

**MINUTES OF THE
SPECIAL MEETING OF THE BOARD OF DIRECTORS
OTAY WATER DISTRICT
November 17, 2004**

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

2. ROLL CALL

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

Staff Present: General Manager Mark Watton, 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

There was discussion to pull items 13c, Personnel, Public Employee Appointment, and 14, Appointment of General Manager and Approval of General Manager's Employment Contract, as it was felt that it might be more appropriate to wait until the new Division 5 Director, Mr. Mark Robak, was seated so he could be included in the discussions on the criteria/method of selection, contract terms and expectations of the new general manager. After further discussion it was decided that it would be fine to leave the item on the agenda for discussion purposes in closed session.

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

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

to approve the agenda.

5. APPROVAL OF MINUTES OF REGULAR MEETING OF SEPTEMBER 1, 2004
AND SPECIAL MEETING OF SEPTEMBER 9, 2004

Director Breitfelder requested that his comments on page 5 of the September 29, 2004 minutes be amended as follows:

However, board members should advise the General Manager that he/she will be meeting with the Association President and that the board member should not represent to the Association President that ~~something~~ **anything** would happen **immediately** in **direct** response to their conversation or speak on behalf of the board.

It was requested that District Secretary Cruz review the tape recording of the meeting so that what was actually said could be reflected in the minutes.

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

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

that District Secretary Cruz review the tape recording of the September 29, 2004 Board meeting with regard to communications between members of the board and the employee association president.

District Secretary Cruz indicated that Director Breitfelder also wished to amend the minutes of the September 1, 2004 board meeting which was presented at the October 6, board meeting for approval. She stated that an amendment was requested at the October 6, 2004 board meeting which was reflected as item 5 on page two of the October 6, 2004 minutes. It is requested that the amendment be changed and reflected as noted below:

Director Breitfelder indicated that if it was felt that this was ~~the right thing to do for~~ **not a political move-reasons**, **then** the board should ~~move forward with the new appointment~~ vote its conscience.

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

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

to amend the minutes of the October 6, 2004 and September 1, 2004 board meeting as noted above.

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 wished to be heard.

CONSENT CALENDAR

7. ITEMS TO BE ACTED UPON WITHOUT DISCUSSION, UNLESS A REQUEST IS MADE BY A MEMBER OF THE BOARD OR THE PUBLIC TO DISCUSS A PARTICULAR ITEM:

- a) ADOPT RESOLUTION NO. 4029 OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT FIXING TERMS AND CONDITIONS FOR THE ANNEXATION TO OTAY WATER DISTRICT IMPROVEMENT DISTRICT OF THOSE LANDS DESCRIBED AS "HARRY OAKLAND ANNEXATION" (APN 595-020-51) AND ANNEXING SAID PROPERTY TO OTAY WATER DISTRICT IMPROVEMENT DISTRICT NO. 22/27
- b) DECLARE EQUIPMENT SURPLUS TO DISTRICT'S NEEDS
- c) UPDATE ON THE ANNUAL WATER CONSERVATION BEST MANAGEMENT PRACTICES REPORTS FOR FISCAL YEARS 2003 AND 2004

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:	Director

to approve the consent calendar.

WORKSHOP / ACTION

8. REVIEW OF THE RATE STUDY FROM BLACK & VEATCH AND APPROVE AN OPTION FOR RATE STRUCTURE CHANGES AND CAPACITY FEE INCREASES

Mr. Joe Beachem indicated that in 2003 the District completed a rate study approved by the Board. He stated as a result of that rate study, fund level targets were set, the sources and uses of funds were reaffirmed, pass-through rate increases for water and sewer was approved and the debt coverage ratio requirements were set over the next five years. He stated that the financial plan has served the District well over the past year and half. He noted some benefits of the rate study which included savings of over \$1 million to ratepayers in a bond refinancing, the District obtained an A+ Bond Rating from rating agencies, a debt policy was developed as a guide to plan and shape the District's financial decisions. He stated that in the past few months staff has been working on updating the rate model and have presented the results and recommended options to the Finance and Administration Committee. Discussions from that meeting are presented at this meeting with some modifications recommended by the committee for Board approval. Staff is requesting that pass-through rate increases be implemented in

January 2005. He noted that copies of the notices to the developers and ratepayers of the pass-through increase has been placed on the dias for the Board's review.

Mr. Beachem indicated that in updating the rate study, the District had two major challenges. The first was a significant rate increase from CWA of 9% (which is much higher than their historical annual increases of 2%) effective January 2005. He stated that CWA increases over the next five years will be very similar and poses a challenge each year. He noted the second big challenge was the District's pension cost increase. He indicated that the board approved a pension enhancement last year which the District was well set to handle. However, with CWA changing their rate increases, the District was left with some challenges. He stated that the District is proposing rate modifications to makeup the short fall due to the CWA rate increases. He stated that staff is proposing three different options that would each meet the goal of maintaining the District's financial strength; stability and the District's operational debt ratio would remain above the 125% requirement. He also reviewed the cash reserve funds and their five year target levels (see attached presentation). He stated that the board had also approved, with the fiscal year 2006 budget, to fully fund the Medical Retirement fund. The board, at that time, had also directed staff to look into placing the funds into a trust which will take the funds off the books and it would then become a restricted fund. He stated that over the next six months, staff will be presenting a recommendation for a trust for the board's consideration.

Director Bonilla indicated that by placing the Medical Retirement into a trust, the District is ahead of the upcoming regulatory requirement for such liabilities. Mr. Beachem indicated that that was correct. He stated that it will be a requirement in the future that the financial statements reflect the liability that the post retirement benefits represents to the District.

Director Breitfelder asked how much of the District's growth is unfunded. Mr. Beachem indicated approximately 35%. He asked under recommended Option C of the rate study where would the District be. Mr. Beachem stated 13%. Director Breitfelder also asked what the original rationale was for eliminating the energy charge for recycled water users. General Manager Watton indicated that, at that time, the District was trying to entice users and today it is believed that recycled water use was mainstream now. Director Croucher indicated for clarification purposes, that the charge for recycled water was 85% of the charge for potable water. It was indicated that though we collect 85% of the charge of potable for reclaimed, the District is not subsidizing reclaimed water operations with potable revenue.

Mr. Beachem then turned over the floor to Mr. Jake Boomhouwer, Black & Veatch, to review the details of the updated rate study. Mr. Boomhouwer, indicated that they looked at financial plan alternatives, rate revenue recovery alternatives and then determine proposed rate schedule. He stated that three alternatives are proposed:

- Alternative A: Block Adjustments (change the rate structure to recover additional revenue) with no capacity fee increase
- Alternative B: Block Adjustments with a capacity fee increase to \$4,100
- Alternative C: Block Adjustments with a capacity fee increase to \$4,546

He stated that CWA's projected rate increases through 2009 ranged from 4% to 9% which reflects a \$6 million increase in cost through 2009 which must be collected. He stated that at the District's current rate structure, the District's revenues beginning in 2006, would not be enough to pay increased costs for water or the CIP program.

He noted that Alternative A proposes a 4.5% rate increase over a 5-year time frame (2005-2009). Alternative B proposes a 4.1% rate increase over a 5-year time frame and an increase to existing capacity fees for ¾" meters from \$3,359 to \$4,100. The \$4,100 is based on the April 2003 Rate Study recommended capacity fee. Alternative B would generate \$6.7 million in additional revenue over a five-year period and reduce transfers from the operating fund to finance capital projects. Alternative C proposes a 3.9% rate increase over a 5-year time frame and an increase to existing capacity fees for ¾" meters from \$3,359 to \$4,546. The \$4,546 is based on the April 2003 Rate Study recommended capacity fee. Alternative B would generate \$11.5 million in additional revenue over a five-year period and reduce transfers from the operating fund to finance capital projects.

Mr. Boomhouwer indicated that Alternative A is paid by existing users and Alternative B and C balances revenue needs between growth and existing users. He presented a slide showing the proposed capacity fees for each meter size based on the increases proposed by Alternative B and C (see attached).

Director Croucher asked that because of the new requirement for single family homes to have fire sprinklers installed, their meter requirements increased in size from ¾" to 1". He asked if the District was able to work with CWA to have the capacity fee waived for the larger meter when it is strictly for the purposes of adding sprinklers. General Manager Watton indicated that he does not believe that CWA has addressed this issue. It was discussed that staff might follow-up with CWA.

Mr. Boomhouwer stated that the District would meet the 125% debt service ratio coverage with all three alternatives. He presented a slide showing a comparison of monthly water bills with neighboring cities in 2002 based on 15 units of water which noted Otay as the sixth lowest in cost among its neighbors at \$36.23 a month compared to a county average of \$39.17 per month. He noted that in 2003, the District was fifth lowest and in 2004, and in 2005 was the sixth lowest cost among county water agencies. He noted that based on 10 units of water the District falls to fourth lowest in 2003, 2004 and third lowest in 2005. He stated that in terms of rates, the District has maintained a very favorable position and, in terms of capacity fees, the District is toward the higher end, but still not as high as several neighboring agencies. He stated that, however, capacity fees cannot be set at

levels that are not based on cost and the District has certainly been following this guideline.

Mr. Boomhouwer reviewed the different alternatives for revenue recovery. He stated the District's current tier blocks are not very efficient in encouraging water conservation because overtime, there is a change in behavior to conserve and now over 80% of total water used is billed at the first tier rate. It was suggested that the tiers be modified at different rate steps which will generate \$634,200 annually without actually changing the rates. He indicated that half the District's single family residents (SFR) utilized 10 or less units of water. He noted that by changing the first tier of the District's rate block to 0-10 units of consumption and the second tier to 11-35, it will move 30% of the current Tier I users to Tier II rates. This is more consistent with normal rate charts. Half the District's users will be charged Tier I rates and 41% Tier 2 rates and 9% Tier 3 rates (those that utilize over 35 units per month). He noted that the change in tier blocks would also encourage conservation.

Mr. Boomhouwer indicated that the same concept applies to Duplex/Townhomes. He stated that in the current tier structure, 98% of water used is billed at Tier 1 rates. By changing the Tier 1 rate block to 0-4 units versus the current 0-25 units, 46% of water used would be billed at the Tier I rate and 46% at Tier 2 rates for 5-16 units of water used. He stated Tier 3 would be for those Duplex/Townhomes that utilize over 15 units of water per month which represents 8% of Duplex/Townhomes in the District's service area. This modification would generate \$32,800 annually.

President Lewis indicated that the proposed Tier blocks places 50% of the District's SFRs into Tier I rates and 41% into Tier II rates. However, the change does not take into consideration any conservation efforts by such ratepayers. Mr. Boomhouwer indicated that that was correct. Over time, the District will see that a majority of the users will shift to the lower tier rate, but typically this is a very slow gradual process as it requires customers to increase conservation which is done on a one-by-one basis. He stated that it is suggested that the District review its rate block structures every 5 to 10 year and redefine them based on current use. President Lewis indicated that eventually usage will drop to the lower levels. Mr. Boomhouwer indicated that he did not know how far one can go to conserve, but eventually all that can be achieved eventually is achieved and you reach some type of stability. President Lewis indicated that the District would have achieved its conservation goals, however, financially it would need to raise rates at that point unless water prices drop. Mr. Boomhouwer indicated that that was correct.

The same change rate block change is proposed for Multi-Family Residential (MFR) as the Duplex/Townhomes. He stated that MFR users are currently charged a uniform rate and by implementing a 3 Tier structure, it would place the approximately 46% of users in Tier 1, 46% in Tier 2 and 8% in Tier 3.

It is suggested that the District eliminate the incentive for customers who use 20 units of water or less to receive the first 5 units at \$1.01/unit as 70% of the District's customers fall in this category. Instead it is suggested that the District charge per

the recommended three tier blocks (noted above) where those who use 10 units per month or less are charged the proposed lowest rate for each unit of \$1.67/unit. 35% of the Districts customer will fall into this category and by making this change, the District will generate \$630,000 revenue annually.

Director Croucher asked how the 10 units was determined. Mr. Boomhouwer explained that 10 units was identified as the monthly usage for 50% of the District's customers.

Another alternative that was recommended at the committee level is to reinstate the energy charge for reclaimed customers. This is a charge to cover the pumping cost to pump to higher elevations. This would generate approximately \$300,000 annually.

In summary the above recommended modifications would bring in the following annual revenues:

Modification to Tier Blocks for SFR	\$634,200
Different Tier Block for Duplex	\$ 32,800
Create Tier Blocks for MFR	<\$ 60,800>
Eliminate Incentive for use of 20 or less units per Month and charge first 10 units at Tier 1 rates	\$630,000
Reinstate Energy Charges	<u>\$300,000</u>
 Total Annual Revenue	 \$1,536,200

Mr. Boomhouwer also noted other alternatives reviewed that included, across-the-board variable rate increase, tiered rate structure to commercial customers, a different charge for customers with AMR meters and increases to monthly service charges. He noted complications/difficulties with implementing the above options (see attached copy of presentation).

He also presented slides noting the actual proposed rates for per units of water used and the monthly service fee rate by meter size (see attached copy of presentation).

Director Croucher asked with Proposition 1A taking effect, did the District take into consideration the funds lost through proposition 1A. Mr. Beachem indicated that the District collects approximately \$1.8 million in tax revenues and the fire-year plan includes an adjustment for two years which takes the revenue collection down to \$0 in anticipation that the District will loose the full revenues. It was noted that the District has not yet heard anything official. Mr. Beachem also noted that CWA will loose approximately \$5.5 million for the next two years. The District will not be impacted this January 2005, but it is anticipated that a rate increase reflecting this loss will be reflected in CWA's rate increase the following year (January 2006).

Director Croucher asked if the sewer rate increase implemented last year (so that the sewer customer are covering the cost of their services) taken into consideration. Mr. Beachem indicated that it had been, but that it was a three-year implementation plan. The second increase will be implemented this January 2005 and the third in January 2006, before they fully cover their costs.

Director Croucher asked if there was anything that can be done to cover Tier 2 water costs the District may incur during the upcoming year. Mr. Beachem indicated that the District has incorporated the Tier 2 rates into projected costs for the upcoming fiscal year. However, due to transfer water from IID & Coachella Valley, the original projections of Tier II water use has been reduced. General Manager Watton also indicated that though the District may avoid Tier II water rates, there are higher costs associated with transfer water which will be melded into CWA's rate.

Director Bonilla shared that staff had presented this item to the Finance and Administration Committee. He stated the committee had some observations, but it was very well done. He stated that he felt the District was on the right track and commended staff.

Director Breitfelder stated that he felt the core issue on developer fees is not about the District's cash flow, but about growth not being subsidized. He stated that only in the narrowest technical sense is this not a rate increase. He stated that customers with larger lots / landscapes will be paying quite a bit more. He stated that the increase would primarily affect Division 1, 4 and 5. Director Breitfelder indicated that though it is not pleasant it was necessary and he supported Alternative C.

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

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

to adopt Ordinance 505 and approve staffs' recommendation to implement Option C.

INFORMATION / ACTION ITEMS

9. ADMINISTRATION AND FINANCE

- a) AWARD A CONTRACT TO ACCENT ELECTRONICS DBA STANDARD ELECTRONICS IN THE AMOUNT OF \$243,120 FOR SECURITY AND ACCESS CONTROL UPGRADES TO THE DISTRICT'S FACILITIES

Mr. Burpeau indicated that the District follows the EPA model for security and their recommendations to “Detect, Delay and Respond.” He stated the District has done a lot of work in the past on security and has “hardened” its facilities to reduce risk by installing protective devices, fencing, razor wire, etc. He stated the District has also installed perimeter and intrusion detection systems and have contracts with alarm response firms and communications with law enforcement. He stated that all future new facility projects would include security systems and access control.

He stated that the District has a 5-year CIP budget of \$1.3 million and that the District was in the second year of its 5-year CIP. He stated the funds budgeted for this fiscal year and the funds required for this project are greater than was budgeted and funds would be shifted from future years to this year, but the overall expenditure for the project would not exceed the total 5-year CIP budget.

He noted that a Request for Proposal (RFP) was sent to 12 firms that participated in the “job walk.” He stated two firms submitted a proposal and staff recommends that Standard Electronics be awarded the Security Upgrade project at \$243,120.

General Manager Watton indicated that the District has a very sophisticated system which the District did not wish to fully share in a public setting. However, if Director’s have an interest to review the full system, staff would happy to meet with them.

Director Croucher indicated that the Engineering and Water Operations Committee did discuss this item and suggested that in future, only one committee review items. He stated the Engineering and Water Operations committee discussed the possibility of acquiring grants for the security program. He stated that staff indicated that they are pursuing grants, but gearing them towards funding the bigger dollar items in the system. He stated that the committee supported staff’s recommendation to move forward with the additional security enhancements.

President Lewis indicated that the Water Resources and Security Committee discussed this item to review the security issues associated with the District’s system. He stated that the committee also supported moving forward with the enhancements.

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

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

to approve staffs’ recommendation.

b) ACCEPT THE COMPREHENSIVE ANNUAL FINANCIAL REPORT INCLUSIVE OF THE AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Mr. Ed Hald introduced Mr. Rich Teaman of the firm Teaman, Ramirez and Smith, Inc. who performed the audit for this year. He stated that this year the District produced a Comprehensive Annual Financial Report (CAFR) which is much more comprehensive than the basic financial statements. He stated that it's purpose is to provide the user with a more thorough understanding of the financial condition of the District. It includes a discussion of the District's goals, significant achievements, challenges and opportunities for the future. He stated that it also contained historical and statistical information that is useful to the users. He reviewed the format of the report which included an introductory section, the financial statements and statistical information. He indicated that preparation of a CAFR serves the District and it's ratepayers in a variety of ways:

- Helps to support a solid bond credit rating of A or better for the District.
- Provides more useful information to the Board, the ratepayers, and other interested parties.
- Establishes the District as a leader in financial reporting and financial management.

Mr. Hald indicated that results of the independent audit of the District for the fiscal year ended June 30, 2004, resulted in an unqualified or "clean" opinion. This is the highest opinion offered as a result of such an audit. He asked that the board accept the CAFR for the Fiscal Year ended June 30, 2004.

Director Bonilla indicated that the Finance and Administration Committee reviewed the report and supports staffs' recommendation.

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

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

to approve staffs' recommendation.

c) FISCAL YEAR 2004 STRATEGIC PLAN FIRST QUARTER UPDATE

Mr. Geoff Stevens indicated that he would be presenting the first quarterly update for fiscal year 2005. He stated that the report would show results for the first quarter for the strategic objectives (those issues that are focused on changing the District) and performance measures (how the District is doing in day-to-day operations). He indicated that the District is meeting or exceeding 68% of its performance measure with 17% slightly below set targets. He indicated that he felt

that this was a fair result as it indicates that the set targets are getting more difficult to meet. He stated that in meeting its strategic objectives, the District was on or ahead of schedule on approximately 90% of set objectives.

Mr. Stevens noted that the Strategic Plan information was now available to board members on the District's inet (internal network). He demonstrated how the information was accessed and how to navigate through the new system. There was discussion that currently access to the Strategic Plan reporting system was password protected. However, when it is determined that all are comfortable with how the system was working and it seemed to be working correctly, then at that time, the system could be made freely accessible.

Mr. Stevens also shared that this was the District's third year in developing and utilizing a Strategic Plan and staff is planning to evolve the plan for 2006. He stated that Mr. Doug Spiers, Westin Engineering, will be working with the District in evolving the plan and that Mr. Spiers will be interviewing each board member on an individual basis to get their input for the FY06 Strategic Plan. He stated that, in a meeting facilitated by Mr. Spiers, senior management staff would take their input and work on revising the Strategic Plan for FY06. He stated that staff would then present the draft FY06 Strategic Plan for the board's feedback and direction. He stated that staff would like to get the boards involvement on the front end of the development for the FY06 plan.

10. ENGINEERING AND WATER OPERATIONS

President Lewis stepped out at 5:20 p.m.

a) APPROVE THE PRINCIPLES OF UNDERSTANDING REGARDING THE EAST COUNTY REGIONAL TREATED WATER IMPROVEMENT PROGRAM

Mr. Jim Peasley presented a map showing the facilities to be built to transport water from the Helix Water Treatment Plant. He stated that there were several water agencies in the east county (Otay, Padre, Helix, Lakeside and County Water Authority [CWA]) that are all participants in the Principles of Understanding presented for the boards approval. The agreement sets the framework for staff to negotiate an agreement under the terms of the principle. He noted that the Principle of Understanding was a non-binding agreement.

He presented a map showing the current flow of water. He stated that the District has 8 MGD capacity through CWA's Flow Control Facilities (FCF) numbers 8 and 14 which transfers water to the District's regulatory reservoir. He stated the Principles of Understanding was a request for an additional 4 MGD capacity through FCF number 8 to increase on peak/demand flow to 12 MGD; plus an additional 4 MGD off-peak which would increase total flow capacity to 16 MGD. He stated that, however, this extension pipeline is planned by CWA to be converted to a raw water delivery pipeline. By converting the pipeline, the District would no longer be able to get potable water through FCF 14. Thus, a new pipe must be constructed from FCF

14 to the District's regulatory reservoir at a cost of approximately \$14.7 million. He stated that the principle would provide the framework to negotiate who is responsible and what ratio Otay and CWA should pay of the \$14.7 million. He stated that the District has been discussing with CWA that it has been receiving service from the FCF #8 connection since the mid-1970's and now they are proposing converting the pipeline to a raw water line, causing the District to build a new \$14.7 million pipeline. CWA seems to understand this problem and staff would work with CWA to negotiate an equitable agreement.

It was discussed that this item would be brought back to committee possibly in January 2005 and the full board in February 2005.

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

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

to approve staffs' recommendation.

- b) AWARD A PROFESSIONAL ENGINEERING SERVICES CONTRACT TO WESTIN ENGINEERING FOR THE SCADA DOCUMENTATION PROJECT IN THE AMOUNT OF \$420,000

Mr. Randy Klaahsen indicated that this is a professional services agreement that would award a contract to a firm to produce documentation for the District's SCADA system. He noted that in January 2003 a vulnerability assessment was completed on the SCADA system. He stated that the assessment revealed that the District had significant exposure to loss of data, knowledge and system capabilities. He stated that by producing the documentation it would allow the District to introduce competition and become less reliant on a single service provider to complete the Human Machine Interface (HMI) work and would bring the field documentation up to industry standards so that the District could become multi-dimensional; use in-house staff or outside service providers to troubleshoot and repair the District's facilities.

He stated that in June 2004, Request for Proposals (RFP's) were issued to six consulting firms. He indicated that two firms responded, Westin Engineering and Cybernet Consulting. He presented the rating summary and stated that Westin Engineering scored higher overall and had presented some innovative ways to save time and complete the project within 300 calendar days versus 360 calendar days. He stated that the original bid from Cybernet was \$300,000 higher than Westin Engineering and the negotiated contract amount with Westin Engineering was \$420,000.

Klaahsen presented some of the details of the project and indicated that, because this project was related to "Vulnerability," the District has included this project in the State's Proposition 50 grant fund application. He stated that the District has an opportunity to save approximately \$80,000 on the contract if it performs some of the work on the simple sights through the District's Senior SCADA Technician and SCADA Technician. He stated that the CIP Budget for this project was \$1,939,000. Total expenditures to date, including this contract is \$1,824,600. He indicated that staff is recommending that the Board award the SCADA documentation project to Westin Engineering in the amount of \$420,000.

It was noted that staff had met on the scope of the contract and it was discussed that not only would the District save \$80,000 by having staff handle the documentation on the simpler facilities, the District's Sr. Technician felt that this project would also provide a good training opportunity for his new assistant. It was also discussed that such documentation would allow the District to utilize outside services to handle emergencies when needed and the contractor would be able to determine the details of the system in a short period of time by reviewing the documentation.

Director Breitfelder indicated that this was a prudent measure and he wished to highlight that it was the Sr. SCADA Technician, Mr. Tom Monro, who suggested that the simpler facilities could be handled in-house and, thus, save the District \$80,000. Director Croucher thanked Mr. Monro for his efforts with the SCADA system.

President Lewis returned to the meeting at 5:31 p.m.

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

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

to approve staffs' recommendation.

- c) AWARD A CONTRACT TO ADS ENVIRONMENTAL SERVICES TO MONITOR SEWER FLOW IN THE OTAY SEWER SYSTEM IN THE AMOUNT OF \$63,184 (DAUBEN)

Mr. Phillip Dauben indicated that in August 2004 the District completed its first sewer model. He stated that the model is used to theoretically determine if capacity problems exist in the sewer system. He stated that the project is initiated as part of Capacity Management, Operation and Maintenance (CMOM) compliance which is expected to be a legislative requirement in the near future. He stated that staff solicited bids in October 2004 from several flow metering companies to help calibrate models and determine infiltration (water that seeps in through leakage

joints)/inflow (storm run off that flows directly into manholes or street drainage systems) [I/I] in the District's system.

Mr. Dauben presented a slide which shows the Otay Sewer System (see attached copy of presentation). He stated that the project would consist of the placement of 11 flow monitors into manholes throughout the District's sewer system, placing a rain gauge within a basin in the system which would correlate the events of a storm with how much I/I is received in the sewer collection system. He stated that the monitors would be measuring flow for up to 60 days and the deliverables would consist of two hard copies and an electronic version of the flow data.

He stated that bids were solicited from three companies and two bids were received. He stated that staff is recommending that the board award the contract to the lowest bidder, ADS Environmental for \$63,184.

Mr. Dauben reviewed some of the advantages of the project which included that meter data would calibrate the District's sewer model with actual flows, the flow monitors will assist in identifying areas that have I/I from rain events, sewer capacity constraints may be identified from the results of the flow, and the District would comply with future CMOM standards.

Director Croucher indicated that this item was reviewed by the Engineering and Water Operations Committee and the committee supported staffs' recommendation.

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 approve staffs' recommendation.

d) APPROVE A PROFESSIONAL SERVICES CONTRACT WITH HATCH AND PARENT FOR \$45,000 TO ASSIST WITH PROPOSITION 50 GRANT FUNDING

Mr. Jim Peasley indicated that this was a request for a contract with Hatch and Parent for \$45,000 to provide the District with technical assistance and tailoring the District's grant application to agency's rater. He stated that the District would utilize Hatch and Parent, through their sub-contractor CH2MHill, for their expertise on how rating agencies (i.e. DWR, DHS, etc.) would rate the District's responses on the grant applications. CH2MHill would help the District understand the rating agencies perspective so it can score higher in its ratings. Hatch and Parent would also provide advocacy or lobbying services to help Otay in their chances to receive proposition 50 funding grants.

General Manager Watton indicated that the contract was within his approving authority; however, because the contract was for the hiring of a lobbying firm, he wanted to assure that the Board had visibility should it become a sensitive issue with the lobbyists.

Mr. Peasley indicated that most of the grant proposals were due in December 2004 and staff only had a couple of weeks to submit its applications. He stated that staff has identified a handful of projects that they potentially would submit for grants. He stated that the grant programs are generally three-year programs. Next year there would be another cycle and they generally split the money between the three years. He stated that staff would be focusing on applying for a \$5 million grant for the District's three recycled water projects.

Director Lopez noted that Mr. Beachem had indicated that the District's budget anticipates receiving such grants and this was the reason such consultants are important. Mr. Beachem indicated that the Bureau of Reclamation money of \$5 million was included in the District's financial model at 100% collection. This particular grant, however, was not included. If the District was awarded one of the grants, the budget would be covered. He indicated that if the District receives both grants, then staff may be coming back to the board to possibly reduce capacity fees.

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

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

to approve staffs' recommendation.

- e) AWARD A PROFESSIONAL ENVIRONMENTAL SERVICES CONTRACT TO RECON IN THE AMOUNT OF \$49,800 FOR THE BUREAU OF RECLAMATION TITLE XVI FUNDING PROGRAMMATIC ENVIRONMENTAL ASSESSMENT COMPLIANCE EFFORT (PEASLEY)

Mr. Jim Peasley indicated that staff has been working with RECON for several years to produce the Environmental Assessment for the National Environmental Protection Act to be compliant with all federal regulations so the District may seek grants from the Bureau of Reclamation. He stated that the district did not request bids for this contract as it was felt that it would be more efficient to continue with the current vendor as they have been assisting the District for several years. He stated that the contract would assist the District in assuring it is compliant with federal regulations to receive grant funding of up to 25% of the cost of recycled projects. He stated that the District plans to submit applications for all recycled projects that are yet to be built. He stated, at this time, the recycled water projects include a pump station, reservoir and pipeline with a total cost of \$35 million.

General Manager Watton indicated that he wished to bring this item forward for the board's consideration, though it was within his spending authority, as the District has utilized RECON for other services and he wished it clear as to what services this contract would involve and it would also provide the board visibility to this project.

Director Bonilla asked how the grants are worked into the budget. Mr. Beachem indicated that the District's budget model does count on this grant money of 25% of funding (approximately \$8 million). He stated if these grant applications are not successful, then staff will be bringing the budget back to the board for possible changes to the cap fees.

Mr. Peasley noted that the timing of this contract is important as if a project begins construction, it is no longer qualified for federal funding through this program.

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

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

to approve staffs' recommendation.

11. BOARD

a) DISCUSSION OF 2004 BOARD MEETING CALENDAR

There were no changes to the 2004 calendar.

REPORTS

12. GENERAL MANAGER'S REPORT

General Manager Watton indicated that his report notes on the first page, item 5, that staff has met with the City of Chula Vista staff to discuss moving a reservoir and pump station to avoid the endangered "Otay Tar Plant" plant species. He stated that the City of Chula Vista has indicated that because of issues surrounding park land and land swapping, they did not wish the District to move these facilities. In light of this, the District will be handling issues in mitigating for the tar plant.

He noted that the San Diego Society for Human Resources Management has awarded the District their 2004 Workplace Excellence Crystal Award for Emerging Businesses. He stated that the *Union-Tribune* and *The Star News* had printed positive articles regarding the District's receipt of the award. Ms. Williamson indicated that it was an honor to be selected from 135 different companies. She

stated that there were 400 human resources professionals in attendance of the award dinner and it was a privilege for the District to be recognized among other human resources professional. She stated she was proud to be a part of the District and she thanked the board for their support. President Lewis stated that this award was a testimony to the staffs' dedication/hard work and congratulated and thanked Ms. Williamson for representing the district at the award dinner.

General Manager Watton indicated that the executive staff met with The Centre to finalize the preliminary Action Plan. He stated that a meeting was held with the managers and supervisors and the feedback has been very positive. He also noted that the Action Plan was also presented to the Labor Management Committee and the meeting was very positive. He stated that the Action Plan would be presented to all the employees of the District on December 7, 2004. He stated that the action plan is moving forward and, thus far, has been well received.

General Manager Watton indicated that staff has prepared a Comprehensive Audited Financial Report (CAFR) which was presented earlier this afternoon. He stated that the CAFR would be submitted to various associations for their consideration for awards. He also noted that negotiations with the City of San Diego for 20 MGD of potable treated water has been delayed until the mayor's race has been determined. He stated that the District would also begin delivering treaty water to Mexico again on November 20 through 21. They are expected to take water in February, March and April 2005.

General Manager Watton also shared that he has been meeting with City of Chula Vista Manager, Dave Rowlands, periodically, He stated that their recent discussions included the sewer billing issue and other issues affecting the two organizations. He stated that the City of Chula Vista Council opposed Steele Canyon Golf Course from utilizing groundwater for irrigation purposes. Director Croucher asked if the revenue from the water sold to Steele Canyon was suspended due to their using groundwater for irrigation purposes, if the District had taken this loss into consideration when developing the budget. Mr. Joe Beachem indicated that staff had not. Director Bonilla shared that the Finance and Administration Committee had discussed the possibility, however, no action was suggested until final determinations have been made on their use of groundwater.

General Manager Watton also shared that Safety and Risk Administrator, Dave Burpeau, provided a tour to the Joint Powers Insurance Authority (JPIA) to conduct a workers' compensation risk assessment of the District's Safety Program on October 8, 2004. He stated he wished to highlight a sentence from the JPIA letter (copy attached) in follow-up to the assessment tour. The sentence read , "The District should be proud of it's efforts to train new hires, as well as experienced employees, in safe work practices using various methods from on-line/computer, classroom and hands-on training resources." He stated that receiving praise from an outside party for the District's Safety Program is notable and he wished to highlight this "good news" story and commend staff for their efforts.

County Water Authority Update:

Director Croucher indicated that CWA had voted to increase rates at a little higher level. He stated that the rates are little higher now, but in the long run, there would be some substantial savings. He stated the question was either to pay for the Capital Improvement Program now or later and if it were later, it would be substantially higher. He also shared that he and General Manager Watton met with Mr. Gordon Hess to discuss some of CWA's positions on MWD. He indicated that he and General Manager Watton's goal was not to just be involved at the CWA level, but begin to get involved in the MWD issues. He also shared that he and General Manager Watton would also be meeting with the new chair of CWA, Mr. Jim Bond on, November 23, 2004, along with Mr. Mark Muir, City of Encinitas, and Mr. Bud Lewis, Mayor of the City of Carlsbad, who are members of CWA's board to discuss issues of interest to the District in the coming year.

General Manager Watton also shared that he sits on the Negotiating Action Team at CWA which was discussing the desalination project. He stated that the project was moving forward with Poseiden, Carlsbad and CWA and discussion have been opened between the organizations.

He stated that with regard to the studies on rates at CWA, Mr. Joe Beachem has been very active with the discussions concerning rates. He indicated that Mr. Beachem has taken a leadership position among the agencies and is capably representing the District in the discussions.

13. DIRECTORS' REPORTS/REQUESTS

Director Croucher indicated that the new Water Conservation Garden had a brain storming session to refocus its goals and directing staffs' time to matters that would promote water conservation which is the goals of the participating agencies. He stated that the Congressional staff from Washington DC and staff from MWD also met at the Garden. He indicated that they were very impressed with the Garden and the Garden Authority used this opportunity to discuss grants with MWD. He indicated that the Garden is focused on grants from MWD that range from \$25,000 to \$100,000 and it is hoped that this meeting has opened opportunities for the Garden to receive MWD grants and possibly other grants beyond MWD. He also indicated that the Ms. Marty Eberhardt, Executive Director of the Garden, is proposing an opportunity to expand the Garden with a children's area. He stated that Cuyamaca College has a vacant lot between the Garden and a children's facility on their campus. There are financial issues to building the children's area and the thought is to finance the addition with either corporate sponsorships or through grant funding. Director Croucher indicated that the District had a fire drill a couple days ago and commended staff for the good job in evacuating the entire building. It was determined that there was a system failure that discharged the substitute halon gas in the computer room.

Director Breitfelder indicated that he had been speaking with Ms. Marilyn Daily, Chair of CWA's Finance Committee, and she is pushing to hold audit workshops at CWA. He stated if CWA should move forward with the audit workshops, he

encourages the board to attend. He also shared that he had attended the Construction Management Membership Association meeting and they were discussing CWA's CIP. He stated that the group seemed to have a good strategic view of the water situation and they understood the concern of building large pipelines that may not have water flow should "preferential rights" be instituted and, therefore, the push in interest towards desalination. He indicated that at the meeting the District's Engineering and Development Services staff received many compliments. They were very complimentary of the fairness and professionalism of the staff members and they were very appreciative of the feedback the District's staff provides when things do not go their way. He commended staff and encouraged the members of the board to attend such meetings and suggested that it would be appropriate for the District cover the fees for members to attend such meetings. He also shared that he had the opportunity to meet Director-elect Mark Robak at the Water Conservation Garden workshop and indicated that he has heard many complimentary comments from CWA and other agencies and he looked forward to working with him.

Director-elect Robak indicated that he was looking forward to working with the board and getting to know each member.

RECESS TO CLOSED SESSION

14. The Board recessed to closed session at 6:16 p.m. to discuss the items below:

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

i. AUBREY v. OTAY WATER DISTRICT

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

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

AGENCY NEGOTIATORS: YURI CALDERÓN

NEGOTIATING PARTIES: CALIFORNIA BANK & TRUST

UNDER NEGOTIATION: PROPOSED MODIFICATIONS TO
TERMS AND CONDITIONS OF LEASE

c) PERSONNEL— PUBLIC EMPLOYEE APPOINTMENT (GOV. CODE
§54957)

TITLE: GENERAL MANAGER

RETURN TO OPEN SESSION

15. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION / APPOINTMENT OF GENERAL MANAGER AND APPROVAL OF GENERAL MANAGER'S EMPLOYMENT CONTRACT

The board convened from closed session at 7:02 p.m. General Counsel Calderon indicated that the Board took action in closed session to appoint Mr. Mark Watton as the General Manager of the Otay Water District effective November 17, 2004 on a vote of 5-0. He stated that the terms and conditions of the general manager's contract would be negotiated at a later time.

16. ADJOURNMENT

With no further business to come before the Board, President Lewis adjourned the meeting in at 7:03 p.m.

President

ATTEST:

District Secretary