

**MINUTES OF THE
BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT
May 5, 2010**

1. The meeting was called to order by President Bonilla at 3:30 p.m.

2. ROLL CALL

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

Director Absent: None

Staff Present: General Manager Mark Watton, Asst. General Manager of Administration and Finance German Alvarez, Asst. General Manager of 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 Porrás, 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 Croucher and carried with the following vote:

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

to approve the agenda.

5. APPROVAL OF THE MINUTES OF THE SPECIAL MEETING OF MAY 21, 2009

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

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

to approve the minutes of the Special Meeting of May 21, 2009.

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

Ms. Monica Fernandez from the U.S. Census Bureau indicated that she wished to request that the District share with its constituents that the Census enumerators are visiting households to collect census information and to encourage them to open their doors and assist the enumerators in collecting data for the census. She stated that the participation rate from the East County has been very good, but there are still many who have not yet returned their forms. She indicated that they expect to complete the data collection in approximately two months.

Director Robak inquired if the District qualifies for any funding as a result of the census in some way. Ms. Fernandez stated that the U.S. Census Bureau allocates funding Federally and it is based on the increase in population. If the District receives federal funds, it may increase due to growth within the District's service area.

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

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

to approve the following consent calendar items:

- a) AUTHORIZE THE GENERAL MANAGER TO EXECUTE AN AGREEMENT, IN SUBSTANTIALLY THE FORM ON FILE WITH THE DISTRICT SECRETARY, WITH ELECTRONIC PAYMENT EXCHANGE TO PROVIDE WEB PAYMENT TRANSACTION PROCESSING SERVICES FOR APPROXIMATELY \$30,000 ANNUALLY
- b) APPROVE AN AGREEMENT WITH NEW CINGULAR WIRELESS PCS, LLC, A DELAWARE LIMITED LIABILITY COMPANY FOR THE INSTALLATION OF A COMMUNICATIONS FACILITY AT THE 850-3 RESERVOIR SITE
- c) APPROVE AN AS NEEDED SCHEDULING SERVICES CONTRACT TO CPM PARTNERS IN AN AMOUNT NOT-TO-EXCEED \$175,000 FOR FISCAL YEARS 2011 AND 2012, ENDING JUNE 30, 2012

- d) APPROVE CREDIT CHANGE ORDER NO. 3 TO THE ORIGINAL CONTRACT WITH NATGUN CORPORATION FOR THE CONSTRUCTION OF THE 1296-3 RESERVOIR PROJECT FOR A DEDUCTIVE AMOUNT NOT-TO-EXCEED <\$200,453.10>

ACTION ITEMS

8. FINANCE AND ADMINISTRATION

- a) ADOPT ORDINANCE NO. 524 AMENDING THE CODE OF ORDINANCES SECTIONS 9.04, 9.04.B, 28.01.B, AND APPENDIX A; AND DELETING SECTION 28.04; WHICH WILL INCORPORATE THE FOLLOWING CHANGES EFFECTIVE JULY 1, 2010:
 - i. MODIFY THE CAPACITY FEE TO SHOW A NEW “COMBINED” METHODOLOGY OF CHARGING CAPACITY FEES REFLECTING THE VALUE OF THE DISTRICT’S CURRENT AND FUTURE ASSETS;
 - ii. UPDATE THE TRIAD CAPACITY FEE BASED ON THE NEW “COMBINED” METHOD DESCRIBED ABOVE AND THE TRIAD AGREEMENT;
 - iii. MODIFY THE ANNEXATION FEE TO REFLECT A NEW “BUY-IN” METHODOLOGY WHICH WILL ONLY BE CHARGED TO NEW CUSTOMERS ANNEXING INTO THE OTAY WATER DISTRICT BOUNDARIES;
 - iv. CREATE A NEW WATER SUPPLY FEE TO FUND THE EXPANSION PORTION OF NEW WATER SUPPLY PROJECTS; AND
 - v. ELIMINATE ID 9, RANCHO JAMUL ZONE 1655 FEE.

Accounting Manager Rita Bell indicated that staff had conducted a study of the District’s capacity and annexation fees. She stated the purpose of capacity fees is to ensure that growth pays for growth. These fees are reviewed every four to six years to make sure that they are equitable and accurate and the fees are increased quarterly by the ENR index. She stated that the District issued a Request for Proposal (RFP) in July 2009 to retain a consultant to conduct the Water and Sewer Capacity and Annexation Fee Study. In October 2009, three (3) firms responded and under the General Manager’s authority, PBS&J was retained to perform the study. Accounting Manager Bell indicated that staff will be presenting the findings of the study and discuss the proposed methodology for the calculation of the fees.

Ms. Bell indicated that the water capacity fee study was last updated in November 2004. In that study, capacity fees were calculated utilizing the incremental capacity fee method and the capacity fee was set at \$4,120. The capacity fee is currently

\$5,437 which reflects quarterly adjustments since 2004 based on the ENR Index. It was indicated that the water annexation fee was last updated in May 2006 based on an in-house study. Accounting Manager Bell stated that the fees are typically reviewed at the same time to assure that costs are not overlapping in the calculation of the fees. The annexation fee was set at \$1,411 in May 2006 and the current fee is \$1,602 following quarterly adjustments based on the ENR Index. She introduced Ms. Karen Keese from PBS&J who will review the various methods used to establish the capacity, annexation and new water supply fees.

Ms. Keese thanked District staffs who were very helpful with assisting PBS&J in establishing the District's new capacity fees. She stated that they looked at the various calculation methods that meet legal requirements and guidelines and match the growth life of the District. She reviewed the different calculation methods in detail that staff had considered (see slide no. 8):

- 1) Incremental: Ms. Keese stated that the District is currently using an Incremental fee method that is usually implemented during the growth years of an agency (those that are 1% to 30% built-out).
- 2) Buy-In: Ms. Keese stated that when an agency is near build-out, the Buy-In method is utilized as the majority of their assets/facilities are in place and there are very few, if any, expansion assets required. Ms. Keese indicated that the Buy-In method requires new developers to buy into an existing system to reimburse existing users for the contributions they have made to establish the capital facilities for their development's use.
- 3) Combined: Ms. Keese stated that if an agency is at the mid-point of growth, where it has fixed assets and new capital improvement projects, a Combined (Incremental and Buy-In) fee method is an appropriate method to utilize. She stated that the District is currently in the mid-point of its growth and staff will be discussing moving from the Incremental method to the Combined method to calculate the District's capacity fee.

She stated that there were two different methods to value the cost of existing assets in the Combined Fee:

- 1) Reproduction: Original cost of existing facilities increased for inflation (inflating the cost to construct an existing facility to 2010 cost value).
- 2) Replacement: Construction cost to build an existing facility if it were bid today. Ms. Keese noted that in some cases, such as treatment plants, it may cost less to build the same facility today because of new technology.

She indicated that there are also other cost considerations that the District must make in determining the value of assets. They are:

- 1) Depreciated Value of Assets: A measure of wear/tear and takes into consideration the remaining service life of the asset.

- 2) Full Value of Assets: Do not consider depreciation in the value of assets. Assets are continuously being maintained to service level standards and maintenance cost is not capitalized (is not put into the value of the asset). Maintenance is an operational expense.

Ms. Keese indicated that Replacement is becoming the industry standard for setting asset values. The District is utilizing this method to value its pipelines as staff can easily calculate their replacement cost without a full engineering study as the District, through its GIS system, knows the size of the pipelines, their location, dates they were put into place, materials utilized, etc. The District will utilize Reproduction cost to value its other facilities as the information to rebuild the facility without a full engineering study is not readily available.

Accounting Manager Bell presented a slide (see slide no. 12) comparing Otay's proposed capacity fee with other water agencies and cities in the County. She noted that many of agencies' fees are lower than Otay as they have not updated their fees as there is very little growth in their service area. She indicated that Otay WD is in line with Helix WD's, Olivenhain MWD's, and Padre Dam MWD's updated capacity fees.

Ms. Keese stated that as part of the study, staff looked at establishing a new Water Supply Fee. The Water Supply Fee is a new fee in the industry and is being considered/implemented by agencies due to the current water shortage and the water allocations instituted by CWA. It was noted that the allocation set for each agency is based on existing users and the basis for the Water Supply Fee is new development should either bring in new water supplies or pay a fee to offset the cost of constructing new water resources. The District is proposing a Water Supply Fee of \$864 to new customers. The fee will also be adjusted quarterly based on the ENR index to support new water resources projects identified in the District's CIP and Master Plan. New customers would pay this new fee and the water capacity fee.

Accounting Manager Bell presented a slide (see slide no. 15) comparing Otay's proposed Water Supply Fee with other water agencies and cities in the County. She noted that the District's fee is low compared to the other agencies. The reason the District's fee is set lower is it has more new resources projects than most other agencies and has a larger number of new customers to spread the cost of the new resources projects to. Many agencies do not have much growth.

Director Brietfelder inquired if the new water supply fee is sufficient. Ms. Bell stated that the new water supply fee is sufficient as it covers the cost of the expansion portion of all of the District's new water supply projects and divides the cost among its new customers.

Ms. Keese reviewed the proposed annexation fee of \$1,477 which will be charged to only those customers who are annexing their property from outside the District's

boundaries. New customers will be required to pay this fee to pay for their share of existing facilities along with the Capacity Fee and new Water Supply Fee.

Accounting Manager Bell noted that city annexations include other services such as fire protection, police, trash services, etc. Therefore, many cities do not charge an annexation fee. She stated that water agency and city annexation fees, thus, are not comparable. She also noted that the water annexation fee is based on property taxes and availability taxes paid by existing/current customers.

She presented a slide showing a comparison of the totals for all three fees for Otay, other water agencies, and cities (see slide no. 19). It was noted that the Otay is in line with other agencies who have recently updated their fees.

Ms. Keese provided a comparison of the total fee for the different fee methodologies: Replacement Cost Using Depreciated Value, Replacement Cost Using Full Value, Reproduction Cost Using Depreciated Value, and Reproduction Cost Using Full Value (see slide nos. 20 thru 23). She indicated that staff is recommending that the District utilize the Combined Replacement/Reproduction Cost method using Depreciated Value.

With the proposed capacity/annexation fees and implementation of a new supply fee, Accounting Manager Bell indicated that the fiscal impact to the District will result in an additional \$644,000± for Capacity Fees and \$269,000± for New Supply Fee revenues. She noted that there are no anticipated annexations to the District in FY 2011 and, therefore, zero Annexation Fees revenues are expected.

Accounting Manager Bell requested that the Board Adopt Ordinance No. 524 to amend the District's fees that includes the elimination of Improvement District (ID) 9, Rancho Jamul Zone 1655 fee. She indicated that ID 9 was a unique fee and, as part of the study, has been incorporated into the new proposed fees structures.

General Counsel Yuri Calderon read the General Manager's recommendation into the record:

- Adopt Ordinance No. 524 Amending the Code of Ordinances Section 9.04, 9.04B, 28.01B, and Appendix A; and Deleting Section 28.04
- Incorporate the following changes effective July 1, 2010:
 - Modify the Capacity Fee to Show a New "Combined Methodology of Charging Capacity Fees Reflecting the Value of the District's Current and Future Assets
 - Update the Triad Capacity Fee Based on the New "Combined" Method Described Above and the Triad Agreement

- Modify the Annexation Fee to Reflect a New “Buy-In” Methodology Which will Only be Charged to New Customers Annexing into the Otay Water District Boundaries
- Create a New Water Supply Fee to Fund the Expansion Portion of New Water Supply Projects
- Eliminate ID 9, Rancho Jamul Zone 1644 Fee

Director Croucher inquired when and how the District updates its data to project the number of meter that will be sold, number of connections, etc. Accounting Manager Bell stated that the District’s Engineering Department updated its Water Resources Master Plan in 2009 which indicates the number of new customers, future facility needs, etc. She stated that staff utilizes this Water Resources Master Plan as the basis for the rate study and the District’s CIP. Ms. Keese indicated that this is a standard practice in the industry. Agencies will update their Master Plans every 3 to 5 years and following the update of their Master Plans, they will update their fees.

Chief Financial Officer Joe Beachem noted that the District’s Master Plan is updated every 5-6 years unless there are significant changes to development/land use that were not anticipated. He stated that staff is aware that the environment does change and continuously reviews if the plan needs to be updated. Ms. Keese further shared that the District’s rate model includes an “economic model” for staff to update if, for instance, a new supply source is being considered. The cost of the new project can be input in the rate model to update fees.

Director Croucher also inquired if customers could annex into Otay without annexing into CWA to ensure that customers are not double charged for capacity fees for projects that are only specific to the District and do not utilize CWA facilities. General Manager Watton indicated that CWA and its attorney are reviewing this issue. Otay and CWA agreed to set the issue aside until CWA’s new annexation policy moves forward.

Director Breitfelder indicated that he is pleased with new supply fee as it demonstrates that the District’s priority is fairness for the District’s existing and new customers.

Director Robak thanked staff for the detailed presentation and inquired if a flow chart is available to show how everything flows together. Ms. Keese stated that a flow chart is available and a copy was provided to Director Robak.

Director Robak inquired if it was common for agencies to determine their fees based on SANDAG’s figures for future development. Ms. Keese stated that most agencies hire an engineering firm to develop their Master Plan and these firms generally utilize SANDAG’s figures. The agencies then fine-tune the figures based on the their specific knowledge of development in their service area. Chief of Engineering Rod Posada stated that the District continuously reviews its Master Plan and CIP projects and re-prioritizes the projects as needed.

Director Robak inquired if the ENR Index is decreasing. Rita Bell stated yes and that the current ENR is based on 2009 figures. She also indicated that fees will be adjusted by four quarters of the ENR Index and therefore fees could be \$1 less or higher.

Director Robak thanked Ms. Keese and staff for explaining the District's GIS correlation with quantifying and determining cost of District assets. He also indicated that he was pleased with the elimination of ID 9, Rancho Jamul Zone 1655 fee, in Division 5.

In response to an inquiry from Director Lopez, Accounting Manager Bell indicated that the District's last Capacity Fee Study was completed by Black & Veatch in 2004 and that the Annexation Fee was updated 2 years later in-house.

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

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

to approve staffs' recommendation.

9. BOARD

a) DISCUSSION OF 2010 BOARD MEETING CALENDAR

There were no changes to the meeting calendar.

REPORTS

10. GENERAL MANAGER'S REPORT

General Manager Watton stated that Utility Cost Management, LLC (UCM), reviewed the District's SDG&E Utility bill and indicated that no discrepancies were found. He stated that UCM commended District staff that reviewed bills, etc. and noted that SDG&E representatives should also be commended as well.

He indicated that the Finance Department received another Certificate of Achievement award from the Government Finance Officers Association (GFOA) for the sixth year in a row. The Finance Department received the award for the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2009.

Director Croucher inquired if the District's Water Resource Master Plan will be continually updated as new information is identified as the plan is currently based on 2009 information. Staff indicated that, yes, the plan will be continually reviewed.

General Manager Watton shared that staff will be reviewing internal controls to assure that the District has the right processes and procedures in place. Chief Financial Officer Beachem added that the District auditors have completed their first review of the contract review process and stated that it had gone well.

General Manager Watton stated that staff plans to present the District's FY 2011 Budget to the Board at the May 17, 2010 Special Board Meeting/Budget Workshop.

He indicated that District staff is continuing to have problems with the City of San Diego's request for Water Supply and Verification Reports (WSA). He stated that the District cannot provide a WSA with the information they are providing. District staff is continuing to work out this issue with the City.

The City of Chula Vista has requested that the District prepare WSA's for a couple projects. The requests are for large developments and noted that the request provides an idea of the growth that is planned to return within the City.

He indicated that the District's Emergency Genset was purchased by Comision Estatal de Servicios Publicos de Tijuana (CESPT). The generator was placed on the surplus list that was approved by the Board on January 6, 2010. He noted that the generator, which was used for back-up power for the District's Administration Building, can no longer be utilized in the United States because of new Air Pollution Control Department (APCD) regulations. However, it can be utilized in Mexico where it can remain functional.

He lastly shared staffs estimate on water sales. He stated that water sales are much below budget and that it will be a challenge to predict sales for the last couple months of the fiscal year due to the slow economy and cooler summer months. Staff is prepared should sales continue at current levels.

11. PRESIDENT'S REPORT

President Bonilla presented a video of the ceremony for La Morita, CESPT's Inauguration of the Water Reclamation Plant in Tijuana, Mexico that will produce 8 MGD of recycled water. He indicated that the Baja Governor Jose Guadalupe Osuna Millan and the Director of the National Water Commission of Mexico Jose Luis Luege Tamargo, as well as other important representatives of water and environmental entities attended the ceremony. Director Bonilla also stated that the Mexican officials were very commendable to Otay WD and were very appreciative of the District's support.

President Bonilla also provided an update of the meetings he attended during the month of April 2010. He stated on April 9 he attended an Ad Hoc Legal Matters Committee to review issues related to pending litigation matters and, on the same

day, he and General Manager Watton met with Mayor Sanders to provide an update on Otay's projects, as well as discuss outstanding matters between the District and the City of San Diego. He met with Supervisor Dianne Jacob on April 14 to provide an update on Otay WD's matters and Supervisor Jacob had kind words about the District and stated she was proud of how Otay is being managed. On April 16 he met with City of Chula Vista Councilmember Steve Casteneda to provide an update on Otay matters and projects. He also met with General Manager Watton on the same day to review items to be presented at the April committee meetings. On April 19 he met with staff to sign the bond documents related to the closing of the bond refinancing sale. He attended the District's Finance, Administration and Communications Committee on April 20 and commended Director Breitfelder for his participation and constructive comments at the meeting. He also attended the Chula Vista Interagency Water Task Force meeting on April 26 where they discussed various projects and 2010 water pricing. He shared that he attended CEPT's Inaugural Ceremony celebrating the opening of their new Water Reclamation Plant, "La Morita" on April 27. The mayor and governor also attended and it was a very nice experience. He lastly reported that he met with General Manager Watton and General Counsel Calderon to discuss the May board agenda.

RECESS TO CLOSED SESSION

12. CLOSED SESSION

The board recessed to closed session at 4:45 p.m. to discuss the following items:

- a) CONFERENCE WITH REAL PROPERTY NEGOTIATORS [GOVERNMENT CODE §54956.8]

PROPERTY: INTENT TO PURCHASE WATER FROM A NEW SOURCE

AGENCY NEGOTIATORS: MARK WATTON, YURI CALDERON & BONIFACIO GARCIA

NEGOTIATING PARTIES: GOUGH THOMPSON, NS AGUA, AND OTHER POTENTIAL SOURCES OF POTABLE WATER AND/OR THEIR DESIGNATED REPRESENTATIVES, SUCCESSORS OR OTHER AUTHORIZED ENTITIES

UNDER NEGOTIATION: PRICE AND TERMS OF ACQUISITION, INCLUDING BUT NOT LIMITED TO TIMING AND AMOUNT OF ACQUISITION

RETURN TO OPEN SESSION

13. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION. THE BOARD MAY ALSO TAKE ACTION ON ANY ITEMS POSTED IN CLOSED SESSION

The board reconvened at 5:45 p.m. and General Counsel Yuri Calderon indicated that the board took no reportable action in closed session.

14. ADJOURNMENT

With no further business to come before the Board, President Bonilla adjourned the meeting at 5:46 p.m.

President

ATTEST:

District Secretary