

**MINUTES OF THE
BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT
November 2, 2011**

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

2. ROLL CALL

Directors Present: Bonilla, Gonzalez, Lopez and Robak

Directors Absent: Croucher (Assigned to monitor fire at the US Border)

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, Attorney Jeff Morris, 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 Gonzalez, seconded by Director Lopez and carried with the following vote:

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

to approve the agenda.

5. APPROVE THE MINUTES OF THE REGULAR MEETINGS OF JULY 15, 2011 AND AUGUST 10, 2011

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

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

to approve the minutes of the regular meetings of July 15, 2011 and August 10, 2011.

6. PRESENTATION OF *EXCELLENCE IN INFORMATION TECHNOLOGY* AWARD FROM THE MUNICIPAL INFORMATION SYSTEMS ASSOCIATION OF CALIFORNIA

Mr. Bill Jenkins, Information Technology (IT) Operations Manager, indicated that the District's IT Department received the *Excellence in Information Technology Award* from the Municipal Information Systems Association of California (MISAC). He stated that MISAC established the award program in 1999 to recognize public agencies for their exemplary IT practices and is an award from the District's peers. He explained in order to be considered for this award, the District was required to submit an "audit" that includes information on the District's budget, strategic planning, purchasing, operation staffing, customer satisfaction, internet security, GIS, etc. These requirements are to ensure that agencies are meeting the standards for local and municipal governance in the state of California. He noted that there were twenty-one (21) agencies who received the award this year. The awardees included sixteen (16) cities and five (5) special districts.

General Manager Mark Watton announced that Mr. Jenkins would be retiring December 28, 2011 after approximately ten (10) years of service to the District.

7. 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

Mr. Herb Abell of Jamul addressed the Board concerning his request for the District to refund a construction deposit he posted for the George Barber Improvement Plans Project, TPM 20012 (APN 597170-34). Mr. Abel provided a background of the matter and submitted documentation to the Board and asked that the Board consider his request for a refund.

President Bonilla indicated that Mr. Abell's request would be considered by the Board during the closed session portion of the meeting.

CONSENT CALENDAR

8. 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 Lopez, seconded by Director Gonzalez and carried with the following vote:

Ayes:	Directors Bonilla, Gonzalez, Lopez and Robak
Noes:	None
Abstain:	None

Absent: Director Croucher

to approve the following consent calendar items:

- a) AUTHORIZE THE CREATION OF A NEW CIP PROJECT IN THE AMOUNT OF \$210,000 AND APPROVE A CONSTRUCTION CONTRACT WITH SKYLINE SERVICES, INC. IN AN AMOUNT NOT-TO-EXCEED \$109,195 FOR THE RECYCLED FORCE MAIN ACCESS ROAD REPAIRS
- b) APPROVE A PROFESSIONAL ENVIRONMENTAL SERVICES CONTRACT TO MERKEL & ASSOCIATES FOR THE MAINTENANCE AND MONITORING OF THE SAN MIGUEL HABITAT MANAGEMENT AREA AND CIP-ASSOCIATED MITIGATION PROJECTS FOR CALENDAR YEARS 2012, 2013, AND 2014 IN AN AMOUNT NOT-TO-EXCEED \$359,079.56
- c) AWARD A CONSTRUCTION CONTRACT TO TC CONSTRUCTION, INC. FOR THE LA PRESA SYSTEM IMPROVEMENTS PROJECT IN AN AMOUNT NOT-TO-EXCEED \$978,995 AND APPROVE AN INCREASE TO THE FISCAL YEAR 2012 BUDGET FOR P2370 FROM \$960,000 TO \$1,210,000

ACTION ITEMS

9. FINANCE, ADMINISTRATION AND INFORMATION TECHNOLOGY

- a) APPROVE THE DISTRICT'S AUDITED FINANCIAL STATEMENTS, INCLUDING THE INDEPENDENT AUDITORS' UNQUALIFIED OPINION, FOR FISCAL YEAR ENDED JUNE 30, 2011

General Manager Watton indicated that the Finance, Administration and Communications Committee reviewed this item in detail at a meeting held on October 19, 2011. Chief Financial Officer Joe Beachem introduced Mr. Nitin Patel of Diehl Evans & Company, LLP (DEC), and indicated that, following his presentation, Mr. Patel would present the results of the District's audit of Fiscal Year Ended June 30, 2011.

Chief Financial Officer Beachem stated that DEC's audit of Fiscal Year Ended June 30, 2011 resulted in an "unqualified opinion." This is the highest level of "opinion" which is commonly known as a "clean opinion." He stated that DEC found no material errors.

He presented some highlights from the audit which included:

- o Total assets decreased \$6 million. This is partially due to staff completing an extensive review of assets and identifying some assets that have been fully depreciated, but were never removed from the books. Also, as the economy has slowed, the District has been reducing its CIP which no

longer requires the District to have as much cash on hand to cover CIP expenditures.

- Total liabilities decreased \$4.2 million as the District has paid down debt by \$2.7 million and accounts payable has decreased by \$2.3 million.
- Operating Expenses and Revenues have increased due to the higher cost of water from the District's wholesalers and increased rates respectively.
- Non-Operating Revenues and Capital Contributions are similar to last year.

Chief Financial Officer Joe Beachem indicated that one of the areas the auditor reviews is internal controls. It was discussed that the District has not had a management letter for a number of years, but this year the auditors issued a management letter to the audit committee. In their letter they identified two (2) issues with regard to internal controls:

- Journal entry process: Sr. Accountants have the ability to create and post entries, though they are not authorized to do both. Over a two-year period (approximately 6000 entries), two occasions were identified where a Sr. Accountant created an entry and posted it. In both cases, the Sr. Accountant had found an error that another employee had made and reversed the error and posted the correction. The auditors indicated that the District's process was fine, if the District had a way to identify that the process is being followed.

Staff has implemented a new process which was reviewed with the auditors and they have agreed that the new verification process is sound.

- Bank reconciliation process: Customer bill payments were double posted to the District's general ledger in error. One way in which this can happen is when a customer, while making an online bill payment, hits the payment button twice. This generates two payment postings. When this occurs, the credit card company will notify the District of a possible duplicate payment and the District, if the payment is identified as a double payment, will advise the credit card company to process only one payment. However, the double payment is automatically forwarded to the general ledger and both payments are posted, one correctly and one in error. There were no monies lost, but this does create an accounting error. The auditors indicate that the District's controls should catch this double posting.

An improvement to the monthly reconciliation process was implemented to capture any credit card errors, such as these double entries.

In addition to the management letter, the auditors recommended adjustments with regard to accounting transactions. DEC identified four transactions requiring adjustments:

- Related to the above bank reconciliation process where double payments were received from on-line bill payments which then created a double general ledger entry, these double entries were corrected.
- Adjustments were made related to when and how Capital Projects are booked as fixed assets or expense. Based on discussions with the District's Engineering Department, staff identifies how and when a Capital Project is closed out to an asset or possibly an expense. As a result of further discussions with the auditors, a number of Capital Projects were closed out earlier than they otherwise would have been. Some to fixed assets, and some, because it was determined that they would not directly contribute to a future facility, were closed to expense. An additional entry was required to adjust capitalized interest. This adjustment was necessary because the value of Capital Projects remaining in work-in-process had changed.
- The final adjustment was related to reimbursements received from Caltrans. The facilities were booked at the net value and they should have been booked at gross value.

President Bonilla inquired about DEC's reasoning to book at gross values. Chief Financial Officer Beachem stated that once projects are completed, they become an asset to the District. He indicated that assets are normally booked at full gross values, not net values. He noted that staff has corrected this issue.

- Staff indicated that an entry was found related to the estimate of capital costs from the Spring Valley Sanitation District. As this item was found late in the audit process, and it was considered immaterial to the financial statements as a whole, an adjustment was not made.

Mr. Nitin Patel of Diehl Evans & Company, LLP (DEC) presented the results of their audit of the District's Fiscal Year Ended June 30, 2011. Mr. Patel noted that their firm had just merged with another CPA firm and their firm's new name is White Nelson Diehl Evans, LLP. He stated that his firm has issued:

- Their opinion on the District's Financial Statements
- Report on Internal Controls, Financial Reporting and Compliance in Accordance with Government Auditing Standards
 - This report indicates the two recommendations to improve internal controls
- Report on Communications with those in Charge of Governance
 - It specifically reports the general ledger adjustments their firm recommended as a result of their audit.

He stated that DEC compared the District's 2010 and 2011 Financial Statements and that their responsibility as auditor is to express their opinion on the District's Financial Statements. DEC stated that they have issued an unqualified opinion and indicated that the District's Financial Statements represent fairly the financial

position of the Otay Water District in accordance with generally accepted accounting standards. DEC stated that they did not encounter any difficulties in performing the audit.

In response to a question from Director Robak, Mr. Patel indicated that DEC has been the District's auditor for the past three (3) years. The focus for this year was risk assessment and they also looked at the District's Capital assets in more detail.

President Bonilla inquired how much of the water in the District's pipelines is tracked/identified as an asset. Chief Financial Officer Joe Beachem stated that the District has been booking the water in both the tanks and pipes as an asset.

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

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

to approve the District's audited financial statements, including the independent Auditors' unqualified opinion, for fiscal year ended June 30, 2011.

b) DISCUSSION OF 2012 BOARD MEETING CALENDAR

Director Bonilla note that a Special Board Meeting would be scheduled at the end of the month to consider the retention of the District's current legal firm of Stutz Artiano Shinoff & Holtz, A.P.C.

Following the Board's review of the 2012 board meeting calendar, a motion was made by Director Gonzalez, seconded by Director Lopez and carried with the following vote:

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

to approve the 2012 board meeting calendar.

INFORMATIONAL ITEMS

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

a) REVIEW OF THE FY 2012-2014 STRATEGIC PLAN'S FOCUS ON WATER PLANNING AND SUPPLY

General Manager Mark Watton indicated that the Finance, Administration and Communications Committee reviewed this item at a meeting held on October 19, 2011 and indicated that this item is in response to an inquiry by Director Croucher with regard to how the District is handling its core business of water planning and supply.

Chief Information Officer Geoff Stevens presented a subset of the District's Strategic Plan where planning and supply were the focus. He stated that the District identified its *Key Challenge*, "From a water supply perspective, this means determining the optimum mix of water supply, treatment, and delivery solutions for our customers." He stated that this is a key focus and reflects the issue of buying, storing and building infrastructure for water.

He reviewed four (4) strategies specifically devoted to the core issue of, "Actively manage water supply and demand."

- Prepare and implement a Waste Water Management Plan.
- Implement the recommendations within the Integrated Water Resources Plan (IRP) to acquire alternative and/or additional potable and recycled water supplies and enhance resource reliability.
- Continue working with the City of Chula Vista for the possible development of an MBR Plant and for a potential agreement with the City for recycled water supplies from the MBR Plant.
- Closely monitor the District's potable water demand to ensure the District will remain on target to achieve its 2015 gpcd target as identified in the 2010 Urban Water Management Plan.

Chief Information Officer Stevens noted that these strategies drive the District's outlook of where it is going with water resources and the infrastructure that will be required to provide services. All are essentially, determined largely by the Water Resources Master Plan (WRMP), the District's primary planning tool for water resources. It was also noted that the District prepares an Urban Water Management Plan (UWMP) that assesses growth projections and is a factor that impacts the WRMP.

Director Robak inquired about the status of the proposed MBR Treatment Plant project in Chula Vista. Chief Engineer Rod Posada stated that the City of Chula Vista is the lead agency for the project and indicated that a Preliminary Feasibility Study was recently completed. Mr. Posada stated that the City of Chula Vista has requested a review period of the study until June 30, 2012, to consider the pros and cons of the MBR Treatment Plant project, before a final decision is made on whether or not to move forward with the project.

Director Robak inquired about the District's 2015 gpcd target identified in the 2010 Urban Water Management Plan (UWMP). Water Conservation Manager William

Granger stated that he believes the 2010 UWMP's target for 2015 is 160 gpcd and noted that the Plan also reports that the District is currently at 135 gpcd.

REPORTS

11. GENERAL MANAGER'S REPORT

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General Manager Mark Watton highlighted information from his report that included an update on the District's Healthiest Companies Program, paperless billing, re-evaluation of staff duties, CWA local water supply, the AWWA Fall Conference, and the 30-Inch, 980 Zone, Hunte Parkway – Proctor Valley/Use Area.

He indicated that at the AWWA Fall Conference, which was held October 17-20, Alice Mendez-Schomer, Frank Anderson and Rita Bell provided presentations.

He noted that the County of San Diego is in the process of disconnecting microturbines located at the District's Ralph W. Chapman Water Recycling Facility and they will be removed by the end of the month.

General Manager Watton stated that, as a result of a newspaper article related to the District's consultant selection process, Engineering staff conducted an informal survey of twelve local agencies to determine if they conduct background checks. Attached to the General Manager's Report is the results of that survey.

It was announced that Director Gary Croucher was re-elected to the San Diego LAFCO Special District Advisory Committee.

SAN DIEGO COUNTY WATER AUTHORITY UPDATE

General Manager Watton provided a brief summary of several handouts that were given to the Board. They were as follows: *San Diego County Water Authority (CWA) News Release – Water Authority Corrects Mistakes in San Vicente Pipeline New Report; CWA Letter to the San Diego Union-Tribune, dated November 1, 2011 concerning a news article “Tunnel Costs Rose by \$298 Million Over Time”; SignOn San Diego's news article, “Wave of state actions could hike water rates”; Carlsbad Seawater Desalination Project Status Report; Senator Dianne Feinstein's letter to CWA supporting the Carlsbad Desalination Project, dated October 5, 2011; CWA's response letter to Senator Feinstein, dated October 20, 2011; SANDAG's 2050 Regional Growth Forecast; News article “Massive California farm-to-city water deal snared in litigation”; and News article “Sycuan's Annexation Plan would Triple the Size of its Reservation”.*

12. DIRECTORS' REPORTS/REQUESTS

Director Gonzalez reported that on October 3 he met with Supervisor Greg Cox to discuss the District's North/South Interconnection System project. On October 5 he

attended a Regular Board meeting, and on October 19 he attended a Finance, Administration and Communication Committee meeting.

Director Lopez reported that on October 11, he and Armando Buelna, Public Information Officer, attended the City of Chula Vista's CLEAN Business Recognition event to accept an award on behalf of the District. He stated that he was pleased that the District was recognized for energy and water conservation, pollution prevention, and solid waste reduction, and being environmentally friendly. He noted that the Water Conservation Garden (WCG) Authority did not meet in October and indicated that the Authority will have a Garden and Home Festival on November 5. He noted that that Marty Eberhardt, President of the WCG, will be retiring and that the WCG Authority plans to present a Proclamation to Ms. Eberhardt for her retirement. Director Lopez indicated that the Proclamation was signed by the six member agencies of the WCG Authority and he had signed on behalf of the Otay Water District. On October 19 he attended an Engineering, Operations and Water Resources Committee meeting.

Director Robak reported that on October 16 he marched in the Jamul Festival Parade, and on October 26 he participated in the East County Economic Development Council Bus Tour and was asked to provide a speech at the Water Conservation Garden, which was one of several site visits included in the bus tour.

13. PRESIDENT'S REPORT

Director Bonilla reported on meetings he attended during the month of October 2011 and indicated that on October 6 he attended an Ad Hoc Redistricting Committee meeting to discuss the redistricting of the District's divisional boundaries. He indicated that several redistricting alternatives will be presented to the Board in January or February 2012 for consideration. He stated that on October 18 he attended a Committee Agenda Briefing meeting to discuss items to be presented at the October committee meetings. He indicated that on October 26 he met with General Manager Watton and Daniel Munoz of La Prensa to update him on Otay matters. It was positive meeting and he was comfortable with the position the District's board has taken on various issues and had offered to do an Op/Ed. On the same day (October 26) he met with community leaders to discuss focus group issues. On October 28 he met General Manager Watton and General Counsel Dan Shinoff for an Agenda Briefing Meeting to discuss items to be presented at the November board meeting. On October 31 he met with the Union-Tribune Editorial Board to update the Editorial Board on Otay matters such as the Desalination Project and the Employee Retiree Healthcare Benefit Program. He stated that they were very gracious and he believes it was a very positive meeting. On that same day (October 31), he attended an Ad Hoc Legal Matters Committee to discuss legal matters regarding Salt Creek Golf Course.

RECESS TO CLOSED SESSION

14. The board recessed to closed session at 4:44 p.m. to discuss the following matters:

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

(I) SALT CREEK GOLF, LLC, UNITED STATES BANKRUPTCY
COURT, CASE NO. 11-13898-LA11

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

(I) ABELL MATTER

2 CASES

RETURN TO OPEN SESSION

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

The board reconvened at 5:22 p.m. and Attorney Jeff Morris indicated that the Board took no reportable actions in closed session and that General Counsel will respond to Mr. Abell directly.

16. ADJOURNMENT

With no further business to come before the Board, President Bonilla adjourned the meeting at 5:22 p.m.

President

ATTEST:

District Secretary