

**MINUTES OF THE
BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT
July 2, 2014**

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

2. ROLL CALL

Directors Present: Croucher, Gonzalez, Robak and Thompson

Directors Absent: Lopez (out of town on planned vacation)

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

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

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

Ayes: Directors Croucher, Gonzalez, Robak and Thompson

Noes: None

Abstain: None

Absent: Director Lopez

to approve the agenda.

5. APPROVE THE MINUTES OF THE SPECIAL MEETING OF MAY 19, 2014

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

Ayes: Directors Croucher, Gonzalez, Robak and Thompson

Noes: None

Abstain: None

Absent: Director Lopez

to approve the minutes of the special meeting of May 19, 2014.

6. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

No one wished to be heard.

CONSENT CALENDAR

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

Director Robak pulled items 6a, AWARD A PROFESSIONAL AS-NEEDED ENVIRONMENTAL CONSULTING SERVICES AGREEMENT TO ICF INTERNATIONAL IN AN AMOUNT NOT-TO-EXCEED \$375,000 DURING FISCAL YEARS 2015, 2016 AND 2017 (ENDING JUNE 30, 2017); and 6c, AWARD A PROFESSIONAL SERVICES AGREEMENT TO RBF CONSULTING FOR CONSTRUCTION MANAGER AND INSPECTION SUPPORT OF THE 870-2 PUMP STATION PROJECT IN AN AMOUNT NOT-TO-EXCEED \$853,485, for discussion.

Upon a motion by Director Croucher, seconded by Director Thompson and carried with the following vote:

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

to approve the following consent calendar items:

- b) AWARD A PROFESSIONAL AS-NEEDED HYDRAULIC MODELING SERVICES AGREEMENT TO WATER SYSTEMS CONSULTING, INC. IN AN AMOUNT NOT-TO-EXCEED \$175,000 FOR FISCAL YEARS 2015 AND 2016 (ENDING JUNE 30, 2016)
- d) REJECT ALL BIDS FOR THE CONSTRUCTION OF THE 624 PRESSURE ZONE PRESSURE REDUCING STATIONS PROJECT
- e) ADOPT RESOLUTION NO. 4236 TO ESTABLISH THE TAX RATE FOR IMPROVEMENT DISTRICT NO. 27 AT \$0.005 FOR FISCAL YEAR 2014-2015
- f) ADOPT RESOLUTION NO. 4237 TO CONTINUE WATER AND SEWER AVAILABILITY CHARGES FOR DISTRICT CUSTOMERS FOR FISCAL YEAR 2014-2015 TO BE COLLECTED THROUGH PROPERTY TAX BILLS

- g) ADOPT ORDINANCE NO. 544 AMENDING SECTION 23.04, CROSS-CONNECTIONS AND BACKFLOW DEVICES, OF THE DISTRICT'S CODE OF ORDINANCES

Vice President Gonzalez presented item 6a for discussion:

- a) AWARD A PROFESSIONAL AS-NEEDED ENVIRONMENTAL CONSULTING SERVICES AGREEMENT TO ICF INTERNATIONAL IN AN AMOUNT NOT-TO-EXCEED \$375,000 DURING FISCAL YEARS 2015, 2016 AND 2017 (ENDING JUNE 30, 2017)

In response to a question from Director Robak, Environmental Compliance Specialist Lisa Coburn-Boyd stated that the District has worked with ICF International for quite a long time for as-needed environmental services.

General Manager Mark Watton indicated that the District also works with other environmental firms, such as RECON and Helix Environmental, on other environmental matters.

Director Thompson commented that for smaller projects, the District should consider selecting two to three firms to be "on-call" for projects when needed. He believes that this would result in the District receiving better pricing for projects as the pool of firms would need to compete for the projects. He shared that when he was with the County, the agency selected a pool of firms for each project and the firms understood that they would need to compete for the County projects.

In response to Director Thompson's comments, Chief of Engineering Rod Posada indicated that next month, the District plans to award contracts to two companies for As-Needed Design Engineering Services for CIP projects. The purpose is to have the two companies compete against each other for certain tasks. Mr. Posada indicated that it will be a pilot project and if it is successful, it will be implemented for all such services.

Director Thompson stated that he believes that this would provide an element of competition as he felt the District's current selection process negates the element of competition.

Director Croucher stated that staff had looked at this issue and had discussed the efficiency of staff because of the time and effort it takes to go through so many different processes. He indicated that one of the primary items that was discussed is the firm's ability to meet the District's needs and quality of service. He agreed with Director Thompson and indicated that consistency of process should be considered too.

Vice President Gonzalez indicated that staff plans to launch a pilot program which would address Director Thompson's concern and requested to see the results of the pilot program.

In response to a question from Director Robak, Environmental Specialist Lisa Coburn-Boyd stated that the hourly rate at the bottom of Attachment B of the staff report is the aggregate of all the different positions that could be working on the project. The firm would produce a scope of work, a list of workers that will be working on that task, and the workers' rates. Ms. Coburn-Boyd noted that the District can always make revisions to what firms submit.

Upon a motion by Director Thompson, seconded by Director Robak and carried with the following vote:

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

to approve staffs' recommendation.

Vice President Gonzalez presented item 6c for discussion:

- c) AWARD A PROFESSIONAL SERVICES AGREEMENT TO RBF CONSULTING FOR CONSTRUCTION MANAGER AND INSPECTION SUPPORT OF THE 870-2 PUMP STATION PROJECT IN AN AMOUNT NOT-TO-EXCEED \$853,485

Director Robak commented that the District should have staff with the capability of performing construction management. He inquired why the District does not have a person on staff with this kind of expertise currently.

Chief of Engineering Rod Posada indicated that the 870-2 Pump Station Project required at least four to five different experts; an instrumentation person, construction manager, inspector, electrician and mechanic, and several experts in different traits. The consultants are only used for very specialized work. The District is not looking just for construction management, but is hiring many different skills.

General Manager Mark Watton stated that the District is really hiring a team, as Chief of Engineering Posada described. It would not be cost effective to staff all of the different expertise. He indicated that the District is trying to avoid hiring staff and then laying them off when the District doesn't have enough work to keep them busy fulltime. Mr. Watton indicated that a lot of the District's CIP Projects are managed in-house. He noted that a while back, staff had indicated that if the District were to build another 5 miles of 36-inch pipeline, it would likely hire project and inspection managers for the project.

Director Croucher stated that he believes that this matter was discussed in the District's Budget Workshop that was held on May 19, 2014. In that meeting, staff indicated that there was a substantial amount of savings for the District through a reduction in personnel with the inclusion of necessary contracts. As this

information was provided to the board at that time, Director Croucher indicated that he supports staff's recommendation because he believes it is based upon the board's policy and direction given at the time of the Budget Workshop. Director Croucher made a motion to approve staff's recommendation.

Director Thompson seconded the motion and indicated that he wished additional information. Engineering Manager Dan Martin indicated in response to comments and questions from Director Thompson, that the RBF contract includes construction management and planning, but does not include the actual construction of the project. The budget for the overall project is \$16.5 million. The projected final cost to this point, with all the contracts that the District has in place, is \$2.5 million. It was noted that the \$2.5 million does not include the construction of the project which is still in the design phase. The *Scope of Work* will be performed by RBF with the exception of the instrumentation details. RBF will retain a subcontractor to provide this service. The actual scope of work RBF will perform is engaging the construction manager at the 30% design stage where constructability reviews and value engineering is performed. Staff feels that if the District can engage construction managers at an early stage, it will provide savings on the project and on the construction when it starts. Mr. Martin indicated a negotiated piece in the Scope of Work is to have RBF's instrumentation staff provide a commissioning plan up front which would be included in the specifications. This will ensure that a development plan will be in place once construction commences. Staff also indicated that RBF's contract includes inspection services. That is, RBF will be responsible for the inspection oversight of the contract and will not bill the District for inspection costs.

The motion by Director Croucher, seconded by Director Thompson carried with the following vote:

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

to approve staffs' recommendation.

ACTION ITEMS

8. ADMINISTRATION, FINANCE AND INFORMATION TECHNOLOGY
 - a) ADOPT RESOLUTION NO. 4238 AMENDING SECTION (C) (6) (e) OF THE DISTRICT'S BOARD OF DIRECTOR'S POLICY 8 TO PROVIDE MORE EFFICIENT AND STREAMLINED REPORTING AND MORE CLOSLY ALIGN ITS LANGUAGE WITH THE REQUIREMENTS OUTLINED IN GOVERNMENT CODE SECTION 53065.5

Senior Accountant Wales Benham indicated that staff is requesting that the board adopt Resolution No. 4238 to amend the Board of Director's Policy 8,

Section (C) (6) (e), to provide more efficient and streamlined reporting and more closely align its language with the requirements outlined in Government Code Section 53065.5. Please reference the Committee Action notes (Attachment A) attached to staff's report for the details of Mr. Benham's report.

General Manager Mark Watton indicated that this item was presented at the Finance, Administration and Communications Committee on June 18, 2014. As the item is a board policy, the Committee requested that it be brought to the full board for consideration. Mr. Watton also indicated that Director Thompson had inquired about the savings that would be realized by providing board and committee packets electronically to the members of the board. Staff's response is reflected within the Committee Action notes (Attachment A) of the staff report.

Director Thompson stated that he requested this item be brought to the board to be transparent and provide information to the public with regard to the use of computer equipment and technology to increase efficiency and reduce District cost.

Upon a motion by Director Croucher, seconded by Director Thompson and carried with the following vote:

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

to approve staffs' recommendation.

b) APPROVE A TEMPORARY MORATORIUM ON THE INSTALLATION OF A NEW RECYCLED WATER FACILITIES ON OTAY MESA

Public Services Engineering Manager Dan Martin indicated that staff is requesting that the board place a temporary moratorium on the installation of new recycled water facilities in the Otay Mesa area. The District's recycled water system is located primarily in the Central part of the District. The recycled water system delivers recycled water to customers and is primarily used for irrigation purposes. The District's ongoing operating costs in support of recycled water include maintaining this separate system and performing inspections of the end user and of regulatory cross-connection testing as required by the State of California. Please reference the Committee Action notes (Attachment A) attached to staff's report for the details of Mr. Martin's report.

General Manager Mark Watton indicated that this item was reviewed by the Finance Administration and Communications Committee and the committee supported staffs' recommendations and requested that staff provide an update on the moratorium in six-month. He reported that staff has met the new Utility Director and continues to meet with City of San Diego staff to initiate a dialog and try to solve some of the issues in the Otay Mesa area. He shared that the City's

cost for production was originally \$350. Proposition 26 is more specific on how cost for production charges are assessed, who gets charged as a user, and that any excess fees above the actual cost of production would go back to the participating agencies. Mr. Watton indicated that District staff has reviewed the City's proposed cost study that included a recycled water cost of \$800/\$900 an acre-foot, which District staff found questionable. The District referred to Proposition 26 and noted to the City some of the problems and issues associated with the cost study. The City pulled the report and hired another firm to review the study and it is believed the new study is proposing \$566 an acre-foot. District staff, though, has not yet seen the revised cost study. Mr. Watton also shared that the City is in the process of moving demineralization equipment from the north city west to the Otay Mesa area near the reclamation plant. With other challenges and disputes occurring in the Otay Mesa area with the City, it has resulted in the District having to reevaluate matters in the area. General Manager Watton wished to note that though there are ongoing disputes at one level with the City, he thought it was important to note that the District's daily interactions with regard to emergency connections, shut-downs, any cooperative issues needed to operate the District's water system or the City's water system, these relationships are excellent and are working very well day in and day out. He stated he wished to reiterate that while there are some problems from a contract perspective, the District continues to have a very good working relationship with the City with regard to water deliveries in an emergency.

Director Thompson indicated that the Finance, Administration and Communications Committee is aware of this fairly complex set of circumstances between the District and City. He stated that he felt that the District needs to make smart business decisions for its ratepayers and the recommendation to not invest \$23 million into a project that may end up producing nothing would avoid a burden to the District's ratepayers. He stated that he believes that it is also important, as a public agency, to have good cooperation with other agencies and he hopes during this moratorium period that public discussion would be held at a higher level. He indicated that one question that has not been answered is the economic impact on the Otay Mesa area and the prospect for jobs if recycled water is not available for certain industrial uses for cost savings. This may impact prospective employers' decision when selecting a location for their business. At this time, there is no agreement between the District and the City for recycled water. Director Thompson stated that the District's first and foremost obligation is to protect its ratepayers. Over the next year, the District will either completely abandon this concept of recycled water in the Otay Mesa area or have tremendous cooperation because the District and the City would receive pressure from other organizations for cheaper water to entice business owners to the area.

General Manager Watton stated that the District's and City's system in the Otay Mesa area is not cohesive. Part of the \$23.5 million investment is to tie the systems together, including a supply line. Mr. Watton indicated that he has met with County supervisors about the impacts to the water supply. He stated that the District can review the impacts in further depth, as well as water availability in

the future and an alternative for providing potable water, then bring the information back to the board in the future. Mr. Watton shared that the City wishes to do indirect potable reuse (IPR), which will be part of their plan which will be submitted to the EPA in January for their permit/waiver renewal.

Chief Financial Officer Joe Beachem commented that the economic impact to the Otay Mesa area is the cost of a higher rate for water, potable versus recycled. He believes that irrigation water is probably a minor impact relative to the cost of capacity fees and the cost related to the installation of an additional system for recycled water for irrigation and commercial purposes.

Director Robak commented that this is a very complicated situation that has evolved over many years and is a conflict as the District has to make a decision on whether to invest more money into something that could be functionally obsolete. He inquired if staff is recommending a moratorium in the Otay Mesa area because of the uncertainty of capacity and insufficient water in the future. General Manager Watton stated yes and that the District's capacity was predicated on the City having sufficient capacity for a peak summer load, which the District is rapidly approaching but it will likely not be met and the District will need to supplement with potable water.

In response to a question from Director Robak, General Manager Watton stated the District could manage 566 acre-foot for recycled water, but the question is what the additional cost would be if de-salters are added; plus the City plans to advertise this over a 3-year period which would likely add another \$200.

Mr. Watton indicated that at a Joint Power Authority's (JPA) meeting, the JPA had requested that the City postpone its de-salters project until the numbers can be run to determine cost. City staff had indicated that the project is already in progress. The City has a requirement for 1,000 TDS or less and they are at 1,000 or exceeding the limit. Staff has communicated the District's issues verbally and in writing.

Director Croucher indicated that at some point the City will understand this complex situation. The District, however, will get to a point where it will need to make a solid decision for its ratepayers and the board will have to support that decision. He stated that if the moratorium does not change the current situation, then getting out is the best thing to do.

Director Thompson stated that if the District decides to support a permanent moratorium, it would have to pay approximately \$1 million to \$1.5 million of capacity charges to the CWA. He indicated that he felt it would not be right to request that the property owners pay the capacity fee since they were required to install purple pipe for the use of recycled water on their landscapes. Because the properties would be utilizing recycled water on their landscapes, they did not pay the normal capacity fee for their properties. He also indicated that the City is using some of the District's facilities without paying for its use and the District will have to reserve its rights and establish that this is a cost that our ratepayers

should not be paying. Additionally, if the District supports a permanent moratorium, it should analyze how to preserve its rights to request that the City pay for the capacity fees.

General Manager Watton stated that the District has been preserving its rights through annual letters and cost estimates to the City and will add the moratorium in the Otay Mesa area to the list. He indicated that he has informed the City's Water Utilities Director that the District's board is considering this issue so there is no surprise to the City.

Mr. Tim Smith of Chula Vista requested to address this item with the board and indicated that he is not in opposition or support of this item. He commented that industries and customers have paid for the extra purple pipe in the ground. He inquired if there is any consideration for them as they incurred a cost to put the purple pipe in the ground in Otay Mesa and would they be in opposition of a plan by the board to eliminate any delivery of recycled water.

General Manager Watton stated that that has been part of the discussion and staff will be putting together another review of this issue and will include a discussion in that area. The report that will be presented to the board at a future date.

Upon a motion by Director Thompson, seconded by Director Robak and carried with the following vote:

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

to approve staffs' recommendation.

9. BOARD

a) DISCUSSION OF THE 2014 BOARD MEETING CALENDAR

Director Thompson indicated that he will not be able to attend the July 2014 Finance, Administration and Communications Committee meeting as he will out of town on prescheduled vacation.

There were no changes to the 2014 Board Meeting Calendar.

INFORMATIONAL ITEM

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

a) FISCAL YEAR 2014 THIRD QUARTER CAPITAL IMPROVEMENT PROGRAM REPORT

Engineering Manager Dan Martin provided an update on the District's third quarter of FY 2014 Capital Improvement Program. He indicated that the FY 2014 budget is broken into 63 projects totaling \$13.9 million. The overall expenditures for the second quarter are \$5.9 million which is approximately 43% of the FY 2014 budget. Please reference the Committee Action notes (Attachment A) attached to staff's report for the details of Mr. Martin's report.

In response to a question from Director Robak, Engineering Manager Bob Kennedy indicated that the District is being reimbursed for most of the expenditures for the SR-11 Utility Relocations Sequence I (P2453) Project.

Director Thompson stated that he really appreciates staff's efforts to align the District's CIP budget forecast with actual expenditures.

REPORTS

11. GENERAL MANAGER'S REPORT

Prior to providing his report to the board, General Manager Watton received a service award for ten (10) years of dedicated service.

Vice President Gonzalez stated that General Manager Watton's knowledge over the past 10 years has brought a lot of stability and credibility to the District and that his leadership is a reflection of District's employees' outstanding performance.

General Manager Watton presented information from his report which included a Leak Detection Project that detects leaks through listening devices in meters and the valves in pipelines, the Employee Picnic and Holiday Dinner schedule, NIMS/SEMS/ICS Program Review/Training, a possible Water Conservation Demonstration Garden in collaboration with Otay Ranch Town Center, Southwestern College or the City of Chula Vista. Mr. Watton also provided a report on the Rosarito Desalination Project and indicated that NSC Agua filed their environmental documents with SEMARNAT, the equivalent to the Environmental Protection Association (EPA), for the desalination project and for the first segment of the conveyance pipeline to Tijuana. He also indicated that the California Department of Public Health (CDPH) will commence seawater testing this month, and next week the State Department will visit the District. Staff plans to provide them a tour of the proposed facilities on both sides of the border. General Manager Watton also indicated with regard to water supply issues that if the drought continues, CWA may implement water allocations. However, he believes the District is prepared for water allocation should they be implemented next year as it has diversified its water supplies and resources over the years.

SAN DIEGO COUNTY WATER AUTHORITY UPDATE

Director Croucher stated that MWD continues the next stage with discussions of the bills, reclassifications, and clarifications with judges. One of the biggest issue has been the water bond and its progress with Legislatures which has been going in circles.

General Manager Mark Watton stated that Legislature has gone home for the summer, so the bond is on hold until August.

Director Croucher shared that water conservation programs continue with the CWA taking the lead. He also shared that CWA finalized the General Manager's and General Counsel's evaluations, and that next month CWA will be moving forward with nominations for Board Officers who will hold office for the next two years. He noted that the Water Conservation Garden will be participating with surrounding agencies through the *CWA August Legislative Conservation Outreach* and a pre-committee will be held at the Garden which will include a tour of its facilities.

General Manager Watton shared that CWA is endorsing the completion of the Bay Delta BDCP's environmental process. CWA, however, is not endorsing the project although there is a lot of pressure to do so. Mr. Watton believes that the water contractors on the State water project are starting to understand the issues related to the Bay Delta BDCP and are starting to ask more about the financial side of the Bay Delta BDCP. There are some who would like to bypass the environmental process and get approval of the project without a good financial analysis. Some of the agencies, including CWA, are questioning the financial liability of the BDCP and the Delta residents are not too thrilled with the idea that a massive tunnel project will be going through their areas. Developers claim that the project can be completed in 8 years, but it may take up to 10 or 20 years. The Boston Dig, which is smaller than the Bay Delta, took 30 years to complete.

Director Thompson inquired about the State Water Bond discussion; if there was a possibility that the District's Desalination Project on the U.S. side could be funded or partially funded by the State if the water bond were approved. General Manager Watton indicated that through CWA, the District has had some input into the bond discussion. Senator Hueso has authored a proposal for about \$10.5 billion and it includes language to bring funding to Southern California. The proposal mentions Desalination and Indirect Potable Reuse (IPR) as water projects that could receive funding. It is uncertain though whether the District will be successful in getting the funding as it is not ear marked, but it is noted as a qualifier for project funding.

General Manager Watton indicated that the polling of the public, however, indicates that the bond will not be successful if it were in the tens of billions, but it may have a chance of passing if the it were proposed in the single digits (\$1 to \$9 billion). The speaker proposed a bond for \$8 billion and the governor is proposing a \$6 billion bond. There is disagreement in the Legislature as to

whether they should support a smaller bond or get the vote to remove the \$11 billion bond from the ballot in November. We'll know more when the Legislature returns from its recess in late August.

12. DIRECTORS' REPORTS/REQUESTS

Director Thompson stated that he missed the original tour of the Rosarito Desalination Plant site in Mexico and would like to go on the next tour if possible. He also shared that he is serving on the Chula Vista Redevelopment Oversight Board and indicated that the District is one of four agencies, along with the City of Chula Vista, that oversees the construction of the redevelopment agency and its assets. He stated that the reason there are taxing entities like the Redevelopment Oversight Board is that there are redevelopment agencies that are not motivated to sell for the highest and best prices. The Board's role is to ensure that redevelopment agencies stay honest, perform work that needs to be accomplished on behalf of the public, and have a reasonable process for disposing of assets.

Director Gonzalez shared that the District participated in a Garden Family Plant Fair at the Eastlake Home Depot and an International Friendship Event in Chula Vista. He also shared information about the Gonzalez Scholarship Program that gives back to the kids of the City of Chula Vista by providing funds for college programs and computer equipment. He indicated that the Program recently participated in an event to clean up Rice Canyon in Chula Vista.

13. ADJOURNMENT

With no further business to come before the Vice Gonzalez adjourned the meeting at 5:26 p.m.

President

ATTEST:

District Secretary