MINUTES OF THE
SPECIAL MEETING OF THE
BOARD OF DIRECTORS
OTAY WATER DISTRICT
May 19, 2014

1. The meeting was called to order by President Lopez at 3:20 p.m.

2. ROLL CALL

Directors Present: Croucher, Gonzalez, Lopez, Robak and Thompson

Directors Absent: None

Staff Present: General Manager Mark Watton, Attorney Richard Romero, Asst. GM German Alvarez, Chief of Information Technology Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Chief of Administration Rom Sarno, Chief of Operations Pedro Porras, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

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

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

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

No one wished to be heard.

WORKSHOP

6. ADOPT RESOLUTION NO. 4235 OF THE BOARD OF DIRECTORS TO APPROVE THE FISCAL YEAR 2014-2015 OPERATING AND CAPITAL BUDGET; APPROVE FUND TRANSFERS FOR POTABLE, RECYCLED, AND SEWER; APPROVE WATER AND SEWER RATE CHANGES ON ALL BILLINGS THAT BEGIN IN CALENDAR YEAR 2015; ADOPT THE SALARY SCHEDULE; AND ADOPT ORDINANCE NO. 543 AMENDING THE CODE OF ORDINANCES SECTION 53, CONDITIONS FOR SEWER SERVICE, AND APPENDIX A WITH THE PROPOSED WATER AND SEWER RATE CHANGES; AND DIRECT STAFF TO SEND RATE INCREASE NOTICES

Chief Financial Officer Beachem reviewed the objectives of the workshop which included:

- Reviewing the FY 2015 - 2018 Strategic Plan
- Presenting for approval an $91.6 million Operating Budget
- Presenting for approval a $10.6 million CIP Budget
- Requesting approval of average rate increases to be effective January 1, 2015
    - Water: 5.8%
    - Sewer: 5.0%
- Requesting approval of the annual fund transfers

Chief of Information Technology Geoff Stevens provided a presentation on the District's 2015-2018 Strategic Plan. He noted that the presented Strategic Plan is for four (4) years, one (1) more year than previous plans. He presented slides stating the District's *Mission* (what the District will do), *Vision* (how the District will do it), *Statement of Values* and *Key Challenges* (see attached copy of staffs' presentation).

He indicated that the implementation of the Strategic Plan will be a two phase approach. The first phase is to improve the foundation processes and systems which includes:

- Identifying the key projects (building blocks) needed
    - SCADA (Supervisory Control and Data Acquisition): Monitors water related equipment
    - Work Order / AM: Management of work for District's assets
    - Water Planning
    - Emergency Preparedness/NIMS (National Incident Management System)
- Identifying key commitments and deliverables across departments
- Enterprise focus
- Limit focus to these projects first; if there is additional time, then expand

- Sharpen existing measurement targets already in the plan

Chief of Information Technology Stevens indicated that staff is continuing the objectives and performance measures that are already in place. He stated that nothing is being taken out of the plan, the District is just focusing on the plan in a different way.

Once the key building blocks are in place and the resources across all departments are gathered, the District will move into Phase 2; implementing enhanced performance measures. This phase includes:

- Test scenarios and approaches during Phase 1 and be ready to implement after key projects are in place
- Identify measurement philosophy to ensure relevance
- Build a visual display (dashboard) of results
- Determine internal areas of focus; how to best contribute to overall company efficiency and effectiveness

Mr. Stevens reviewed the details of each Key Project and Objective in Phase I (see attached copy of staffs' presentation) for fiscal year 2015. He also noted the Objectives from fiscal year 2014 that will continue into 2015 (see attached copy of staffs' presentation). He stated the focus in Phase 2 is to develop better enterprise measures. There will be critical ratios, such as employees per customer, O&M per customer, debt coverage ratio, etc., which will provide a good view of what is going on at the macro level with the business/District and there will be measures that provide detailed feedback at the department level. The District's target is to present a "dashboard" view or a consolidated metrics view for the board. He presented a slide indicating the existing Operating Measures that will continue in the fiscal year 2015-2018 Strategic Plan (see attached copy of staffs' presentation).

Chief Financial Officer Beachem reviewed the rate model and the process to develop the District's budget. He stated the Strategic Plan is where the process begins and it is what drives where the District will be focusing its efforts. With the Strategic Plan as a guide, all items are input into the 6-year rate model which includes the 6-year CIP Budget, Operating budget, MWD and CWA rates, beginning year balances, the various assumptions for interest rates, inflation, growth and sales, and the District's targets for debt coverage and reserve levels. From the input, the District generates an Operating and CIP Budget and the water and sewer rates to support the budgets.

As the rate model is developed, staff assures that District objectives are met. Some of the objectives include:

- Increasing the debt coverage ratio to the 152% target
- Funding the $91.6 million Operating Budget
- Funding the $10.6 million Capital Budget

- Maintaining all reserves at target levels
- Adhering to the Reserve Policy guidelines

He stated that staff is also requesting approval of the proposed reserve and operating budget fund transfers for FY 2015 of $8.1 million to assure all the reserves are at target:

- Potable:
  - Designated Expansion to Replacement - $4,470,000

- Recycled:
  - General Fund to Designated Expansion - $1,971,100
  - General fund to New Water Supply - $25,000

- Sewer:
  - Designated Expansion to Replacement - $40,500
  - Designated Betterment to Replacement - $530,000
  - General Fund to Replacement - $1,050,300
  - General Fund to Sewer State Loan - $34,000

From the Operating Budget revenues, staff is proposing transfers to the following reserve funds:

- From Recycled transferring $2,538,900 to the Expansion Reserve
- From Potable ($2,805,000) and Recycled ($725,000) transferring a total of $3,530,000 to the Betterment Reserve
- From Potable ($675,000), Recycled ($1,679,000) and Sewer ($961,200) transferring a total of $3,270,200 to the Replacement Reserves
- From Potable transferring $1,583,800 to the General Fund Reserve
- From Potable transferring $553,800 to the Sewer General Fund Reserve
- From Potable transferring $127,000 to the Sewer Replacement Reserve
- From Potable ($546,000), Recycled ($57,300) and Sewer ($43,800) transferring a total of $647,100 to the OPEB Trust Fund

Chief Financial Officer Beachem indicated that staff had projected in last Fiscal Year's (FY) six-year budget projections water rate increases that are a little higher than this year's projections primarily because MWD's proposed increases for this FY were lower than projected last fiscal year. Also, there has been an increase in labor efficiency (drop in head count from 143 to 140 FTE staff members) and the District's CIP has been reduced $3.2 million. Staff is proposing a 5.8% in FY 2015, a 4.7% increase in FY 2016 and 2017, a 4.6% increase in FYs 2018 to 2019 and a 4.5% increase in FY 2020. He indicated with a reduction in the rate increase, there is a reduction in the debt coverage ratio which will bring it closer to 150%.

He indicated that the six-year budget projections for sewer this FY is also lower than was projected last FY. A 7.9% increase was projected from FY 2014 to 2019. This FY, the rate increases for sewer from FY 2015 through 2020 is projected to be 5%. The decrease is primarily due to savings in labor cost.

Chief Financial Officer Beachem also indicated that the District's minimum required Debt Coverage Ratio, per the District's Bond Covenant, is 125% and the target level is 150%. He stated that the District's Debt Coverage Ratio has not been above 150% since 2008, during the downturn in the economy. With the improving economy and the proposed rate increases, the District's Debt Coverage Ratio, excluding growth revenues (connection fees, capacity fees, etc.), is projected to be back above 150% for FY 2015 at 152%. If growth revenues are included, the District's Debt Coverage Ratio for FY 2015 is projected to be 166%. He stated that the District looks at both ratios, with and without growth, as the District must maintain its target level even if there is no longer growth.

He stated that 75% of the proposed rate increase is due to the District's suppliers raising their rates and 25% is due to Otay WD's internal cost increases. He reviewed in detail the items that are putting an upward pressure on the District's rates:

- Water costs increase of $2,034,100
- Power cost increase of $145,400
- Salary and benefit costs net increase of $1,073,800 (while reducing employee head count by 3 FTEs)
- Materials and Maintenance cost increases of $336,600
- Proposed Sewer State Revolving Fund debt issuance $1.96 million in FY 2016 and $1.76 million in FY 2017

He stated that with the proposed water rate increase for FY 2015, the District would rank as the eleventh (11th) lowest cost water provider with an average residential bill of $81.66 for customers utilizing an average of 14 units of water a month. The District's goal is to remain under the mid-point among the local water agencies and as the 11th lowest cost water provider, it has met this goal.

He indicated with regard to the proposed sewer rate increase of 5% in each of the next six (6) years, the typical residential customer will see a $2.82 increase per month where $2.06 is due to the rate increase and $0.76 is due to the phase in of the Cost of Service Study. With the proposed increases in FY 2015, the District will be the seventh (7th) lowest cost sewer service provider with an average residential bill of $45.16 for customers who use an average of 14 units of water a month. Again, the District's goal is to remain under the mid-point among the local sewer providers and as the 7th lowest cost water provider, it has met this goal.

He stated that in FY 2015 the District has a pretty substantial CIP budget to fund totaling $17.4 million for six (6) years. He noted that potable had borrowed funds

from sewer to avoid some temporary borrowing and the borrowed funds are being paid back in FY 2015. The District will also need to borrow $3.7 million from the State Revolving Funds to fund the sewer CIP. This is a low cost and low interest rate (2.5% for 20 years) debt with no external issuance cost. He indicated that all reserve are on target.

Chief Financial Officer Beachem introduced Mr. Gary London of the London Group. Mr. London worked with staff to develop the growth projections for the development of the District's budget. He stated that Mr. London will be presenting an economic overview for San Diego County. Mr. London noted the employment rate from January 2002 to January 2014 and indicated that the employment level dipped to very low levels during the recessionary years and reached its lowest point in 2010. He stated that we have since reduced the unemployment rate from double digits to approximately 6%. He noted that while unemployment is not the only metric, it certainly provides information on where we were and where the economy is today. He indicated that from a baseball perspective, the economy is probably in the fourth or fifth inning of recovery. He stated that it will be a long slow continual recovery, but that economic prosperity is in front of us and we will see an upward curve in economic expansion over the next few years at least.

He indicated that San Diego is in a much better position economically than other parts of the Country because it has a diversified economy. He stated, however, there are still a lot of individuals who are underemployed; those that have been trained to be lawyers, etc., but are not working in the fields that they were trained or are working less than 40 hours per week. He indicated that the overall health of the economy is also affected by the job participation level which has gone down because the key demographic, those born between 1949 to 1964, are starting their retirement years, but are not yet ready to retire and they do not have the skills to start over again.

He reviewed job growth in San Diego from 2008 to 2013 and most of the segments have been in a growth mode since 2010 to 2013 with the exception of the manufacturing sector. He indicated that he is not comfortable indicating that manufacturing is ever going to come back to historical levels, however, the construction sector has been rebounding heavily over the past year. Construction is not at its lowest levels as it has been in the early part of the century, but it is back at a reasonable pace.

Mr. London stated that in comparing the demographic growth rate for the Otay WD and the County as a whole, the District's growth rates are higher. The number of persons per household is larger and the average median income per household is substantially higher than the region as a whole. Since the crash of 2007, the house resale market has been recovering from a pricing perspective, but sales have not been near the levels that occurred before the economic downturn. He indicated that he felt that demand exceeding supply will become a permanent state for the housing market. This will continue to bid up house prices in the region.

He stated that the commercial market is similar to the residential market in that evaluations have not recovered to the levels prior to the recession. They are climbing back up, but likely will not reach pre-recession levels. Commercial is in a much slower growth mode than the residential sector primarily because technology is shrinking workspace requirements. Retail is also closing more space than it is adding due to on-line shopping. This impact is mainly to mid-level retail. High-end and low-end retail is doing fine.

Mr. London indicated that residential foreclosures have declined and we have pretty much reached the end of that period. There is very little foreclosure inventory and distressed individuals are able to sell their homes in today's economy. This will hold true over the coming years. He stated in the City of Chula Vista, the number of new permitted residential homes is much below the peak of 2004. However, we are showing steady growth from 2009 to 2013 and he felt this current pace is likely what will continue in the foreseeable future in this region.

He presented a slide (see attached copy of presentation) indicating the projected new residential construction within the District's service area from FYs 2013 to 2020. He stated that the presented numbers are going to be very accurate in terms of the delivery of constructible units over the next few years. He stated that his firm has vetted the numbers with the City, County and with the developers themselves. He highlighted that much of the residential construction will be apartment buildings, which is reflective of the state of the market we are in today. He indicated the reason is that there is not enough land to build single family homes and, thus, the demand for single family homes is increasing which is driving prices up. Also, developers feel that condominiums are not feasible to build as they cannot price them high enough to build them profitably. Thus, many perspective homeowners will likely rent for a while. He noted, however, that because of the affluence and the fact that most of the developable property is within the District's service area, it is inevitable that the region will see more single family homes built in comparison to the remainder of the region. Over the next few years, however, it will be at a conservative level.

Chief of Engineering Rod Posada presented the District's projected six (6) year CIP from 2015 to 2020. He stated that staff utilized Mr. London's and the developers' projections to develop the District's growth projections which is presented in slide number 34 of staffs' report (see attached copy of presentation). He indicated that Single-Family homes (150 units), condominiums (50 units) and apartment units (300) are the majority of the developments projected in FY 2015. There will also be approximately $48 million in commercial development mainly in the Otay Mesa area with some in the City of Chula Vista. He indicated that growth, thus, will remain relatively flat in FY 2015.

He stated in the development of the CIP budget for FY 2015 this year, staff reprioritized projects based on recent requests for water availability letters, Water

Supply Assessment reports, and the District's Water Facilities Master Plan, and projects that the CIP Budget requirement for FY 2015 is $10.6 million. The six-year CIP Budget total for FY's 2015 to 2020 is $103.6 million. Of the $103.6 million, $56.56 million is designated for Capital Facilities Projects, $37.37 million for Replacement/Renewal Projects, $4.90 million for Developer Reimbursements and $4.70 million for Capital Purchases. He presented the high profile CIP projects which included:

- Campo Road Sewer Replacement, $5.5 million
- Otay Mesa Desalination Conveyance and Disinfection System, $27.4 million
- 870-2 Pump Station Replacement, $15.7 million
- Sewer System Rehabilitation, $5.5 million
- Reservoir Improvements, $5.5 million

for a total expenditure of $59.6 million.

Accounting Manager Rita Bell presented the details of the FY 2015 Operating Budget and the how the budget was developed. She indicated that the District's water sales projections for FY 2015 are based on the average sales for FY 2011 to FY 2013 . Staff did not utilize the sales figures for FY 2014, as sales were much higher than budgeted due to the high temperatures and low rainfall. Staff also developed the growth rates based on the projections by The London Group and the Engineering Department.

She indicated that potable water sales projected for FY 2014 was pretty level with earlier years and because of higher temperatures and low rainfall, potable sales this FY is more than 6% over budget. Based on the average potable sales for FY 2011 to FY 2013, staff is projecting FY 2015 water sales of 12,716,000 units. Staff feels this is a reasonable level, especially if the drought continues and customers are asked to conserve more.

She stated that potable water sales revenues are increasing $4.9 million (7.3%) budget to budget. Of the $4.9 million, $3.1 million is due to the FY 2014 rate increases and to increased sales because of higher temperatures and low rainfall; and $1.7 million is due to the FY 2015 proposed rate increases. Potable water sales will increase 0.7% based on average sales from FY 2011 to FY 2013 and the added growth factor. She also noted that when staff sets the potable rate, the fixed fees are set at no more than 30% of the total revenues based on Best Management Practice 1.4.

Accounting Manager Bell indicated with regard to recycled water sales that staff sees a similar picture. Staff also utilized the average sales from FY 2011 to FY 2013 to project recycled water sales in FY 2015 and leveled it off. It is projected that FY 2015 recycled water sales will be 1.7 million units which is slightly lower than last FY. She stated recycled water sales revenues are increasing $486,500 (5.8%). She noted that of the $486,500 increase in recycled water revenues,

$315,700 is due to the FY 2014 rate increase and increased sales due to higher temperatures and low rainfall; and $170,800 is due to the FY 2015 rate increases. Recycled water sales will decrease 4,100 units or -0.2% in FY 2015.

She also reviewed the sewer sales revenues and indicated that sewer revenues will increase $318,200 (11.8%) in FY 2015. Of the $318,200 increase in sewer revenues, $74,700 is due to the FY 2014 rate increase, $222,200 is due to rate structure changes from the FY 2014 rate structure change implemented last year based on the Sewer Cost of Service Study (COSS), and $21,300 is due to the board approved phase-in of the residential system fee.

The District receives revenues from other sources which include:

- Capacity Fee Revenues will decrease $140,600 (10.9%) due to a decrease in developer activity and the completion of the Sewer Master Plan.
- Betterment Fee Revenues will decrease $474,900 (61.1%) due to the expiration of betterment fee revenues (betterment fees are being shifted to water rates); this is revenue neutral
- Property Tax will increase $167,900 (5.8%)
- Rents and Leases will increase $22,800 (1.8%)
- Miscellaneous Revenues will decrease $78,000 due to an increase in billable work order activity

She stated that the District's water cost is increasing $2,034,100 or 4%. She reviewed the reasons for the water cost increases which included:

- Variable Cost Increase:
  - Potable costs increase of $1,492,600 or 4.5%
  - Recycle costs decrease of $3,400 or -0.3%
- Fixed Cost Increase:
  - Potable costs increase of $539,500 or 5.2% due to a rate increase from the District's water suppliers (CWA and MWD)
  - There is no change in the recycled water costs
- Take or Pay
  - Recycled cost increase of $5,400 or 1.0% due to the inflator in the contractual agreement

She indicated that sewer costs will decrease $3,100 or -0.3% in FY 2015 due to a O&M cost decrease in the same amount of $3,100 from the City of San Diego Metro Commission. The Spring Valley Sanitation District's O&M charges will remain the same in FY 2015.

Accounting Manager Bell stated that power cost from SDG&E is estimated to increase $145,100 or 5.4%. The reasons for the increase include:

- Water demand increase of 0.7% for potable and 0.2% for recycled

- SDG&E had planned four (4) separate 2.5% rate increases which did not happen. They did implement, effective May 1, rate increases between 4% and 7% depending on meter size (the District has small, medium and large meters) and extended their summer peak for the month of October

Assistant Chief of Administration and Information Technology Adolfo Segura reviewed the staffing changes. He indicated that each year the Senior Team members conduct an analysis of staff workload requirements and existing vacancies. Based on the review, three (3) vacant positions were deleted reducing the fulltime equivalent (FTE)/headcount from 143 to 140 in FY 2015. He stated that the District has reduced the number of staff members from 174.75 in 2007 to 140 in 2015; a reduction of 34.75 employees or 19.9%. The cumulative cost savings from the reduction in staffing is approximately $19,288,600 from 2007 to 2015. From an efficiency standpoint, the customer to employee ratio has increased from 301 customers serviced per employee in 2007 to 389 customers serviced per employee in 2015 or an increase of 29.2%.

He indicated that salaries and benefits have increased $1,073,800. The items increasing salary and benefits include:

- Increase in pension costs of $500,700
- Increase in Operating budget caused by decrease in CIP charges of $409,900
- Increase in in-range adjustments per the MOU of $127,000 (no COLA increase)
- Increase in OPEB of $165,00
- Increase in temporary position wages of $86,500

Offsetting the increases in salaries and benefits are a:

- Decrease in the staffing level of ($263,200)
- Decrease in Overtime of ($24,600)

Staff is also requesting that the board approve the salary schedule which is attached as Exhibit 2 to staffs' report.

In response to an inquiry from Director Croucher, Accounting Manager Bell indicated that cost savings realized by outsourcing workload is netted against the cost saved by eliminating positions. She stated that the numbers presented do reflect this net savings.

Chief of Operations Pedro Porras reviewed changes in the District's materials and maintenance costs and indicated that the District has an overall increase in costs of $86,900 and the increase is attributed to:

- Increase in Safety Equipment & Supplies of $17,900 or 68.1%

- Increase in Contracted Services of $123,900 or 26.7%
  - $100,000 of this amount is for the Operations Department for potential major water main breaks
- Increase in Infrastructure Equipment & Supplies of $26,000 or 5.2%

The increase in materials and maintenance costs was offset by the following savings:

- Decrease in Chemicals of $29,000 or 6.8%
  - District will no longer be required to pay sales taxes for sodium hypochlorite.
- Decrease in Other Materials & Supplies of $24,400 or 15.6%
- Decrease in meter and materials of $21,100 or 15.3%

The District will also see a reduction in fuel cost due to:

- The implementation of the Automated Meter Reading (AMR) program there was a reduction in the number of vehicles for meter reading
- In 2007 the District began utilizing more fuel efficient vehicles
- In 2009 SR125 opened which reduced fuel cost

Additionally, in correlation with the reduction in staffing, the District was able to reduce the number of vehicles needed in the field. Further savings were realized when the Department of Environmental Health (DEH), in FY 2012, allowed the District to perform recycled water system inspections without their being present. This has reduced the inspections fees paid to the DEH.

Accounting Manager Bell indicated that the overall administrative expenses increased $336,600 or 6.6%. She reviewed the reasons for the increase:

- Increase in Equipment Cost of $232,700 (this is a one-time cost for the purchase of equipment)
- Increase in Property Liability Insurance of $35,200 related to the increase in the number of facilities and property that must be insured
- Increase in the allocation to work orders of $98,500

There were also some decreases in administrative costs which included:

- Decrease in postage and printing of $36,100
  - Eliminated the printing and mailing of Proposition 218 notices in FY 2015. The District will instead be printing 30 day notices and bill inserts.
- Decrease in outside services for the removal of the one-time cost for a Salary Survey Study of $40,000 and Actuarial Services of $10,000 from the FY 2015

Chief Financial Officer Beachem indicated that staff is proposing a balanced budget which meets the water and sewer needs of our customers and support the District's Strategic Plan. The budget is supported by a 5.8% average rate increase for water and a 5.0% average rate increase for sewer. Staff is recommending that the board adopt Resolution No. 4235 approving the FY 2015 Operating Budget of $91.6 million, the FY 2015 – 2020 CIP Budget of $10.3 million, and the listing of job classifications and salary schedule. Staff is also requesting that the Board adopt Ordinance No. 543 to implement the rate increase of 5.8% for water and 5.0% for sewer effective January 1, 2015, approve the fund transfers, and direct staff to send rate increase notices to the District's customers.

Director Thompson left the dias at 4:25 p.m.

Director Croucher indicated that CWA had requested that MWD not raise their rates (0% increase) due to the fact that they are significantly over their reserve target levels. MWD denied CWA's request. He noted that the District will see an increase from CWA, but the increase will support increased water supply and storage reliability.

Director Croucher also complimented Mr. London on his presentation on the economy. He inquired if there is anything overall in the County for agriculture. Mr. London indicated that he has not done any studies specific to agriculture, but his sense is that it is not growing.

Director Thompson returned to the dias at 4:29 p.m.

In response to an inquiry from President Lopez, Mr. London indicated that he felt that the city is more bullish with their projections. He stated that he is very comfortable with the projections that his firm has provided. He indicated that they had put a lot of work into the projections and he feels they are accurate.

Director Croucher stepped off the dias at 4:31 p.m.

Director Thompson inquired what the projection differentiation would be between condos and apartments. Chief of Engineering Posada indicated that there is not a differentiation in the meters between apartments and condominiums. Both would utilize master meters with sub-meters, which is reflected in the District's meter sales projections. It was noted that there is a meter count and an EDU (Equivalent Dwelling Units) count. The meter size is based on the type of use. There was a differentiation in our revenues in that the number of meters that we projected to be sold was less than the actual sales.

Director Croucher returned to the dias at 4:34 p.m.

In response to an inquiry from Director Robak, staff indicated that the increase from MWD is 1.5% and CWA advertised their increase as 2.6%, but this does not include

IAC (Infrastructure Access Charge) or MWD's (readiness to serve or capacity reservation charge) numbers. When you add these numbers in and cost it to Otay WD, the rate increase is actually 3.6%. Part of the rate increase is the shifting of $474,000 in betterment fees to the general water rate and SDG&E's increase of approximately $1 million. The increase after the shift is $1,453,000. It was indicated that the 75% ($1,095,000) of the increase is due to the potable water rate increase and SDG&E's increase. The shift of the betterment fees of $474,000 to the general water rate is not a rate increase as it is revenue neutral and it is basically a shift in where the fees are collected. Staff explained that if there were no increases from the District's providers, 75% of 5.8%, the District's proposed water rate increase, would go away. The 25% is made up of some internal cost increases and for funding the reserves.

In response to another inquiry from Director Robak, Accounting Manager Bell indicated that the 11.8% ($318,200) increase in sewer revenues is the increase in the FY 2015 sewer budget over the FY 2014 budget. She stated that 5% or $74,700 is due to the proposed sewer rate increase and the balance of $222,200 is due to the rate structure change implemented in FY 2014. Additionally, $21,300 is due to the Board approved phase-in of the residential system fee. In response to anther inquiry from Director Robak, staff indicated that the 5% increase would not be universal to all sewer customers. Single-family residential customers will see a larger increase and multi-residential and commercial will see a lower increase. Also, the District had a base fee for 3/4" and 1" residential meter customers. This base fee no longer exists and has been combined into one fee for both meter sizes. Thus, 1" meter customers will receive a small decrease. She also noted that individual customer bills are dependent upon their winter use.

Chief Financial Officer Beachem indicated in response to an additional inquiry from Director Robak that the rate increase is complex and customer service staff do receive calls with regard to the rate increase notices. The customer service staff responds to their questions and explains the increases. Staff indicated that they can review the sewer notice and see if there is additional language that can be added to clearly explain the proposed increase.

Director Robak also indicated with regard to a comparison of the District's sewer rate with other local sewer service providers, and in particular the County of San Diego, the District's sewer rate was lower than the County of San Diego in the past. Currently, residents who live across the street from one another, the resident receiving service from the District is 35% higher than the resident receiving service from the County of San Diego. He inquired what is keeping the County of San Diego's rate consistently lower that the District's. Accounting Manager Bell indicated that the County had merged all their individual sanitation districts (Pine Valley, Lake Forrest, etc.) and they were using up some of their excess reserves, which has kept their rate down. She indicated that the County of San Diego is currently doing a Cost of Service Study and that she could check with them on how the outcome for their sewer service costs.

In response to another inquiry from Director Robak, Chief of Engineering Posada indicated that the District is in conversation with the County of San Diego with regard to their possibly treating the District's sewage or in their taking over the District's Ralph Chapman Water Reclamation Plant. This would reduce the District's costs. At this time, a study is being done and there is no certainty of the outcome.

General Manager Watton indicated in response to an inquiry from Director Robak that more employee salary costs are being shifted from the CIP to the Operating budget. Also, the increase in PERS cost is due to having less employees due to the District's reduction of FTE's over the years. The District is still paying charges for its retirees, but have fewer employees to spread the cost over. He indicated that the State did pass new statutes that provides for a different retirement system which will reduce costs, but it will take some time before the District sees the impact to costs from to the new system.

Director Robak indicated that at some point customers will get to a point where they cannot get more efficient with their water use and if this was taken into consideration. Accounting Manager Bell indicated that for the six-year model, staff took the average of the three (3) years and added the projected growth for six (6) years. She agreed that at some point customers will get to a point where they cannot do more to conserve, but that would be very far out in the future.

Director Robak suggested that staff make the water conservation message on the Rate Notices more prominent so it is more eye-catching. Staff indicated that it certainly can be done.

Director Croucher also inquired with regard to the Rate Notices, if there is a way to make it very clear that the rate increase can impact water consumed as early as December 2014. Staff responded that they would try to make that information more prominent as well.

Director Thompson commented that the District has a 5.7% increase in labor and benefits costs, while at the same time it has reduced the FTE count by 2%. He stated that this indicates that the District's labor and benefit costs are increasing per employee by about 7.7%. He stated that he also understands that labor is also charged to the CIP budget which is not included in the operating budget. The labor cost is one area that he has concerns with and would like to understand the reasons in why it is going up. Chief Financial Officer Beachem indicated that when the District does its projections for labor, each department is asked to identify how much labor is being charged to the Operating versus CIP budget. He stated that this year there is less being charged to the CIP budget and more is being charged in the Operating Budget. Staff noted that the driver of the CIP budget is construction. The personnel labor used in construction is substantially less than the amount of labor used in design. During slow construction periods, the District

handles construction management in house. When construction is very busy, the District does not want to hire staff, instead the District utilizes construction management consultants to handle the peak periods. It was further discussed that over a million was for labor cost, approximately $400,000 was charged to the CIP budget, and $120,000 was allocated to step increases.

Chief Financial Officer Beachem indicated that part of the rate increase is tied to the District's debt coverage ratio and due to a portion of the increase, the District's debt coverage ratio will increase from 130% to 152%. The District's target is to be above 150%.

Director Thompson also commented that he felt that the District should get more aggressive with the Water Conservation programs. He indicated that CWA will be doubling the turf rebate program and he felt that the program can be utilized within the District's jurisdiction. General Manager Watton indicated that the District did carry the programs over and does have various conservation programs. Director Croucher suggested that the District could possibly have a staff member go to customers' homes and share with them the various conservation programs. General Manager Watton indicated that the District does have an audit program where a staff member would visit the customer and advise them on how they can redo their yard with water conserving plants.

Director Gonzalez complimented staff for their work on the budget and indicated he appreciated staff providing the information to the board's questions.

President Lopez inquired if 2014 was another dry year, what would the District reference for water sales to develop the budget for FY 2016. Chief Financial Officer Beachem indicated if this year turns out to be an El Nino year and the District's sales drop, staff would typically reference a normal year and budget for a normal rainfall year unless the District hears differently.

Director Thompson indicated that last year part of the discussion was on the Carlsbad Desalination Project and that the District had built into its rate increase the anticipated increase from CWA related to the cost of water from the Carlsbad Desalination Plant. He inquired if staff had a different perspective on the impact of the cost of the Carlsbad Desalination Project (CDP) on the District's rate increase this year versus last year. Chief Financial Officer Beachem indicated that staff feels that it will be the same impact as last year. CWA, however, did not include the impact of the CDP in their rate increase last year. They did include the cost of the CDP in their rate increase this year and, thus, staff backed it out of the District's rate increase for this year.

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

Ayes: Directors Croucher, Gonzalez, Lopez, Robak and Thompson

Noes: None
Abstain: None
Absent: None

to approve the FY 2015 Operating and Capital Budget; approve the fund transfers for potable, recycled and sewer; approve water and sewer rate changes on all billings that begin in calendar year 2015; adopt the salary schedule; adopt the amendments to the code of Ordinances Section 53, Conditions for Sewer Service, and Appendix A with the proposed water and sewer rate changes; and direct staff to send rate increase notices.

7. ADJOURNMENT

With no further business to come before the Board, President Lopez adjourned the meeting at 5:24 p.m.

_____
Vice President

ATTEST:

_____
District Secretary