

**MINUTES OF THE  
BOARD OF DIRECTORS MEETING OF THE  
OTAY WATER DISTRICT  
June 10, 2008**

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

2. ROLL CALL

Directors Present: Bonilla, Breitfelder, Lopez and Robak

Directors Absent: Croucher (due to illness)

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 of Information Technology Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Chief of Operations Pedro Porras, Chief of Administration Rom Sarno, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

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

Ayes:	Directors Bonilla, Breitfelder, 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

Students (Daniel Wagner, Ben Wagner, Matthew Gale and Lucas Vanwinkle [Lucas was unable to attend today's meeting]) from Oak Grove Middle School and the Steele Canyon High School attended today's meeting to present their presentation on "Water Wars" which won the State-wide National History Day competition. The students will be one of California's representatives at the national competition to be held at the University of Maryland this coming weekend.

Water Wars depicts the dispute for water between the City of Los Angeles and the Owens Valley. The student's had interviewed the District's General Manager, Mark Watton, to get a basic understanding of the conflicts and compromises over water. They also interviewed a rancher, a farmer, Ms. Catherine Mulholland and visited the Owens Valley. Ms. Mulholland is the granddaughter of William Mulholland (who was head of the Los Angeles Dept. of Water and Power during the time of California's water conflict). She is an accomplished educator and author of her and her grandfather's work in the subject of water rights.

The student's presented their video which portrayed the conflict in the early 1900's between Los Angeles and the Owens Valley and how the conflict shaped California water policy.

The student's thanked the board for allowing them to present their project. They indicated that they had been working on the project since the beginning of the school year and had found during their research that water is much more complex than they had expected. Director Robak congratulated the students on their success at the state level and wished them good luck at the national competition. He stated that their project was very timely with today's water circumstances. Director Lopez asked that they let the District know how they did at the national competition and also wished them good luck.

6. APPROVAL OF MINUTES OF THE REGULAR BOARD MEETING OF FEBRUARY 6, 2008 AND MARCH 5, 2008

District Secretary Susan Cruz indicated that there is an amendment to the February 6, 2008 meeting minutes on page 13, the first paragraph under item 11, Directors' Reports / Requests. She noted that the first sentence of the paragraph which reads, "Director Breitfelder reported that at the *County Water Authority*..." and stated that "*County Water Authority*" should be changed to "*Council of Water Utilities*."

Dir Breitfelder: One additional clarification sir. At the top of page 6 on February 6, I would just like to clarify that to the extent that it could be interpreted that Dir Robak surrendered jurisdiction of the OPEB Trust from the Finance Committee. To the extent that it could be interpreted, I want it clear that he was speaking from/of his own opinion as opposed from the committee itself.

Dir Robak: I'm sorry, could you restate that? I'm sorry I didn't...

Dir Lopez: On top of number...am I looking at page 6?

Dir Breitfelder: Page 6, second paragraph.

Dir Lopez: Reading the paragraph..."The motion was withdrawn as the committee chair, Director Robak, indicated that he was comfortable with the information he had received during discussions at the Finance, Administration and he did not feel it required further discussion from the committee."...Is that the one you're...

Dir Breitfelder: Yes, yes. I just wanted it noted that that was a personal opinion as opposed to the opinion of the committee as a whole.

Dir Lopez: I can't see where that would be misconstrued. Are you ok with that statement? We'll move on then?

Dir Robak: Yes, he was the only other one there, so....

Dir Lopez: So do we have a motion to approve the minutes for February 6 and March 5? Do I have a motion?

~~Director Breitfelder indicated that he would also like to clarify in the February 6, 2008 minutes, Director Robak's statement on page 6, second paragraph, with regard to the committee's discussion on the funding of the OPEB liability. He indicated that he wished it noted that Director Robak's statement indicating that the committee was comfortable with the information it had received during discussions at the Finance, Administration and Communications Committee was his personal opinion and not that of the committee as a whole. Director Robak indicated that he was comfortable with an amendment to the minutes that reflects this change.~~

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

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

to approve the minutes of the regular board meeting of February 6, 2008, with the noted amendments, and March 5, 2008.

## 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:

Director Breitfelder requested that item 6e, ADOPT ORDINANCE NO. 516 AMENDING SECTION 39, DROUGHT RESPONSE CONSERVATION

PROGRAM, FORMERLY KNOWN AS "CONSERVATION AND WATER SHORTAGE RESPONSE PROGRAM," OF THE DISTRICT'S CODE OF ORDINANCES, be pulled for discussion.

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

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

to approve the following consent calendar items:

- a) APPROVE CHANGE ORDER NO. 6 TO THE EXISTING CONTRACT WITH ZONDIROS CORPORATION FOR THE CONSTRUCTION OF THE CACTUS ROAD UTILITY RELOCATION PROJECT IN AN AMOUNT NOT TO EXCEED \$54,872
- b) ADOPT ORDINANCE NO. 517 TO AMEND CODE OF ORDINANCE SECTION 2.01-E, AUTHORITY OF THE GENERAL MANAGER, OF THE DISTRICT'S CODE OF ORDINANCE
- c) APPROVE THE ISSUANCE OF EIGHT (8) PURCHASE ORDERS TO VARIOUS VENDORS FOR A SOFTWARE MAINTENANCE AGREEMENT TO INCLUDE ANNUAL SUPPORT AND CONSULTING SERVICES; GIS SOFTWARE LICENSES AND SOFTWARE INTEGRATION SERVICES; GBA SOFTWARE LICENSES AND INTEGRATION CONSULTING WORK; TELEPHONE AND INTERNET SERVICES; CELL PHONE AND WIRELESS AIR TIME; 7x24 REMOTE NETWORK MONITORING SERVICES; THE MICROSOFT ENTERPRISE AGREEMENT FOR ALL MICROSOFT LICENSES AND AN ADDITIONAL LICENSE FOR THE GIS SERVERS; AND IMPLEMENTATION SERVICES TO DESIGN, IMPLEMENT AND INSTALL A WIRELESS BROADBAND CONNECTION TO THE TREATMENT PLANT; TOTALING \$813,000 OF WHICH \$648,000 WILL BE FUNDED THROUGH THE PROPOSED FISCAL YEAR 2009 OPERATIONS BUDGET AND \$165,000 FROM THE PROPOSED CAPITAL BUDGET
- d) APPROVE A CONTRACT WITH INFOSEND TO PROVIDE MONTHLY BILL PRINTING, BILL INSERTION, AND MAILING SERVICES FOR THE DISTRICT'S WATER AND SEWER BILLS

General Manager Watton noted with regard to item 6e that the Finance, Administration and Communications Committee had originally recommended that it be presented to the full board as an action item. He apologized that it was mistakenly placed on the consent calendar.

Director Lopez indicated that due to the time that the board wishes to devote to the budget, he would like to move the discussion of item 6e (note below) to follow the budget workshop. The board concurred.

- e) ADOPT ORDINANCE NO. 516 AMENDING SECTION 39, DROUGHT RESPONSE CONSERVATION PROGRAM, FORMERLY KNOWN AS “CONSERVATION AND WATER SHORTAGE RESPONSE PROGRAM,” OF THE DISTRICT’S CODE OF ORDINANCES

## WORKSHOP

- 8. ADOPT RESOLUTION NO. 4124, APPROVING THE FISCAL YEAR 2008-2009 OPERATING AND CAPITAL BUDGETS; APPROVE FUND TRANSFERS FOR POTABLE, RECYCLED, AND SEWER; AND DIRECT STAFF TO PROCEED WITH THE RATE STUDY AND PROPOSITION 218 HEARING AND NOTICES

Chief Financial Officer Joe Beachem indicated that the adoption of the budget is the next step following the adoption of the Strategic Plan. He stated that the budget supports the direction of the District that is outlined in the Strategic Plan. He reviewed the agenda for the budget workshop:

- Review the Rate Model
- Implementation of the Rate Changes for Potable, Recycled and Sewer
- Review the CIP Budget
- Review the Operating Budget
- Summarize Recommendations

Chief Financial Officer Beachem indicated that the District is facing some serious budget challenges which includes:

- CWA and MWD Rate Increase Projections are substantially higher than last year
  - The projected rate increased last year for 2009 was 6.4%, however, the increase is expected to be 10.3%
  - CWA indicates that they are projecting the rate increase for 2010 as 3.4%. Staff feels, however, that it would be more prudent to plan on a 7.9% increase.
- Economic and Housing Slowdown
  - Meter Sales are dropping and are expected to be 29% of sales from 3 years ago
    - This is a significant reduction in annexation revenues which fund the District’s operating budget and a significant reduction of capacity fees which fund the District’s expansion projects
    - Growth will stay relatively flat until 2012 when it is projected that the housing market will begin to picking-up

- Interest Rate Cuts (from 5.3% to 3%)
  - Due to cuts, the District will have loss of interest revenue
- Reduced Water Sales
  - A 5.5% increase is built into the rate model due to decreased water sales. In addition, staff is building in up to a 15% reduction in water sales due to conservation and possible water drought scenarios.

Chief Financial Officer Beachem stated that without these challenges, the District would be looking at a rate increase of 5.4% which is what staff had projected in the previous year. Director Bonilla inquired if it was fair to include the conservation effect as a cause of the rate increase as the District will not buy as much water due to conservation. Chief Financial Officer Beachem explained that it is the net change when evaluating the cost reduction, revenue reduction and power reduction (net impact after subtracting the reduced expense). He noted that water sales is a vast majority of the District's revenues and water purchases are only half of expenses (for each dollar of less revenue, the District loses \$.50 of each dollar of expense).

He indicated that staff must look at ways to mitigate the impact of these challenges to rates. He stated that staff recognized early on the effect that the slowdown in growth was having on the District. He stated in 2008, staff began re-evaluating and reducing the level of CIP expenditures and as a result, the 2008 CIP expenditures to 75% of the budgeted expenditures. He indicated for 2009, staff again re-evaluated the CIP and was able to reduce the CIP budget by \$7.5 million. He stated that these reductions have had a significant effect in reducing the impact of the above challenges. Staff also re-evaluated and reduced the operating budget expenses, bringing down the Fulltime Equivalent's (FTE) by 4 positions (from 173 to 169). Further, program and discretionary spending were cut by nearly \$1 million, legal expenditures are projected to come down by \$750,000, and water purchase will be reduced (corresponding with lower water sales).

Chief Financial Officer Beachem indicated that staff also uses fund transfers and debt to minimize rates. He stated that as long as there are funds available and the transfers are in compliance with the District's reserve policy, staff has recommended approval of transfers. He indicated that by doing so it lessens the need for debt and rate increases. He lastly noted that staff is proposing that the District utilize temporary available sewer funds for CIP's on the potable side. He stated that the sewer funds will be replenished in years 4, 5 and 6 per the rate model. He indicated by doing this, the District will be able to hold off the issuance of debt by eight months, giving time for the rate increases to strengthen some of the financial ratios that will be affected by the four budget challenges and allowing the District to smooth out the projected rate increases. Chief Financial Officer Beachem noted that even with these actions, the District will have significant rate increases.

He presented a slide showing the District's historical rate increases of 3.9% in 2005 to 5.4 in 2007. He stated even with the efforts that management has made to reduce expenses, a rate increase of 15.4% will be required to balance the budget, maintain financial ratios and reserves. Staff, however, does not feel that a rate spike of 15.4% is responsible to the board or ratepayers and has determined ways to smooth the rate increase over three years with a 9.7% increase in 2009 and 2010, and a 9.1% increase in 2011. He stated the reserve levels would still be held at or above target, however, the lower revenues collected under the smoothing scenario in the first year will cause the debt coverage ratio to drop a little. In discussions with the District's Financial Advisor, she indicated that because the District demonstrates strength in other areas, the drop in the first year of the rate smoothing scenario will not affect the District's credit rating.

Director Breitfelder inquired with regard to the pie chart (see attached presentation, slide no. 5), it seems to indicate that 0% of the rate increase can be attributed to internal cost and that the increase is mainly due to external factors. Chief Financial Officer Beachem indicated that it may seem that way, but what staff has reflected in the chart is the impact of the four increases (four challenges) to the rate model as they are new. If the challenges are not included, the District would be back to the 5.4% increase staff had projected last fiscal year.

He noted that the financial ratios are just one aspect of the District's overall credit rating and financial strength. He presented a slide showing a list of items that are also attributed to the District's AA- credit rating (see attached presentation, slide no. 10). He also noted that by using the sewer reserves, the District is able to push out the debt issuance to 2010 and by that time, the financial ratios would have been rebuilt and the District will be in a very strong position as it returns to the bond markets.

He reviewed the debt coverage ratio and its levels over the next six years (see presentation, slide no. 11). He noted that the operational debt coverage ratio, under the smoothing scenario, climbs from 96% in 2009 (below target of 125%), to the target level in 2012 at 151%, and continues to climb to 177% in 2014. He noted that the presented operational ratio is based on "no growth," that is, it ignores all capacity and annexation fees.

Director Bonilla inquired what is it that the District is trying to achieve. He indicated that he felt that the District should do whatever is needed to assure that it meets its financial obligations and maintains its financial strength. If it takes a 20% increase in rates, then that is what should be done. It was discussed that the District can certainly implement the rate increase in one year or, alternatively, use the rate smoothing model as it has in the past. It was indicated that the District has a strong financial position and would not impact its financial strength if the rate smoothing model was utilized (spreading rate increases over a period

of time). He noted that the District, this year, is still the eighth lowest in cost among the member agencies.

Director Bonilla indicated that he would like staff to present the best case scenario. He indicated that he needed to know where the District stands before he can make his decision. If the District needs to implement a 15% increase to maintain its financial strength and credit rating, then that is what the board should do.

Director Breitfelder inquired if the District increased rates by 15% what is the financial impact. Chief Financial Officer Beachem indicated that it puts the District at a slightly stronger position; the “no growth” debt coverage ratio would be at 125% (at target). However, if the District utilized the rate smoothing model (9.7% increases) with the debt coverage ratio dropping a little, the District’s credit rating still would not be impacted.

Chief Financial Officer Beachem further indicated that with the proposed budget, staff is able to successfully level the rates, maintain the financial strength of the District, support the Strategic Plan objectives, provide a high level of service to customers and maintain reserves at target levels per the approved Reserve Policy. He stated that today is not about requesting approval of the rate increases, but rather the budget itself and the reserve transfers. He indicated that while it is very important to understand the rates that support the budget, the district does need to go through the Proposition 218 hearing process and a process to determine the rates for each customer type. Staff is looking at drought stage pricing, rate simplification and how they will be implemented.

He stated that the sewer rate increase will be greater than expected at 4.6%. He indicated that the increase is not due to a change in revenues or expenses, but because of a philosophical change. He stated that the sewer rate was set at 1.7% last year to draw down a portion of the sewer general fund surplus. At this time, staff feels that the surplus should be held until after the Sewer System Management Plan Study is completed. At that time, staff will know what other sewer facilities will be required and where the reserves may be needed. In order to maintain the reserves, a moderate increase of 4.6% is being proposed to keep revenues on par with expenses.

Chief Financial Officer Beachem also reviewed the reserves and noted that they totaled \$85.9 million at the beginning of the six year rate model and will hold fairly steady at \$87.2 million by the end of the six years. He noted that the target levels also hold fairly consistent from \$62 to \$64 million over the six year period. He explained that the funds that are over target will be drawn down as construction of facilities uses these funds up. He stated the surplus is primarily due to the temporary sewer fund surplus and once the sewer system plan is complete, staff will be in a better position to recommend what to do with the sewer reserves. He noted that debt will be utilized to fund expansion and replacement projects and \$28 million would be issued in 2010, \$25.4 million in

2012, and \$21.6 million in 2014. He stated that in addition to debt financing of projects, the District's Reserve Policy outlines the use of reserves to support construction and maintain the reserves at or above target. He stated that the presented slide summarizes the transfers that staff is requesting (slide no. 17).

He summarized that staff is recommending a rate increase of 9.7% for both potable and recycled and a 4.6% increase for sewer. He indicated that additionally, the District has future uncertainties with the following issues which will also have impact to the budget:

- SD17, the connection with the City of San Diego—it is not known at this time how the connection will affect the District
- Asset Management Plan—Indicates how future facilities might change in the District's CIP
- City of San Diego's Reclaimed Water Rate—it is not known what the city will do with the rate
- Power and Fuel Cost
- Sewer System Management Plan

Director Bonilla inquired that it was his understanding that the board was not voting on the rate increases. Chief Financial Officer Beachem indicated that that was correct, staff is requesting that the board approve the budget and the reserve transfers. General Manager Watton indicated that if the board approves the proposed spending plan for FY 2008-2009, then staff would prepare for presentation to the board the rate increases that would be required to support the approved spending plan. At this time, the proposed rate increase is expected to be 9.7% for potable and recycled; and 4.6% for sewer. However, if the board indicated that they would prefer increases of 15.4% in FY 2008-2009, 8% the following year, and 5.2% the year after, then staff would need to modify some of the fund transfers and would return to the board in November with the proposed Proposition 218 notices.

Director Breitfelder indicated that he did not feel that the board had enough time over the weekend to review the budget materials. He indicated that he, thus far, likes what he has seen, but just has not had enough time to review the details of the budget.

Director Bonilla indicated that he was uncomfortable with regard to the rate scenarios and would like more information about the rates. Chief Financial Officer Beachem indicated that all factors have been built into the District's rate model and he felt that staff was being very prudent. The proposed increase of 9.7% is staffs' best estimate.

District Secretary Cruz indicated that a tentative meeting has been calendared for June 23, 2008 should the budget not be adopted at today's meeting and a follow-up meeting was required. She stated that all directors have indicated that they would be available on June 23 for a follow-up meeting.

Director Bonilla indicated that at the June 23 meeting he would like a chart showing how the District's rate compares to other local member agencies. He indicated that he would also like information on the District's cash and credit position with the various rate increase scenarios. He indicated that he would also like staff to rework the pie chart (presented on slide no. 5) showing percentage wise, the causes of the proposed rate increases.

Chief Financial Officer Beachem presented a slide showing (slide no. 20) where the District's rate would rank among the local member agencies for an average customer who used 15 units monthly. Such a customer would be billed approximately \$52.80 which would place the district about eighth lowest cost among the local agencies. He stated a conserving customer who utilized 10 units would be billed monthly approximately \$36.85 which would place the District fourth lowest (two places lower than last year) in cost among the local agencies. It was noted that staff had estimated some of the agencies' rate increases (those indicated in blue on slide no.s 20 and 21) as they had not responded to staff's request for their proposed increases.

Director Bonilla requested that staff include the agencies' proposed percentage increases on the charts as well.

He also presented the sewer cost. He indicated last year the District was somewhere in the middle and this year the District dropped to approximately the one third point on the chart (slide no. 22). He stated the reason is the District had implemented winter based average rate structure. He indicated that the District's prior sewer structure was fixed, now it is based on the customer's water consumption during the winter months. He noted that last year the average customer was using approximately 20 units per month and today they are using 15 units per month as a result of conservation.

Accounting Manager Rita Bell indicated that in May, staff presented to the board an informational staff report introducing the subject of developing a rate structure, for customers other than residential classes (such a structure is already in place for residential customers), that simplified the District's current rate structure and promoted conservation through a "drought" rate structure. She stated that staff will be working with a rate consultant and will bring back information from the rate study during the time of the Proposition 218 hearings. Director Bonilla inquired when staff would bring back the rate information. Accounting Manager Bell indicated that staff expects preliminary information in August and based on the information, would bring back the Proposition 218 notices and likely have the rate hearing in November. She stated that the notices must be sent to the District's customers 45 days prior to the hearing date. Staff expects to present the drafts for the board input before the notices are forwarded.

Accounting Manager Bell reviewed the various rate structures that staff will be evaluating with the consultant (slide no. 24) and determining the best way to

implement the tiers to encourage conservation. She indicated that the proposed rate increases (9.7% and 4.6%) is what will be required to balance the budget (revenues and expenses).

Chief of Engineering Posada reviewed the Capital Improvement Budget (CIP). He stated staff utilizes various growth projections to develop the CIP. He stated as the board is aware, the District has experienced a significant slowdown in growth over the last few years. He indicated that the housing market in the City of Chula Vista is expected to remain slow for at least the next couple of years with a modest upturn in three years. Staff projects that meter sales in EDU's for FY08 will be 620, 520 in FY09, and 670 in FY10.

He indicated in developing the six-year CIP, staff ties together information from several master planning tools; Water Resources Master Plan, Urban Water Management Plan and the Sub-Area Master Plan (development document provided by the developers). Staff also considered the following assumptions when developing the budget to support the six-year CIP:

- Growth will remain slow with an increase of less than 1%
- Projects for Expansion, Betterment and Replacement were included in the CIP
- The expenditure plan for the six-year CIP will be as level as possible
- The ENR Construction Cost Index will be utilized to project cost increases

Chief of Engineering Posada presented a slide showing the price increase of concrete and steel graphically (slide no. 30).

He noted that last year, staff projected the CIP budget expenditure for FY09 at \$38.4 million. This year, because of the slowdown in growth and other conditions, staff reduced the projected CIP budget expenditures for FY09 to \$30.9 million. Last year, the CIP budget expenditure during the six year window from FY08 to FY13 was projected to be \$191.5 million, this year the six-year window from FY09 to FY14 is expected to be \$170.4 million. He noted that the expenditures breakdown into the following categories:

Capital Backbone	\$ 23 million
Developer Reimbursement	\$ 0.5 million
Replacement & Renewal	\$ 5.8 million
Capital Purchases	<u>\$ 1.6 million</u>
Total:	\$30.9 million

Director Brietfelder inquired which projects accounted for much of the rate increase related to Replacement & Renewal. Chief of Engineering Posada indicated that he did not have the information readily available, but while he continues his presentation, staff will find the information.

He presented a slide listing the major capital backbone projects (slide no. 33)

Staff located the information related to Director Breitfelder's inquiry. Accounting Manager Bell indicated that a large portion of the monies support the AMR program (\$1.2 million) and the Air-Vac Replacement program (\$1 million). She noted that on page 114 of the budget, under the category Replacement and Renewal, it lists all the projects. A few of the other Replacement and Renewal projects are the SR 125 and 905 utility relocation projects, the District's annual payment to the Spring Valley Sanitation District and the Calavo Sewer Lift Station, etc.

Chief of Information Technology Geoff Stevens indicated that his division is moving more toward targeted smaller projects as the IT Division has made its significant investments over the last several years with the implementation of GIS, IMS and the IG systems. He indicated that his department is now in the process of assessing its entire asset base and noted the projects that they will be working on in FY09 (slide no. 34).

Accounting Manager Bell reviewed the budget process and noted that the big challenge for FY09 is finding ways to reduce the Operating and CIP budgets to minimize the rate increases. She indicated that staff utilizes the Rate Model to determine where the District's targets need to be set, examine growth and cost changes, and review all operating and CIP budget requests. The draft is then reviewed by the senior management team in several meetings and necessary adjustments are made to balance the budget. She indicated that the proposed budget does include the effects of the economy and the anticipated drought stages.

She further indicated that the FY08 growth projection was 2.1%, but with the slowdown in the economy the actual growth rate is anticipated to be .7%. A modest growth rate of .06% is anticipated for FY09 for potable accounts and a slightly higher growth rate of 2.7% for recycled accounts. These estimates are based on actual developer projects. She stated that anticipated sales are expected to pick back up in FY12.

Accounting Manager Bell indicated that the FY09 budget revenues are only 0.4% higher than last years budgeted revenues overall. She stated that this budget year reflects the slowdown in water sales and other areas of the budget. Staff anticipates that water sales will be 5.5% less than what was projected in FY08. The decrease is a result of lower than anticipated growth, expectation of another drought year, and impacts due to the request to conserve in response to the drought. Staff expects a 2.4% increase in revenue's after a rate increase of 9.7%. She indicated that depending on which of the rate increase scenarios is utilized, revenues from water sales, energy fees and penalties will change (variable revenues). She stated that staff is trying to keep the revenue breakdown to 30% fixed and 70% variable to stay in compliance with BMP 11 to encourage water conservation.

She indicated that the recycled revenue increase of 4.9% is a little higher as the reclaimed growth rate is a little higher. The 4.9% revenue increase includes revenues after the 9.7% rate increase. She stated that CWA also increased the District's recycled credit rate from \$147 to \$200 per acre foot.

She noted that sewer revenues will decrease 19.9% (\$533,800) after the 4.6% rate increase due to the decrease in winter-based average consumption of 25% as there was more rainfall than anticipated this past winter. She stated that this is something that staff will need to monitor and adjust each year as expenditures and revenues must be balanced over the full budget. This trend is not expected to continue each year, but it is good as conservation is something the District wishes to encourage.

She reviewed the status of other revenue categories (see slide no. 46) which includes meter fees (decrease of 67.4% or \$214,700), capacity fee reimbursement (decrease of 8% or \$112,600), betterment fees for maintenance (decrease of \$20,000), non-operating income (decrease of 2.8% or \$47,100) and tax revenues (increase of 3.3% or \$133,500).

Accounting Manager Bell then reviewed the expenditures expected in FY09. She indicated that there was a small increase of 0.4% between FY08 to FY09. She stated that she felt that the District has done a good job in mitigating cost increases where it can. She noted that water purchases for FY09 dropped 5.5% due to the slow down in the economy and anticipated water conservation.

She noted the sources of potable water purchases for the upcoming year will all come from CWA. Raw water treatment from the City of San Diego through the Lower Otay Pump Station will no longer be purchased as the cost to treat the water through the city has increased. If the District also includes the cost of diesel fuel to pump the water, it is no longer a cost effective source of water. She stated that recycled water will be purchased from the City of San Diego's South Bay Water Recycling Plant to augment the water produced by the District's Chapman Water Treatment Plant.

She indicated that the variable cost for potable water increased 3.7% or \$896,200. This cost includes the volume purchase decrease of 5.5% due to slowed growth, rainfall, and conservation along with a water rate increase of 10.3% from CWA. She reviewed the variable cost increase of 0.7% or \$9,900 for recycled water which also includes a volume purchase decrease of 8.8% due to slowed growth, rainfall and conservation along with a rate increase of 10.3% or \$133,400 from the City of San Diego. She noted that staff utilized CWA inflators for the cost increase for recycled as it was felt it was a reasonable increase to use as an estimate.

She stated that it is estimated that the fixed cost of water will increase 12.9% or \$601,100 in FY09 (breakdown of increase is noted on slide no. 52). She noted that staff has included a new fee for fixed cost, Recycled Meter Fee, which staff

was not aware of when the budget was built last year. Director Bonilla inquired if the fee was within the contract. Chief Financial Officer indicated that staff was aware of the fee, however, it was not included in the budget process.

Accounting Manager Bell indicated that the water purchase volume decrease of 5.5% also affects power cost. Power cost is expected to decrease .9% despite the 2% rate increases on January 8, 2008 from SDG&E and the expected 2.8% increase effective July 1, 2008.

Director Bonilla inquired if staff also incorporated savings due to conservation when they adjusted power use. Accounting Manager Bell indicated that staff did include conservation in the adjustment.

Chief of Administrative Services indicated that the Human Resources Department has worked with the senior staff of each department and General Manager to identify staffing needs during the year and during the budget process. Each Department assesses its needs in filling vacancies and forecasting future needs related to workload and anticipated vacancies (retirement, terminations and extended absences). When a position becomes vacant, it is determined whether it should be filled or if another vacancy within the department or outside of the department should be filled. He stated that the proposed budget reflects the exact headcount assigned to each department. Overall, the headcount was reduced by four positions for FY 2009, from 173 to 169.

Director Bonilla indicated that it is his understanding that the District is not planning to reduce positions except through attrition. He inquired how the Employee Association felt about not replacing some of the union positions. Chief of Administration Sarno indicated that the positions identified are those that are not required based on workload and assignments. There is no direct communication with the Employee Association with regard to such positions. The Association contract does not require a "meet and confer" on this particular issue. It was discussed that positions may have been reduced in engineering due to workload and possibly one in operations, however, the Association understands how the District is handling staffing and it has not come up as an issue. If there were layoffs or a reduction in workforce, it would be a much different scenario. Director Bonilla indicated that he would like to see staff plan when implementing automation to allow staff to move to different positions. It was indicated that staff does currently plan and provide such movement for existing staff. For clarification it was noted that there is no layoff or reduction in workforce planned in the proposed FY09 budget nor has it been discussed.

Accounting Manager Bell indicated that despite the reduction in headcount, there was some cost increases that is consistent with the District's five-year labor agreement and funding plan. Salary and fringe benefits cost increased 10.3% or \$1,601,000 (see slide no. 57). She indicated that less of employee labor is charged to CIP and more to the operating budget. This is not really a cost

increase, but instead a shifting of labor cost from CIP to the operating budget. Also, there is a benefits cost increase of \$493,000. This cost increase is mainly due to an increase in medical costs.

She indicated that Administrative Expenses dropped 15% or \$1,047,200 (see slide no. 58). The decrease is due to four main categories:

- Departmental Budget Cuts (travel, etc) of \$145,600
- Completion of Contracts (contracts no longer required such as employee negotiations contract) of \$84,000
- Conservation Grants Removed (incentive payments complete) of \$120,000
- Legal Expense Reduction of \$741,500

Materials and maintenance costs have also been reduced 13% or \$580,000. The decreases consisted of:

- Fuel & Oil cost decreased \$214,500
  - She indicated that this is mainly due to the District no longer requiring the purchase of diesel of fuel to run the pump station for the Lower Otay Reservoir as the District will no longer be purchasing treated water from the City as it is not cost effective.
  - Staff did anticipate a fuel cost increase in the budget and expects an average cost of \$4.80/gallon in FY09.
- Increase of Metro Sewer and SVSD O&M cost of \$65,100
- Decrease in Janitorial and Landscaping cost of \$82,600
- Decrease in the number of meters to be purchase of \$165,900 for new meter sets
- Decrease in Chemical and Lab Supplies cost of \$182,200

Chief of Operations Pedro Porrás indicated the additions to the materials and maintenance cost savings, the Operations Department anticipates a \$145,000 savings to its FY09 budget due to the following:

- SCADA Support Contract was discontinued for a savings of \$30,000 as the new employee has become proficient with the District's SCADA system.
- DHS requirements to renew the discharge permit for the Treatment Plant has been completed which will provide a saving cost of \$20,000 in FY09
- The maintenance on the pressure reducing valve on the 624-3 Reservoir has been deferred for a couple years for a cost savings of \$35,000. Staff is comfortable that the maintenance can be deferred without impacting the District's operations.
- A savings of \$25,000 will be incurred by simply changing the purchase of sodium hypochlorite from the solid form to the liquid form.

- The required 5 year maintenance on the treatment plant Scrubber (neutralizes chlorine gasses should a spill occur) is complete for a cost savings of \$35,000

Accounting Manager Bell indicated that the last portion of the Operating Budget is the transfers which Chief Financial Officer Beachem discussed earlier. The Operating Budget funds the Reserves to keep them at target. Last year, the District funded the Replacement, Expansion and Betterment Reserves. This Fiscal Year, the District proposes that the Replacement and Expansion Reserves receive funding (more in the Expansion Reserve) [slide no. 61]. She presented a slide showing the total expected revenues and expenditures for FY09 of \$66,443,000.

Chief Financial Officer Beachem indicated that staff will be coming back to the board at the June 23, 2008 meeting and present some of the information that has been requested during today's meeting and a request will be made at that time that the board approve the FY09 budget.

Director Breitfelder requested that staff include in their presentation how the District's budget would be affected if the State once again borrowed the District's tax revenues.

The board recessed at 5:39 p.m. and reconvened at 5:53 p.m.

Director Bonilla left at 5:40 p.m.

#### CONSENT ITEM PULLED FOR DISCUSSION

- 6e) ADOPT ORDINANCE NO. 516 AMENDING SECTION 39, DROUGHT RESPONSE CONSERVATION PROGRAM, FORMERLY KNOWN AS "CONSERVATION AND WATER SHORTAGE RESPONSE PROGRAM," OF THE DISTRICT'S CODE OF ORDINANCES

Conservation Manager Granger presented the four levels of drought response developed by the District based on CWA's suggested levels. He stated that the levels are in sync with CWA with a couple minor changes. This item was presented to the Finance, Administration and Communications Committee. He indicated that if the board approved the revisions to Section 39 of the District's Code of Ordinances, the General Manager would declare a Level I Drought Watch. Any subsequent declarations would be made by the board. Level I is essentially a voluntary 10% water use cutback. Level II begins the mandatory cutbacks and the drought rate pricing which will be brought to the board in the fall for consideration along with monitoring and enforcement procedures. He stated that staff fully expects that by this time next year, that District will be at a Level II drought alert and facing a reduction of up to 20%.

He reviewed the different levels in detail and noted that the District made a couple changes from CWA's suggested program at Level I and included a suggestion that customers not water more than three days a week (this is not mandatory, but a suggestion to customers). The District's Level I also requires that leaks be repaired within 48 hours (CWA suggested 5 days) and this requirement continues through Level III. Level II requires a mandatory cutback of up to 20%. Also, because the District's service area is more inland, the limit on lawn and landscape irrigation in Level II has been set at 15 minutes per water station per day for the more traditional sprinklers that 90% of the District's customers own. At Level III, CWA is banning water features. Otay's Drought Response Conservation Program does not ban water features for residential customers. Staff also added language with regard to larger vehicles such as RV's, horse trailers, etc. which cannot be taken to local car washes. The District will allow such vehicles to be washed at home using a bucket and a mobile pressure device. Annexations will also be halted and no new potable water services will be provided by the District (no new meters will be sold). He stated that at Level IV, Section 350 of the State Water Code is enforced. A formal public hearing is required to declare a Level IV Drought Response. All water-use restrictions for Level IV follows CWA's program suggestions.

Director Robak indicated that the Finance, Administration and Communications Committee reviewed this item and felt that this was very important information for the board to hear and suggested that it be presented as an action item. He stated that he felt that the District has done a thorough job to address the water supply situation and would like to think this is work in progress which can be amended as needed. He stated that he felt it was appropriate to follow CWA as the District is dependent on imported water.

Director Breitfelder indicated that he felt it was very important that staff and the public understand where the board stands on the water supply issue. He stated that the District must stick to the Drought Response Levels, even when Levels III and IV are enforced and it is unpopular in the community. He indicated that the public will be better off if the District took the necessary actions to protect the water supplies long-term, even if the actions are unpopular.

General Manager Watton indicated that CWA is doing everything it can to mitigate the need to enforce the Drought Response Levels. He stated that this is, however, a way to get prepared. Staff will also be presenting to the board fines and operations that will be put in place to support the enforcement of the levels at a future meeting.

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

Ayes:	Directors Breitfelder, Lopez and Robak
Noes:	None
Abstain:	None

Absent: Director Bonilla and Croucher

to approve staffs' recommendations.

Director Robak inquired how many Districts have declared a Level I alert. General Manager Watton indicated that at the moment there are a couple of agencies. About 20 of the 24 agencies will have this item on their agenda about this time next month and by the end of August it is expected that 100% would declare a Level I alert.

## ACTION ITEMS

### 9. BOARD

#### a) CONSIDERATION TO NOMINATE REPRESENTATIVES TO SAN DIEGO LOCAL AGENCY FORMATION COMMISSION (LAFCO)

General Manager Watton indicated that this item was presented to the Finance, Administration and Communications Committee and the committee did not have any recommendations for a nomination. Hi indicated if the board did wish to forward a nomination, it would require board action. The board did not wish to make a nomination.

#### b) DISCUSSION OF 2008 BOARD MEETING CALENDAR

It was noted that a follow-up board workshop on the budget was scheduled on June 23, 2008. No changes were made to the board calendar.

## INFORMATIONAL ITEMS

### 10. THESE ITEMS ARE PROVIDED TO THE BOARD FOR INFORMATIONAL PURPOSES ONLY. NO ACTION IS REQUIRED ON THE FOLLOWING AGENDA ITEMS.

#### a) REPORT ON BOARD OF DIRECTORS FISCAL YEAR 2008 3<sup>RD</sup> QUARTER EXPENSES (PRENDERGAST)

#### b) 3<sup>rd</sup> QUARTER CIP UPDATE (RIPPERGER)

#### c) INFORMATIONAL REPORT ON THE REQUEST FROM SYCUAN BAND OF THE KUMEYAAY NATION ANNEXATION TO OTAY WATER DISTRICT FOR WATER SERVICE (SPECIFIED PARCELS ONLY) AND SEWER SERVICE (WATTON/CHARLES)

Director Robak indicated with regard to item "c" above, he had discussed with Public Services Manager, David Charles, parcel C which appears on the map that is attached to staffs' report. He understood that this parcel was within the District's sphere of

influence, but it is not within an Improvement District (ID) and must be annexed into an ID. The annexation would be an Otay process for this parcel. It was discussed that parcel A, where the reservation resides, is not within the District's sphere of influence and must be annexed into the District's sphere of influence. The sewer line closest to the reservation is located on Dehesa Road and Vista Matama Place. Sycuan is requesting that the sewer be extended to all parcels (A, B and C). It was explained that parcel C requires only action from Otay to annex it into an ID. Parcel A (sewer and water service) will require action by Otay, CWA, MWD and LAFCO for water; and action by Otay and LAFCO for sewer. Parcel B (sewer only) resides in Padre Dam's sphere of influence and will require action by Otay, Padre and LAFCO. Staff expects to present a board resolution with the intent to annex in the near future. The process through LAFCO may take three years to complete.

Director Robak requested that the staff report should accurately indicate that the division affected is Division 5. He also requested that he be apprised of the status of the annexation as information occurs.

Director Breitfelder inquired what are the current facilities for the parcels. General Manager Watton indicated that parcel A has housing, support services and buildings for the tribal use which may be expanded. Parcels C & B are new purchases that are off the reservation, but may be included in the reservation sometime in the future. The tribe is looking to secure its utility needs for the future.

Director Breitfelder inquired if the sewage from the reservation would increase the economies of scale of the District's sewer service. General Manager Watton indicated that the District has charted the ultimate growth within the District's service area and has looked at the parcels that could possibly annex in that would have an immediate use of the sewer system. These parcels would be charged appropriately with the knowledge that the District may need to get additional capacity in 30 to 40 years. The District must decide if it will use some of the capacity now or hold it in reserve forever and never utilize it. He indicated that it may make sense to use some of that capacity now and this is what the District is exploring with parcel A. He indicated that there is quite a bit of slack in the system now and, at the moment, Sycuan annexing into Otay's sewer system is looking positive, but it requires additional studies.

Director Breitfelder inquired if water from Padre Dam is likely and what is the prospect of Otay providing the water services. General Manager Watton indicated that the Sycuan Tribe had originally discussed water services with Padre Dam. Padre Dam and Otay had discussions with the Sycuan Tribe and during the discussions, Otay staff had indicated that the process and fees that are outlined in the District's website is the process that will be followed for their annexation into the District. There would be no special process/deal developed for the Tribe. Following discussions, the Sycuan Tribe made a business decision and has approached Otay for annexation.

## REPORTS

### 11. SAN DIEGO COUNTY WATER AUTHORITY UPDATE

General Manager Watton indicated that he had distributed a copy of CWA's official statement for their last bond issue. He noted that the most relevant pages to review are 14 to 31 as they outline all operational issues and disclosures. He indicated that it is very good reading as it provides a good picture of CWA affairs.

## 12. GENERAL MANAGER'S REPORT

He noted that staff is still working with IEC to resolve concerns and will be discussing the issue further with the board in the future.

He indicated that there has been a lot of interest in the artificial turfgrass rebate program. It seems to be a popular program and staff is discussing additional conservation programs. He noted that Conservation Manager William Granger has a new staff member, Richard Namba, who will also be focused on water conservation programs.

He shared that the board has approved the Strategic Plan (FY09-11) and staff is continuing to work on project plans.

He indicated that staff has been focused on budget preparations, which was presented to the board during today's meeting. He stated that the finance department carries the heaviest burden to put together the figures and facts to generate the budget documents and it is hoped that, again, the District will have an award winning budget document.

He noted that the District will be retaining a rate consultant to help staff develop rates and drought rate structures.

General Manager Watton indicated that staff is still exploring solar opportunities for the District and it is something that they are actively considering.

CESPT visited the District to view the District's GPS system and a group from Tijuana and CDM visited to discuss seawater desalination. A nice relationship has been developed with the agencies to the south which provides opportunities for sharing technologies and what our agencies have learned in using these new technologies.

He indicated that the District received a grant check from United States Bureau of Reclamation in the amount of \$1 million for the District's recycled water program. With this payment, the District has received approximately \$4 million of the \$12 million Title XVI grant.

The District had requested that Mexico make payment on the amount due on their contract to deliver water to their country through the District's system. The District has received \$740,713 which leaves about \$80,000 still outstanding. It is expected that Mexico will make final payment on the contract by the termination

date in October. Mexico is interested in continuing the wheeling contract and the District anticipates that the new contract will be submitted for board approval in October from the IBWC and CILA.

13. DIRECTORS' REPORTS/REQUESTS

Director Breitfelder indicated that he attended CSDA's Special Districts Legislative Day in Sacramento and the central topic of discussion was the State possibly borrowing local agencies tax revenues once again. He stated, from the discussion, that it is very possible that it could occur again. He suggested that if it should transpire, that as part of the District's required disclosure to the public under Proposition 218, that an explanation be provided in plain language and cite which of the local representatives voted for and against the issue.

Director Lopez indicated that he appreciated the presentation by the Oak Grove Middle School and the Steele Canyon High School students and it was a pleasure to see young students excited about water.

14. ADJOURNMENT

With no further business to come before the Board, Vice President Lopez adjourned the meeting at 6:34 p.m.

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President

ATTEST:

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District Secretary