

**MINUTES OF A SPECIAL MEETING OF THE
BOARD OF DIRECTORS OF THE
OTAY WATER DISTRICT
April 29, 2015**

1. The meeting was called to order by President Lopez at 3:37 p.m.

2. ROLL CALL

Directors Present: Lopez, Robak, Smith and Thompson

Directors Absent: Croucher (due to a work commitment)

Staff Present: General Manager Mark Watton, General Counsel Dan 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 Administration and Information Technology Adolfo Segura, Asst. Chief of Operations Jose Martinez, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

4. APPROVAL OF AGENDA

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

Ayes: Directors Lopez, Robak, Smith and Thompson

Noes: None

Abstain: None

Absent: Director Croucher

to approve the agenda.

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

No one wished to be heard.

6. DISCUSSION ON THE DISTRICT'S DROUGHT AND WATER CONSERVATION EFFORTS TO COMPLY WITH THE STATE WATER BOARD'S EMERGENCY CONSERVATION REGULATIONS AND THE STATE'S MANDATORY CONSERVATION OF POTABLE URBAN WATER USE

President Lopez indicated that this issue was brought to his attention last week and he felt there was a need to inform the board on the matter before the June 3, 2015 board meeting. General Manager Watton also indicated that he felt it was in the best interest of the District to update the board.

General Manager Watton indicated that staff has prepared a report and a slide presentation (attached) which is meant to encourage conversation on the drought mandates and receive the board's view and where they would like to head with the budget.

Accounting Manager Rita Bell presented the District's historical residential gallons per capita per day (GPCD). She stated that the 2014 GPCD for residential and master metered customers is 105 and the total annual revenue for all customer types is approximately \$63.7 million. Ms. Bell presented a chart showing where a majority of potential water savings can be obtained which will help the District focus its conservation efforts. She noted that tier 2 and tier 3 usage is 68% residential and indicated that the District's potable irrigation customers use 13% of the potable water. She stated that this is an area where conservation efforts can be focused as well.

Ms. Bell presented an example, provided by the State of California, of how they would track and report each agency's monthly and cumulative savings once the reporting process begins in June. She also presented, based on the State's example, a chart showing what the District's report may look like. The chart indicates the monthly savings at a 16% cutback in water use. Staff can also provide the monthly savings at a 20% cutback if the board is interested.

Customer Service Manager Andrea Carey reviewed areas where the District may have additional opportunities for conservation. She indicated that staff is proposing implementing, in addition to the public outreach campaigns already in use to promote conservation (such as, bill inserts, social media campaigns, high usage phone calls, and leak alarm notifications), the following:

- Temporary staff to assist with outreach and water conservation violation enforcement.
- Revision to current leak alarm process to increase frequency of notification and expand contact of customer base.
 - The District's AMR meters will provide a "leak" alarm if there is continuous water use for 24 hours. The alarm is received when the meters are electronically read for usage (when a field employee drives by). Staff noted that the District's meter software was updated in 2013 and the new software version allows the District to pick-up reads every time a field representative drives by. In some areas the District is picking up reads daily and sometimes weekly. The District is receiving approximately 3000 leak alarms a month.

As staff cannot visit all 3000 alarm sites, the District utilizes a formula for those meters with a leak alarm. The system will review last month's and last year's usage and prorate the new reads that are causing the leak alarm. If the customer has 120% of usage over last month or last year, then this customer is contacted. Staff noted that some leak alarms will resolve themselves (leaking toilet, a faucet was left running, etc.) or, if usage stops for three (3) hours or more, the alarm will clear itself. If the customer's usage is ten (10) units over their average usage, then the District does a site visit. If it is less than 10 units, then an automated phone call is made to the customer.

- Autodial and email campaigns to promote conservation and alert customers to high water usage. The District currently has email addresses for more than 60% of its customers and has phone numbers on nearly all accounts. Messages through phone and email are an inexpensive way to give our customers notifications in a timely manner.
- Increase frequency of large meter testing to ensure our largest water users are accurately billed for all usage flowing through their meters.
- Targeted outreach to high residential users via email, autodial and regular mail.
- Targeted outreach to landscape irrigation customers via mail and phone calls from Water Conservation staff.
- Targeted outreach to mixed-use multi-residential customers via mail and phone calls from Water Conservation staff.
- Additional advertising to all customers (bill messaging, emails, bill inserts, bill envelope messages, social media campaigns, and signage throughout District).
- Individual conservation targets for all customers printed on bills.
- Conservation packets to mail or handout to high users or those interested in conserving more.
- Seminars on water conservation tips.
- Drought rates.
- Increasing the number of CWA water audits.

Accounting Manager Bell indicated that if there were a 16% reduction in water sales, the impact to rates (using the fiscal year 2015 rate model) in fiscal year (FY) 2016 is an additional 7.7% increase over the 4.7% increase estimated in the FY 2015 model. Thus, the total increase required to balance the budget would be 12.4% in FY 2016. Staff noted that Proposition 218 limits how much rates can be increased and staff verified that the 12.4% increase would not violate the District's Proposition 218 limit. She stated the 12.4% increase assumes no use of reserves to offset the reduced sales. She indicated that the board does have the option to draw on reserves to lower the necessary rate increase, however, the use of reserves is limited by the how much the debt coverage ratio would be impacted. To keep rates at 4.7% in FY 2016, the estimated required draw on reserves would be approximately \$2.5 million. This would lower the debt

coverage ratio to 138%, which is below the District's target of 150%. To maintain the debt coverage ratio at the District's target, a partial use of reserves in the amount of \$1.5 million and a rate increase of 7.6% would be required. She stated that if no reserves are utilized, then a 12.4% increase would be required, which would provide for a debt coverage ratio of 169%. She explained that lowering the debt coverage ratio below the 150% target carries the risk that there may be a negative effect to the District's credit rating. She noted that the percentages are rough estimates based on the FY 2015 rate study.

Customer Service Manager Carey shared what neighboring agencies' were doing in response to the State mandate. She stated that staff met with conservation and finance staff from Helix WD, Padre Dam MWD and Sweetwater Authority last week to discuss each agency's initial thought on how to address the mandate. Since this is all happening very quickly and was still evolving at the time of the meeting, each agency was still in the brainstorming and research stage. Sweetwater Authority and Helix WD both anticipate hiring temporary staff to assist with the additional outreach to customers and enforcement of waterwaste violations and none of the agencies had a firm idea of where they were headed in terms of rates. Helix WD is exploring the possibility of instituting a surcharge or penalty for high users to offset some of the revenue decreases and Padre Dam MW is looking at possibly using reserves and potential penalty rates to offset revenue reductions. Sweetwater Authority has penalty rates that can be added into an allocation system that they already have in place. She stated that at this time, none of these ideas have been discussed with their board.

She noted that the staff report highlights important conservation efforts that the District has supported over the years. Unfortunately, these efforts are not being considered in the State's regulations. She stated the next steps in the State's action is a May 4, 2015 comment deadline for the current draft of regulations which will be followed by a Water Resources Control Board hearing and consideration to adopt the regulation on May 5 and 6, 2015.

General Manager Watton indicated that the District was interested in San Diego County Water Authority (CWA) providing an advisory on its actual supply. He stated that part of the rates that the agencies pay to CWA have gone:

- Back to the agencies
- To CWA for CIP projects (San Vicente Dam Raise, Olivenhain Reservoir, Carlsbad Desalination Project, Imperial Irrigation District Water Transfer, All American Canal Lining, etc.)

He indicated that a number of years ago, the Governor mandated that all cities reduce their water use by 20% by 2020. He stated the County of San Diego did all the planning to meet that goal and prepare for drought and the San Diego County is no longer vulnerable to MWD supply cuts due to this planning. He

presented a slide (attached) showing San Diego County's water supply with a 15% supply cutback that was approved by MWD's board last month. With MWD's supply cut, the San Diego Region would only need to cut back 1% with the available water supply from CWA. If San Diego County had decided to not utilize water from the State water project, it would require that the region cut an additional 2% in their water use for a total 3% cutback. He stated that San Diego is in good shape despite the drought.

General Manager Watton additionally shared that with drought management planning, the Urban Water Management Plans for the region and planning for future water supplies, growth is not an issue. He stated that the Governor's proposed cutback suggests that growth is an issue, but from a water supply planning standpoint it is not an issue in the San Diego region. The San Diego region has prepared for drought and has sent letters to the State Water Resources Control Board to consider this preparation in their mandate (copies attached to staff's report). However, none of this preparation is receiving credit from the State Board.

Chief of Operations Pedro Porrás presented a review of the District's Leak Detection and Repair Program. He indicated that it is one of the main components for water conservation and it is also an important part of asset management. The Leak Detection and Repair Program was instituted in early 2013. He reviewed the areas within the District's service area where the leak detection program was performed; 70 miles of pipeline in the La Presa System, 108 miles (15% of the potable system) in a portion of the City of Chula Vista, and 148 miles (20% of the potable system) in another part of the City of Chula Vista. A total of 326 miles of potable pipelines (45%) and 19 miles of recycled pipelines (18%) have been surveyed. He stated a leak was detected on a main, 26 leaks were detected on service lines, 119 leaks were at the meter, 1 hydrant leak was identified and 60 leaks on the customers' side of the system for a total savings of 214.13 acre feet (AF) a year. The total cost to detect the leaks was \$90,156 with a total savings in water loss of \$303,700. He stated with the success of the leak detection program over the last few years, the District would like to inspect the remaining 55% of the District's potable system next year at an approximate cost of \$150,000. He noted that the leaks that have been detected by this program did not surface and, thus, they would not have been detected. The leaks that are detected are generally called in by the public due to water pooling on the ground. He indicated that the Leak Detection and Repair Program has proven to be very cost effective and would save hundreds of AF of water lost to leaks, as well as, costly repairs and impacts to the District's customers. It was noted that water lost to leaks on the customers side of the meter were not included in the calculation.

Director Smith noted that the water saved through the Leak Detection Program represents approximately 1% of the District's total water purchases. Thus, the District has saved 1% of the 20% savings mandated by the State Governor. He

also noted that there is additional savings from leaks detected on the customers' side of the meter.

In response to an inquiry from Director Smith, Chief of Water Operations Porras indicated that the District's staff does handle the repair of any leaks detected by the program. Staff prioritizes the repair work so it does not impact workload and, thus, does not require the hiring of additional staff. Staff does not anticipate finding as much leaks in the remaining 55% of the District's pipelines as these pipelines are newer. The program had first concentrated on the District's older areas.

General Manager Watton indicated that another thing that the Governor is targeting is system reliability. A 20% cut in water use is hard to get, but we want to be able to show the Governor that we are doing all we can to meet the savings objective.

He indicated that staff will be increasing its communications with customers to make them aware of the Governor's mandates and the need to conserve more water. He noted that the Governor's mandates/regulations are a draft at this time and they have a public comment period open through May 4, 2015. The District will be submitting its comments on the regulations, which will include the District's concerns regarding the regulatory structure, for the record. It is anticipated that the mandates/regulations presented will not be changed and will be adopted by the State Board of Water Resources on May 5 and 6, 2015.

In response to an inquiry from Director Smith, Accounting Manager Bell indicated that the District's Proposition 218 allows the District to pass through 100% of the increase in cost by the District's providers (CWA, MWD and City of San Diego) to its customers. The notice also allows an increase of up to 10% for internal reasons, which would include lower sales due to conservation. If the District draws on the reserves temporarily or imposes penalty rates, the rate increase can be reduced. She stated the District has a lot of options to consider.

General Manager Watton indicated in response to another inquiry from Director Smith that Governor Brown had indicated that a fine of \$500, \$1000 or \$10,000 per day may be imposed on agencies who do not comply with the drought mandate. Director Smith suggested that staff add to the District's water bills the customers 2013 water use and their use today so customers can determine their conservation targets. He also suggested that the District include the tier levels in the bill as he felt that saving money is a good incentive for customers to conserve. General Manager Watton indicated that staff is exploring these options and seeking advise from the District's billing vendor on how we can reorganize the bill to include this information.

Director Thompson felt that by grading our customers on how they are contributing towards our conservation goal, similar to grades in school (A, B, C, D

or F), it could encourage conservation as well. He suggested that it could be special messaging advising the customer that they are doing average, below average, etc. in conserving water; a friendly message that encourages them to continue to try and conserve. The District could also share how they are doing conservation-wise in comparison to other customers (based on statistics). He asked that staff come up with some kind of messaging plan and also include in the messaging how the District is doing overall to conserve (what percentage the District, as a whole, has conserved).

President Lopez indicated that considering the efforts that the District's customers have already done, customers may feel that they have cut as much water use as they can and now they must cutback another 20%. He stated we need to consider how we communicate the message to our customers as we do not want to be hard handed.

Director Robak inquired on the Governor's legal authority as he feels that there is a good chance that the District's customers will not be able to save the additional 20% that is mandated. General Counsel Shinoff indicated that the Governor does not have unilateral authority. The legal remedy is an agency could file a petition through a mandate arguing that the Governor has exceeded his authority. Such a filing will likely come from districts in eastern Sacramento who have senior pre-1914 water rights who will not want to let those water rights sit as they risk losing those water rights if they do not utilize them. The board requested that the District's legal counsel do some analysis on legal remedies so the District can be prepared and strategize should its customers not meet their 20% conservation mandate. Director Smith warned that the District needs to be careful that it does not spend more money on legal fees versus potential fines. Also, he noted that filing a lawsuit could cause issues with the State.

It was discussed that there is no mandate in the Governor's order that there will be or shall be fines. The language is permissive. It is not certain how the Governor will act if District's do not meet their conservation mandates. There may be different results based on the District's efforts in encouraging its customers to conserve. It was discussed that this is the first time that a Governor has ordered mandatory regulations, so there is no precedence on how the State will act.

General Manager Watton indicated, with regard to the City of San Juan Capistrano's lawsuit, that the District has a defensible case as its rates are based on the rate analysis that was done with the District's rate study. He stated that some agencies do not perform a rate study or they do not utilize the outcome of their rate study and just decided to implement a penalty for their high water users and keep their low users rates the same. He indicated that this is not a defensible position because their District's rates are not based on a cost-of-service analysis through a rate study. Director Thompson indicated that this case brings up the fundamental question of what is fair. He stated that he felt the

system should be fair and inquired if it costs Otay WD less to produce water for lower users. He also questioned the cost-of-service for multi-residential users versus single-family users as he feels that the District's multi-residential customers are paying more for their water service. General Manager Watton indicated that the District could review this area in the next cost-of-service study.

Director Smith indicated that he felt customers could self-evaluate, but if there are customers that the District decides to penalize, that the District should notify/warn them prior to imposing the fine. Staff should also consider a temporary staff member to provide support to the conservation office and enforcement. He stated that he supported staff's conservation outreach plan, but he was not certain with regard to the drought rates and asked if staff could clarify what they are considering for fines.

General Manager Watton indicated that if penalties were implemented, the District would need an administrative process to handle appeals, up to presenting appeals for the board's consideration. District staff is proposing against fines. Staff is looking at other ways like turning the meter off for those customers who are really egregious; will not fix leaks or manage their water use. Staff will discuss this more with the board.

General Manager Watton noted that CWA will be taking all the water it is allocated from MWD and CWA is not planning to cut its member agencies allocations.

There was discussion that the Chairman of CWA, Mr. Mark Weston, attended a meeting with the Governor and the ten largest wholesale agencies in the State. The Governor was discussing the removal of 50 million square feet of turf or 1.8 square miles and CWA Chairman Weston commented to Ms. Felicia Marcus, Chairman of the State Water Resources Control Board, that that would only represent savings of 4000 AF per year. General Manager Watton indicated that the other side of it is if you look at it on a drought emergency basis, when people remove their lawns, most are installing low water use landscapes which, statistically, will take as much or more water to establish the new low water use landscape. He noted that not many residents are not putting in artificial turf. Removing turf, thus, is something that should be categorized in the long term planning for conservation and not for the short term or within the year.

Director Smith indicated with regard to the impact to the District's rates with a 16% water sales reduction, that his preference would be to spread the increase over several fiscal years.

Director Thompson indicated that he would like to look at the impact to the District's financials if it utilizes its reserves to soften the impact of the reduced water sales due to conservation and also spread the required rate increase over a couple fiscal years as suggested by Director Smith. He indicated that he did

not wish to be close to a 9.15% increase unless it has detrimental impacts to the District in the long haul. He stated that the District needed to take a hard look at all parts of the District's operations and make sure that we are being as efficient as we can be. Director Smith indicated that the board should also look at becoming more efficient.

General Manager Watton indicated that the advantage of the drought occurring during the budget process is the board will have an opportunity to review the administrative budget next month. The District has a zero based budget and has reduced staffing from 176 to 138 employees. Some agencies have chosen to do layoffs, but Otay WD decided to reduce its headcount through attrition. He indicated that there may be some discreet functions that the board may wish the District to no longer do to reduce costs and the board will have an opportunity to review this during the budget workshop. He stated that if there is a perception that the District is overstaffed or over budgeted, staff certainly wishes to address this. Staff does not believe that the District is overstaffed or over budgeted and staff has taken good measures to enhance efficiency. General Manager Watton stated that staff has received a lot of input from the board and staff will review and focus on some of the suggestions from the board.

7. ADJOURNMENT

With no further business to come before the Board, President Lopez adjourned the meeting at 5:35 p.m.

President

ATTEST:

District Secretary