda item 6c, Authorize the District to Host an Employee and Family Picnic (consent calendar); and 12d, Public Employee Performance Evaluation (closed session) until after the Employee Work Environment Review is presented. In addition, move the following information/action items for discussion at the next regularly scheduled Board meeting (July 7, 2004) or if priorities demand beyond: 8a, Review of Groundwater Investigation Program; 9a, Discussion of Senate Bill 1272; 9b, Discussion of Policy 8 Revisions and Adopt Resolution No. 4020

Amending Policy 8 to be scheduled (which still needs to go through committee). By moving these items it would allow more time for discussion of the items.

5. APPROVAL OF MINUTES OF THE JOINT AGENCY MEETING OF APRIL 23, 2004 AND SPECIAL MEETINGS OF MAY 1 AND MAY 15, 2004

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

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

to approve the minutes of the Joint Agency Meeting of April 23, 2004 and Special Meetings of May 1 and May 15, 2004.

6. 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.

CONSENT CALENDAR

- a) ADOPT RESOLUTION NO. 4016 OF THE BOARD OF DIRECTORS OF THE OTAY WATER DISTRICT TO DELETE EXISTING POLICIES NO. 2, RECOGNITION OF EMPLOYEE LENGTH OF SERVICE, AND NO. 32, EMPLOYEE SUGGESTION CASH AWARD PROGRAM; AND APPROVE NEW POLICY NO. 2, EMPLOYEE RECOGNITION PROGRAM
- b) DECLARE COMPUTER EQUIPMENT AS SURPLUS TO THE DISTRICT'S NEEDS

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

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

to approve the consent calendar as amended above.

INFORMATION / ACTION ITEMS

7. FINANCE AND ADMINISTRATION

a) APPROVE THE FISCAL YEAR 2005 OPERATING AND CIP BUDGET

Ms. Rita Bell indicated that she was pleased to present the Fiscal Year 2005 budget which was a result of several meetings and workshops held in March and May of this year. She stated the budget book presented today is identical to the budget book presented at the Special Board meeting held on May 15, 2004 with four exceptions which have been discussed in either a committee or board meeting. She noted that the Finance and Administration Committee had reviewed the staffing additions at a meeting on May 19, 2004 and that the new positions were included in the FY 2005 staffing schedule.

Ms. Bell presented a summary schedule of the CIP Budget noting a total budget of \$31 million for FY 2005. She presented the expected revenues for FY 2005 and indicated that there were two changes to the revenues:

- The City of Chula Vista Sewer Billing fees were increased by \$78,700 which was reviewed by the Finance and Administration Committee. She noted that this change was pending a contract adoption by the City.
- The 1% General Tax reflects a shift in the property tax revenues by the State and have reduced the District's budget by \$709,100.

She reviewed the changes to the expenditures:

- The position of Custodian/Automotive Attendant will no longer be deleted.
- The administrative expense of "Printing" is being increased by \$27,800 due to an oversight in the budget process. She stated there was still an overall reduction in the printing budget of \$17,700.

She asked that the board:

- Adopt the FY 2005 Operating and CIP budgets
- Direct staff to provide recommendation on an equitable pass-through rate increase strategy after a thorough analysis has been conducted.
- Direct staff to transfer \$12.1 million from the General Fund to the Post-Retirement Medical Reserve and investigate the creation of a trust to hold these funds.
- Redirect 2004 Debt Service Reserve funding to the Expansion Reserve.

Director Lopez indicated that the Finance and Administration Committee reviewed the staffing requests extensively at their meeting on May 19, 2004. He stated that four Directors had been present at that meeting and staff had answered the questions of the committee. He stated the information presented at the Budget Workshop on May 15, 2004 falls in line with what the committee felt was a sound request.

Director Breitfelder indicated that there had been a request at the Board Budget Workshop on May 15, 2004 that staff create a litigation budget line item. He asked if this line item had been created. It was noted that staff could create the line item at the Board's direction. Staff indicated if the Board wished to do so, the Board should also indicate the amount they wish for this budget.

Director Breitfelder asked what the impact was to the budget for the new position of Labor Relations / Training Specialist; was the amount \$130,000. Ms. Kelli Williamson indicated that she believes that amount is correct. She stated that there has been no change to the new position requests since the last board meeting on May 15, 2004. Ms. Bell added that the total included both salary and benefits. It was asked how this position would change the structure in the Human Resources Department. Ms. Williamson indicated that the position would be an individual who specializes in labor relations, focusing on the Labor Management Committee and some the issues related to PERB complaints. She stated that the position would also be the lead for developing and providing training for staff to meet a Human Resources goal within the strategic plan and would assist in freeing up resources of an HR Analyst and taking on the new tasks of training.

Director Croucher indicated that with the current budget environment of the need to cut back resources, he felt that the District should hold off adding new positions. He noted that 29 vacant positions have now been filled in the last year and felt that the board had supported some changes to free up resources, such as abbreviated minutes, moving to one meeting a month, moving away as the lead agency for the Water Conservation Garden and adding a staff member to handle public relations. He stated that he would like to see staff hold off in hiring the new positions at this time to see if it was absolutely necessary.

Director Croucher also noted that with the State taking approximately \$700,000 of the District's property tax revenues (ERAF), it would help to hold off on the new positions. He also suggested that the impact of the ERAF "take" be removed from the budget and reviewed separately. He suggested that the Director's expenses be reduced to the same level as had been budgeted in Fiscal Year 2004.

It was discussed that it seems the main concern in the FY 2005 was the approval of the new positions. The board discussed approving the budget as presented, however, freezing the hiring of the new positions and reducing the Director's budgeted expenses to the Fiscal Year 2004 level.

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

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

Absent: None

to approve the Fiscal Year 2005 budget as presented by staff, freeze the hiring of the seven (7) positions requested in the budget and to reduce the budgeted Directors expenses to the level budgeted for Fiscal Year 2004.

- b) AUTHORIZE THE INCREASE IN THE SEWER BILLING FEE SERVICE FOR THE CITY OF CHULA VISTA WITH AN EFFECTIVE DATE OF JULY 1, 2004

Mr. Geoff Stevens indicated that staff had engaged the firm of Black and Veatch to determine the District's cost for the billing services it provides for the City of Chula Vista. He noted the District currently charges the City \$.50/billing and that this rate had not changed since it was instituted in 1991. The Black and Veatch study noted two factors that have affected costs, the increase in the cost of mailing of \$.38 (increase in the cost of postage, paper and processing bills) and the cost of the new billing system (amortized over ten years) of \$.35. The total cost per bill was determined to be \$1.23/bill. He indicated that staff recommends that the increase be effective July 1, 2004 and be billed on the same bill as Otay's water bill.

Mr. Stevens indicated that he had discussed this issue with the City at three separate meetings and they have been receptive to the increase.

It was discussed that possibly there could be a notation in the billing stating that the sewer costs are billed on behalf of the City of Chula Vista. Mr. Stevens indicated that the City was open to this and City staff also indicated that they could sponsor articles in the Union-Tribune and Star News noting this.

Director Bonilla indicated the item was discussed in committee and it was felt that the District was late in moving in this direction and he strongly recommends the board move forward with staffs' recommendation.

It was discussed that if this item was approved by the Board, General Manager Griego would send a letter to Mr. Dave Rowlands, City Manager, to inform him of the District's intentions to increase their sewer billing rate and provide the City an opportunity to respond.

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

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

to approve staff recommendation to increase the sewer billing charges to the City of Chula Vista to reflect full cost recovery in providing the billing services.

c) RECEIVE FINAL LAFCO REPORT AND MUNICIPAL SERVICE REVIEW FOLLOW-UP ACTIONS

Mr. Geoff Stevens indicated that the District and neighboring agencies were the first to go through the LAFCO Municipal Service Review process. He stated that he felt that the District responded appropriately to the review and provided a very accurate and well summarized response to the information requirements of the service review. He stated that he believed that the District came through the process very positively and that the LAFCO review determinations basically state that Otay is on track, is efficient, fair and effective at meeting its mission. He stated that there were a series of recommendations that could be categorized into three types:

- Boundary Issues

There are number of issues (i.e., that possibly sewer services unrelated to the treatment plant could be more efficiently handled by another entity as the District's sewer services is not large enough to gain economies of scale, etc.) that will be reviewed by the leadership team and incorporated into the District's Strategic Plan over the next year.

- Finance and Reserve Policies

The District was already moving aggressively in reviewing its reserve policies so this was more of an affirmation that staff was moving in the right direction.

- Employee Issues

This is with regard to the work culture and employee morale issues. The District has engaged an outside firm to conduct a Work Environment Review to understand the issues and to respond to this recommendation.

Mr. Stevens stated that the LAFCO report does demonstrate that Otay is a quality provider and a low cost provider among the San Diego agencies. There were no issues of a significant nature.

Director Bonilla noted a table in the LAFCO report indicating that Helix WD, with a 50 square mile service area, services a population that is approximately 100,000 higher than Otay WD, but only employs 140 employees. He noted that Helix also has 54,000 accounts versus Otay's 37,000 accounts. It was felt this information might indicate that the District may need to control its "headcount."

Mr. Stevens indicated that Helix WD is 100% built out, so they do not have the growth component to manage. They also only provide water services whereas Otay

provides both water and sewer services. He also noted that Otay's service area was more than double Helix's service area, thus geographically the District must cover more mileage for servicing.

Director Brietfelder indicated that he wished to make comments with regard to LAFCO Municipal Service Review Determinations:

- Item 9.8, Negotiate a new agreement with the City of Chula Vista in 2012. He suggested that staff could possibly start negotiations sooner than 2012.
- Item 9.4, Confirmation of residency for board members. Commented that staff could interface with the registrar of voters office and make a good faith attempt to confirm the candidates address.
- Item 9.3, Recruiting for candidates for Board of Director's seats. In the year 2006, he suggested that the District place informational ads in the District's newsletters announcing board member seats that are up for election.
- Item 8.15, Policies on Directors' role and their communications with employees. Commented that the deleted Board of Director's Policy 16, Representation of Employees Organizations at Meetings of the District Board of Directors, could possibly be reinstated.
- Item 8.18, Employee Relations information that is non-MSR related was submitted to LAFCO. Commented that the Work Environment Review Project was in response to this and he was looking forward to seeing the outcome of the review.
- Item 8.9, Legal Expenses for employee relations complaints. Commended staff for leadership in improving employee relations and starting to get the legal expenses under control.

President Lewis indicated that he had met with Mr. Michael Ott, LAFCO Executive Director, and expressed the Board's feelings with regard to the service review and the length of time it took to complete the process. He stated that Mr. Ott admitted it was a long process, however, as it was their first such review, they wanted to assure it was done properly. He indicated that the District has turned the review into a positive for the District and he felt overall the municipal review would help the District to improve. He thanked LAFCO for the effort they had put into the report.

8. ENGINEERING AND WATER OPERATIONS

- a) AUTHORIZE THE WAIVER OF THE REQUIREMENT OF POLICY 26, DISTRICT ADMINISTRATION OF REIMBURSEMENT AGREEMENTS, TO OBTAIN THREE CONSTRUCTION BIDS FOR A REIMBURSEMENT AGREEMENT WITH McMILLIN FOR THE OTAY RANCH CAPITAL IMPROVEMENT PROGRAM PROJECTS IN CONJUNCTION WITH THE OTAY RANCH SPA 2, VILLAGE 6, LA MEDIA, PHASE 1 PROJECT; AND

AUTHORIZE A REIMBURSEMENT PAYMENT IN THE AMOUNT OF
\$307,799.10 (CIPs W079, R025, AND R032)

General Manager Griego indicated that staff was requesting that the Board waive section 8 of Board of Director Policy 26, which requires a minimum of three bids for construction projects, for the construction of the regional water distribution systems for the Otay Ranch Spa 2, Village 6, La Media, Phase 1 Project. He indicated that staff was also requesting that the Board authorize a reimbursement payment to the developer, McMillin, in the amount of \$307,799.10 for the construction of the distribution systems project.

Mr. Manny Magana indicated that McMillin received only two bids, however, both bids were qualified bids. He stated the bids had come in below the engineer's estimate by \$105,000. He indicated that Cass Construction was awarded the project and that they have since completed the work. McMillin is now requesting reimbursement for the project. He stated that the Engineering and Water Operations Committee met on May 17, 2004 and supports staffs recommendation.

Director Croucher indicated that the Engineering and Water Operations Committee had reviewed this item and did have questions as to why there were only two bids reviewed for the project. It was noted that with the amount of construction occurring in San Diego, that this may be the reason only two bids were received. He stated that it was discussed that this issue would not be an ongoing situation and so a policy change was not required. He stated that both the committee and staff was very happy with the companies who bid on the project. He stated that the committee supported staffs' recommendation.

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

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

to approve staffs' recommendation.

- b) AUTHORIZE A REIMBURSEMENT AGREEMENT WITH McMILLIN ROLLING HILLS RANCH, LLC FOR THE CONTRUCTION OF THE ROLLING HILLS RANCH HYDROPNEUMATIC PUMP STATION IN THE AMOUNT OF \$2,400,000 (CIP W205)

Mr. Mehdi Arbabian indicated that the Engineering and Water Operations Committee requested that additional information be presented at the board meeting with regard to the location of the hydropneumatic pump station and where the eastern boundary of the City of Chula Vista was located with reference to the

project (where it joins with the County of San Diego). Mr. Arbabian presented several slides (see attached copy of presentation) showing the locations. He indicated that this was a standard reimbursement agreement and that four bids were received for the project of between \$1.5 million to \$1.8 million which was under the engineers estimate. He stated that the hydropneumatic pump station would serve over 200 homes.

Director Croucher indicated that the Engineering and Water Operations Committee reviewed this project. He stated that because there was a significant difference in the original CIP budget and the actual bid cost, the committee had asked that staff adjust the numbers from time-to-time, so the CIP is close to actual cost. He thanked staff for the additional information and indicated that the committee recommends the boards approval.

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

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

to approve staffs' recommendation.

9. BOARD

a) DISCUSSION OF 2004 BOARD MEETING CALENDAR

It was discussed that this item was presented due to the upcoming July 4, 2004 Holiday. Should Directors have other commitments during the week of the regularly scheduled board meeting (board meeting is scheduled on July 7, 2004) that the meeting could be rescheduled. It was agreed that the board would meet on July 7 as scheduled and if another meeting was required, that it would be scheduled at that meeting.

REPORTS

10. GENERAL MANAGER'S REPORT

General Manager Griego indicated that his monthly report was forwarded with the board packet and the monthly update regarding the 30" Recycled Water Pipeline Project had been included in his report. He indicated that the report notes that substantial progress has been made with regard to the Environmental Impact Report and the easements for the project was moving along. He also noted that the easement encroachment discussion with CalTrans has been successful. He stated

that the design of the reservoir is about 15% complete and construction should start in approximately twelve months.

General Manager Griego also shared that the State Auditors have completed their fieldwork. He stated that it seems from discussion during the District's exit interview with the State Auditors, that the report would be general in its comments and would not name specific individuals. A copy of the draft report should be received tomorrow, June 3, 2004. He stated that staff would be provided five days to comment/respond to the report prior to it being made public at the State Legislative meeting scheduled on June 21, 2004 at 9:00 a.m.

General Manager Griego indicated that departmental reports have also been included in his report and that staff was available to answer any questions the board might have. There were no questions.

11. DIRECTORS' REPORTS/REQUESTS

a) SAN DIEGO COUNTY WATER AUTHORITY UPDATE

Mr. Mark Watton indicated that CWA was looking at a \$2 billion CIP program recommended by the member agency general managers. He stated that CWA's board has a high level of confidence in the recommended CIP program. Mr. Watton indicated that while the recommended CIP program would impact rates, for reliability and a few 1/10th of percent on the rates, it was a very good value. He noted that it has not yet been decided how the rates will be determined for each agency for each class of water. He indicated that there would be a rate study to determine those rates. He stated that the northern agencies are pushing the concept to place the majority of the rate increases on the growth agencies. He indicated that the District's task would be to monitor this process and assure that the rates are assigned equitably and close to the average rate per agency so that no one segment is impacted. He stated that the reliability projects are for the benefit of "all" residents of the county and, thus, all agencies that receive benefit from the projects should pay equitably.

Mr. Watton also shared that the City of Carlsbad's Mayor has requested a meeting with CWA, the City of San Diego and Otay Water District to discuss desalination. The hope is to create a regional desalination program. He also stated that the governance issue was being brought back for discussion by the northern agencies. The City of San Diego's stance is that CWA governance was working fine and is not an issue. Staff must monitor this issue.

Director Croucher suggested that Poseiden be invited to provide a presentation on the desalination project to the board. He also suggested that with regard to Board of Director's Policy 16, that it be presented to the Labor Management Committee for discussion. Should the committee have an interest in reinstating the policy then, at that time, it could be presented for discussion by committee and board.

Director Breitfelder indicated that he had an opportunity to talk with City of San Diego's lobbyist and a few other people while in Sacramento with regard to the governance issues at CWA. Each indicated that they felt very good about the current voting structure prevailing in the legislature. He also noted that he attended the ACWA conference and found the seminars very helpful and indicated that he encouraged other Directors to attend such conferences. He stated that it provides excellent seminars and an opportunity to share information about Otay and where it is going. This is helpful to both Otay and other agencies, as we understand how we are viewed by other agencies, and they can better understand the District and its goals.

RECESS TO CLOSED SESSION

12. The Board recessed to closed session at 5:25 p.m. to discuss the items below:

a) CONFERENCE WITH LEGAL COUNSEL – PENDING LITIGATION
[GOVERNMENT CODE §54956.9(a)]

i. DONNA BARTLETT-MAY, et. al. v. OTAY WATER DISTRICT

b) CONFERENCE WITH LEGAL COUNSEL – POTENTIAL LITIGATION
[GOVERNMENT CODE §54956.9(b)]

ONE (1) CASE

c) CONFERENCE WITH REAL PROPERTY NEGOTIATOR [GOVERNMENT
CODE §54956.8]

PROPERTY: AULD GOLF COURSE, 525 Hunte Parkway,
Chula Vista

AGENCY NEGOTIATORS: BONIFACIO BONNY GARCIA
YURI CALDERÓN

NEGOTIATING PARTIES: CALIFORNIA BANK & TRUST

UNDER NEGOTIATION: PROPOSED MODIFICATIONS TO
TERMS AND CONDITIONS OF LEASE

RETURN TO OPEN SESSION

13. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION

The Board reconvened at 6:24 p.m. General Counsel Yuri Calderon indicated that the board voted to reject the Richard Moore claim discussed under potential litigation. He stated that:

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

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

to reject the claim.

He further indicated that no other reportable actions were taken in closed session.

14. ADJOURNMENT

With no further business to come before the Board, President Lewis adjourned the meeting in at 6:25 p.m.

President

ATTEST:

District Secretary