

OTAY WATER DISTRICT

BOARD OF DIRECTORS MEETING
DISTRICT BOARDROOM

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA

WEDNESDAY
November 6, 2013
3:30 P.M.

AGENDA

1. ROLL CALL
2. PLEDGE OF ALLEGIANCE
3. APPROVAL OF AGENDA
4. APPROVE THE MINUTES OF THE REGULAR MEETING OF OCTOBER 2, 2013
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
6. 2013 LEGISLATIVE UPDATE (CHRIS FRAHM, BROWNSTEIN HYATT FARBER AND SCHREK)

CONSENT CALENDAR

7. ITEMS TO BE ACTED UPON WITHOUT DISCUSSION, UNLESS A REQUEST IS MADE BY A MEMBER OF THE BOARD OR THE PUBLIC TO DISCUSS A PARTICULAR ITEM:
 - a) ADOPT RESOLUTION NOS. 4219 AND 4220, TO INITIATE THE PROCESS FOR THE EXCLUSION OF PARCELS WITHIN IMPROVEMENT DISTRICTS (IDS) 19 AND 25; AND ADOPT RESOLUTION NOS. 4221 AND 4222 TO INITIATE THE PROCESS FOR THE ANNEXATION OF THE EXCLUDED PARCELS IN IDS 19 AND 25 INTO IDS 22 AND 20 RESPECTIVELY
 - b) APPROVE THE ISSUANCE OF A PURCHASE ORDER TO INLAND KENWORTH IN THE AMOUNT OF \$175,876.30 FOR THE PURCHASE

OF ONE (1) NEW KENWORTH UTILITY CREW TRUCK AND DECLARE UNIT NO. 111 UTILITY CREW TRUCK SURPLUS

- c) DECLARE A 2.41-ACRE PARCEL LOCATED ON SWEETWATER SPRINGS BOULEVARD (APN: 505-230-51-00) AS SURPLUS AND AUTHORIZE THE DISPOSAL OF THE DECLARED PROPERTY IN ACCORDANCE WITH APPLICABLE STATUTES AND LAWS IN THE BEST INTEREST OF THE DISTRICT
- d) APPROVE AN AGREEMENT WITH THE LAW FIRM OF STUTZ, ARTIANO, SHINOFF AND HOLTZ, A PROFESSIONAL CORPORATION, FOR A TERM OF TWO (2) YEARS THROUGH DECEMBER 31, 2015 TO PROVIDE GENERAL COUNSEL SERVICES TO THE DISTRICT
- e) ADOPT RESOLUTION NO. 4223 FIXING TERMS AND CONDITIONS FOR THE ANNEXATION OF CERTAIN REAL PROPERTY OWNED BY ST. GREGORY OF NYSSA GREEK ORTHODOX CHURCH, APNs: 498-320-04-00 AND 498-320-45-00, TO THE OTAY WATER DISTRICT'S IMPROVEMENT DISTRICT NO. 18
- f) APPROVE A PROFESSIONAL ENGINEERING SERVICES CONTRACT WITH HDR ENGINEERING, INC. FOR CORROSION ENGINEERING SERVICES IN SUPPORT OF THE DISTRICT'S CATHODIC PROTECTION PROGRAM IN AN AMOUNT NOT-TO-EXCEED \$684,750
- g) APPROVE A CONSTRUCTION CONTRACT WITH LAYFIELD ENVIRONMENTAL SYSTEMS CORPORATION FOR THE 927-1 RECYCLED WATER RESERVOIR FLOATING COVER AND LINER REPLACEMENT IN AN AMOUNT NOT-TO-EXCEED \$873,400
- h) APPROVE A SECOND AGREEMENT AND THREE AMENDMENTS TO EXISTING CONTRACTS BETWEEN THE OTAY WATER DISTRICT AND HELIX WATER DISTRICT FOR EMERGENCY INTERCONNECTIONS
- i) ADOPT RESOLUTION NO. 4218 REVISING BOARD OF DIRECTORS POLICY NO. 12, EMPLOYMENT TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL POLICY, AND POLICY NO. 24, RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY

ACTION ITEMS

- 8. FINANCE, ADMINISTRATION AND INFORMATION TECHNOLOGY
 - a) APPROVE THE DISTRICT'S AUDITED FINANCIAL STATEMENTS, INCLUDING THE INDEPENDENT AUDITORS' UNQUALIFIED OPINION, FOR THE FISCAL YEAR ENDED JUNE 30, 2013 (KOEPPEN)

9. ENGINEERING AND WATER OPERATIONS
 - a) APPROVE THE WATER SUPPLY ASSESSMENT AND VERIFICATION REPORT DATED SEPTEMBER 2013 FOR THE OTAY RANCH VILLAGE 2 SPA AMENDMENT (COBURN-BOYD/KENNEDY)
 - b) APPROVE THE WATER SUPPLY ASSESSMENT AND VERIFICATION REPORT DATED SEPTEMBER 2013 FOR THE OTAY RANCH UNIVERSITY VILLAGES PROJECT (3 NORTH AND A PORTION OF 4, 8 EAST, AND 10) (COBURN-BOYD/KENNEDY)

10. BOARD

- a) DISCUSSION OF 2013 AND 2014 BOARD MEETING CALENDARS

INFORMATIONAL ITEMS

11. THE FOLLOWING ITEMS ARE PROVIDED TO THE BOARD FOR INFORMATIONAL PURPOSES ONLY. NO ACTION IS REQUIRED ON THE FOLLOWING AGENDA ITEMS:
 - a) REPORT ON THE FINDINGS OF THE LATEST ACTUARIAL VALUATION PERFORMED AS OF JUNE 30, 2013; AND THE ACTUARIAL EVALUATION DETERMINING THE NET COST OR SAVINGS OF THE OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN ENHANCEMENT VERSUS THE INCREASED EMPLOYEE CONTRIBUTIONS TO PERS (KOEPPEN)
 - b) FIRST QUARTER OF FISCAL YEAR 2014 CAPITAL IMPROVEMENT PROGRAM REPORT (MARTIN)

REPORTS

12. GENERAL MANAGER'S REPORT
 - a) SAN DIEGO COUNTY WATER AUTHORITY UPDATE
13. DIRECTORS' REPORTS/REQUESTS
14. PRESIDENT'S REPORT/REQUESTS
15. RECESS TO CLOSED SESSION
3. CLOSED SESSION
 - a) CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION [GOVERNMENT CODE §54956.9]

AGENDA ITEM 4

MINUTES OF THE BOARD OF DIRECTORS MEETING OF THE OTAY WATER DISTRICT October 2, 2013

1. The meeting was called to order by President Lopez at 3:35 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 Engineering Rod Posada, Chief Financial Officer Joe Beachem, Chief of Information Technology Geoff Stevens, Chief of Administration Rom Sarno, and 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 to approve the agenda. General Manager Watton indicated with regard to item 7e, ADOPT RESOLUTION NO. 4218 REVISING BOARD OF DIRECTORS' POLICY NO. 12, EMPLOYMENT OR TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL POLICY, AND POLICY NO. 24, RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY, OF THE DISTRICT'S CODE OF ORDINANCES, that the Employee Association is requesting that the board pull this item off the agenda until the November board meeting. He asked that the board consider doing so to maintain good relations with the District's labor group and provide them the time they need to review this item.

Director Croucher amended his motion to delete item 7e from the agenda. Director Thompson accepted the amendment to the motion and it carried with the following vote:

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

to approve the agenda with the deletion of item 7e.

5. APPROVE THE MINUTES OF THE REGULAR MEETING OF SEPTEMBER 4, 2013

A motion was made by Director Gonzalez, 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 minutes of the regular meeting of September 4, 2013.

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.

7. DEVELOPING A LONG-TERM SOLUTION FOR CALIFORNIA'S WATER NEEDS

Mr. Jason Foster, Director of Public Outreach and Conservation for the San Diego County Water Authority (CWA), provided an overview of what CWA is doing with regard to some of the potential solutions to the Bay-Delta issues and the impacts of some of the solutions. He stated that the Bay-Delta is a prime source of the region's water supply. He stated that the region receives about 20% of its water supply from the Bay-Delta which is significant. He explained that there are two water systems that export water from the Bay-Delta, a Federal System (Central Valley Project) which predominantly serves farms and communities in the Central Valley and the State Water Project which serves communities as far south as San Diego.

The issue with the Bay Delta is the reduced reliability of water supplies in recent years from the Bay Delta. The ecological conditions in the Bay Delta have deteriorated and, in recent years, the court system and wildlife agencies have put into place restrictions which are designed to protect a number of fish species in the Bay Delta. The constraints are generally to restrict pumping from the Central Valley and State Water Projects by shutting down the pumps or reducing the amount of water that can flow through the pumps at certain times of the year. This restriction has reduced the amount of deliveries from the Bay Delta by 100,000+ AF per year.

CWA has long held a position of support for a solution in the Bay Delta. In 2009, it supported legislation that established water supply reliability and ecosystem restoration for the Bay Delta. CWA has also adopted Bay Delta Policy Principles to guide the review of solutions for the Bay Delta. Mr. Foster indicated that he brought copies of CWA's principles which have been placed on the back table of the boardroom. At this time, CWA has not yet endorsed a specific project or solution.

He reviewed CWA's Bay Delta Policy Principles which involves:

- Water Supply Reliability: Recognize, encourage and integrate local supplies and factor those into demands for Delta water
- Ecosystem Restoration: Restore the Bay Delta ecosystem (NCCP and HCP)
- Finance and Funding:
 - Ensure any solution selected is cost-effective when compared to other water supply development options
 - Require firm funding commitments by all parties through take-or-pay contracts or the legal equivalent to assure that ratepayers in the County of San Diego are not stuck with a disproportionate size of the bill compared to the benefits it receives from the Bay Delta.
- Facilities: That they are "right-sized" for actual needs and are not over built.
- Governance: Supports continued state ownership and operation of the State Water Project as a public resource.

Mr. Foster indicated that there are four (4) options that CWA is reviewing in detail:

- State's Preferred Alternative: 9,000 cfs, twin-tunnel project advocated by Natural Resources Agency and water contractors (e.g. MWD)
- No Action Alternative: Status quo conveyance facilities and capacity
- Delta Vision Foundation's BDCP-Plus Strategy: 5,000 to 6,000 cfs project, additional storage and integration with local supplies.
- Natural Resources Defense Council's Portfolio Alternative: Single tunnel of at least 3,000 cfs, additional south of Delta storage, levee improvements, 1 million acre-feet of additional local supplies and conservation

CWA has concerns in financing the BDCP as it is unknown what the return will be on the investment to fix the Bay Delta. The State's preferred alternative is estimated to cost approximately \$25 billion. He stated that fixing the Bay Delta will not necessarily increase water supplies from the Bay Delta, but it is meant to make it more reliable. The model is to build the project, operate it, then determine if the ecological benefits are being obtained. If the ecological benefits are being obtained, then we may be able to get greater water deliveries, but there is no guarantee of this before the project is built.

Another concern related to financing the BDCP is the impact to MWD. MWD depends on water sales revenues to pay 80% of its costs. Its member agencies, including CWA, are looking to decrease their dependence on MWD. MWD is already seeing a 30% decrease in sales since 2007 and there are agencies that have plans to buy no water from MWD by 2020. There is a question of the

certainty that all MWD member agencies will pay their fair share if MWD decides to pay for a large portion of the cost to fix the Bay Delta.

Currently, the financing of the BDCP is unknown and the details are still being worked out. The BDCP is counting on State and Federal funding for a portion of the cost and the remaining majority of the cost is to be picked up by water contractors. However, there are no firm answers on how the cost will be shared.

The cost to fix the Bay Delta will be split 50/50 between the State and Federal governments and their contractors. MWD is the largest State contractor and makes up about half the deliveries from the State Water Project contractors. As such, MWD could pay for a quarter of the cost to fix the Bay Delta. Further, CWA represents approximately a quarter of MWD's revenue stream. If the cost to fix the Bay Delta is \$25 billion, then the County of San Diego could pay approximately \$1.5 billion toward the Bay Delta fix. MWD remains the largest share of CWA's water cost.

Mr. Foster indicated that MWD has approved rate increases of 34% for untreated water and 22% for treated water to be implemented in January 2014. If the Bay Delta fix were implemented, it is estimated that MWD's rate increase would have been 65% for untreated water and 45% for treated water.

CWA has significantly reduced its water purchase from MWD since 1990 and it is expected to further decrease. By 2020, CWA's water purchase would decrease 66% from the 1990's.

He noted that the BDCP also does not address the local water supply projects that are planned or considered by the MWD member agencies throughout southern California. The planned projects will provide up to 1.2 million AF of additional local water supplies if developed.

He indicated that the key questions that are not yet answered by the BDCP include:

- After accounting for local supply development, what is the real demand for water from the Delta?
- What is the right-sized project to meet the demand?
- How much water can CWA expect from the Bay Delta if \$25 billion was spent to fix it? The State indicates the purpose of the BDCP is to get more reliable water deliveries from the Bay Delta and not necessarily to increase the supply.
- Who is going to commit to pay for the project?
- Without contractual commitments from its member agencies, should MWD contractually commit to pay \$6+ billion for a Bay Delta solution? How will CWA protect its ratepayers from shouldering a disproportionate cost burden in the future if there are no contractual commitments?

He stated that the State has pushed back the date of the release of the Bay Delta documents to the middle of November and with the Federal shutdowns, it may be even a little later. He indicated that there will be a 120-day review process once the documents are released and CWA plans to comment on the EIR and take a position on one of more of the BDCP options by early 2014.

He asked that the member agencies respect CWA's process for reviewing the BDCP and that they review the results of CWA's analysis prior to taking a formal position on any proposal.

Mr. Foster introduced Mr. Mike Barden, former Chair of CWA's Board of Directors, who has been retained by CWA to head the Bay Delta outreach. Mr. Barden has great experience and background on Bay Delta policy issues.

Director Robak inquired how the State can "right-size" the Bay Delta fix when it is not certain where water sales are headed. Mr. Foster indicated that is the biggest question that they are trying to answer. Also, the size of the pipe/facility will not be the only consideration, but how much water will be allowed to be delivered from the Bay Delta. Director Robak inquired with regard to the slide depicting the local water supply projects that are planned or considered by the MWD member agencies throughout southern California, what each of the projects were. Mr. Foster indicated that he did not have the list with him, but he would forward the list following the meeting.

Director Robak also inquired with regard to the City of San Diego's indirect potable reuse project, how active CWA was with working with the City on indirect potable reuse. Mr. Foster indicated that CWA is supporting the City as they explore indirect potable reuse, but it is not taking an active role. CWA has also provided some funding assistance for the feasibility studies.

Director Croucher welcomed Mr. Bardin and indicated that he was a leader within CWA for many years and is very highly respected. He stated that he is not only knowledgeable, but has excellent leadership abilities. He asked Mr. Bardin to comment on the Metro Commission and the permits that are needed for their Point Loma Water Purification Treatment Plant, the Carlsbad Desalination Project, MWD rates and Colorado River Rights.

Mr. Bardin indicated that Director Robak raised an interesting question; is there a project that is right-sized? He indicated that there is not. There will be a list of projects over a long period of time that will be made bigger or smaller, be adjusted in some way, delayed or not built at all. He stated that if we go back in history, the solutions for water in California have always been about the next "big thing," which includes the:

- Owens Valley Aqueduct
- State Water Project/Federal Central Valley Project
- MWD's Aqueduct to the Colorado River

- State Water Project
- Peripheral Canal, etc.

We are now seeing a shift away from the next big thing to a series of smaller solutions, such as, the Carlsbad Desalination Plant, City of San Diego Potable Reuse Project, etc. He stated that he felt that we are moving in the right direction in asking questions and getting the information needed to “right size” the solution to the Bay Delta issues.

Director Thompson indicated that we will be having a public discussion of this issue over the next year and, as the District’s board represents consumers, we need to keep a rational approach to the solution for the Bay Delta. He inquired if CWA will be organizing the public education to assure that a discussion with the public occurs. Mr. Foster indicated that educating the public on this issue is a big challenge, especially since it is so complex. He indicated the first stage of the process is that CWA needs to make a decision on the technical analysis:

- Are the four options feasible to build?
- What’s the possibility of getting the permits from the Wildlife and Regulatory Agencies?
- How will it be paid for?
- How will it be operated?

The answers to these questions will provide the basis for the direction CWA’s board deems best for the County. Once this decision is made, then the Board will indicate what the message should be and who the message should be delivered to.

Mr. Barden noted that Otay WD is one (1) of twenty-four (24) agencies who are members of CWA. CWA is one (1) of twenty-six (26) agencies who are members of MWD. MWD is one of twenty something agencies who are members of the State Contractors Board. He stated that this does not include the Federal Contractors Board and the various agencies around the Delta who have independent operations. He indicated there is simply a great many persons involved in this issue and nothing will be decided until there is consensus among these agencies. There will also be a substantial amount of money spent on mitigation and environmental enhancements.

Director Gonzalez inquired if the region has looked at building additional desalination plants in lieu of funding a fix for the Bay Delta issues. Mr. Barden indicated the cost for desalination in San Diego is expensive. He stated that while we do receive value from building desalination plants in San Diego because it becomes a local source. The issue, however, is that we don’t know how much water supplies the Bay Delta will provide our region and so we don’t know how much we should spend on the BDCP or local projects.

President Lopez thanked Mssrs. Barden and Foster for attending the District's meeting and presenting on this important issue. He observed that the County of San Diego's portion of the cost to fix the Bay Delta, if its overall cost is \$25 billion, is approximately \$1.5 billion. President Lopez inquired if it has been discussed what the cost would be for each of CWA's member agencies if the \$1.5 billion was shared between the agencies. Mr. Barden indicated that it has not and this is part of the problem. He stated there is no exact value of what the County of San Diego's portion of the cost actually is.

CONSENT CALENDAR

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

Director Robak pulled item 7b, REJECT ALL BIDS FOR THE CONSTRUCTION OF THE 624-2 RESERVOIR INTERIOR/EXTERIOR COATINGS AND 458-2 RESERVOIR INTERIOR COATING AND UPGRADES PROJECT, for discussion.

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

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

to approve the following consent calendar items:

- a) APPROVE A PROFESSIONAL SERVICES CONTRACT WITH CAROLLO ENGINEERS, INC. FOR DESIGN AND CONSTRUCTION SUPPORT OF THE 870-2 PUMP STATION PROJECT IN AN AMOUNT NOT-TO-EXCEED \$624,910
- c) APPROVE AN AMENDMENT TO A LEASE AGREEMENT WITH SPRINT PCS ASSETS, LLC, A DELAWARE LIMITED LIABILITY COMPANY, FOR MODIFICATIONS TO AN EXISTING COMMUNICATIONS FACILITY AT THE 980 1&2 RESERVOIR SITES LOCATED AT 360 HUNTE PARKWAY IN CHULA VISTA
- d) APPROVE THE ISSUANCE OF A PURCHASE ORDER TO RDO EQUIPMENT COMPANY, INC. IN THE AMOUNT OF \$94,159.12 FOR THE PURCHASE OF ONE (1) JOHN DEERE BACKHOE AND DECLARE THE DISTRICT'S OLDEST JOHN DEERE BACKHOE SURPLUS
- e) ADOPT RESOLUTION NO. 4218 REVISING BOARD OF DIRECTORS' POLICY NO. 12, EMPLOYMENT OR TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL POLICY, AND POLICY NO. 24,

RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY, OF THE DISTRICT'S CODE OF ORDINANCES

- f) APPROVE AN ADJUSTMENT TO THE WHEELING RATE FOR THE DELIVERY OF TREATY WATERS TO MEXICO TO \$64.14 FOR CALENDAR YEAR 2014

President Lopez presented item 7b for discussion:

- b) REJECT ALL BIDS FOR THE CONSTRUCTION OF THE 624-2 RESERVOIR INTERIOR/EXTERIOR COATINGS AND 458-2 RESERVOIR INTERIOR COATING AND UPGRADES PROJECT

Director Robak indicated that he understands that the board has the right to reject the bids, but it is not obligated to reject the bids. He indicated he wished a legal opinion on this issue with regard to the board's options. Attorney Richard Romero indicated that under State law the board has the right to reject all bids for any reason.

Director Robak further inquired the reason for rejecting the bids on this project. Assistant Civil Engineer II Kevin Cameron indicated that the District received five (5) bids for this project, but felt that the District should have received eight (8) bids. Staff also felt the average of the bids was a little disproportional and the District may have received a lower bid if it had received the three (3) other bids on time. It was indicated that the lowest bidder also needed a qualification that they would not have until December 2013. The bidder thought that this would be fine. However, the District's specifications indicate that the contractor must have the qualification when the contract is awarded. The contract would have been awarded at today's meeting.

With the lowest bidder misunderstanding their responsibilities and three "unknown" bids (the three [3] bids that were received late), staff felt it was in everyone's best interest to rebid the contract to assure the District receives the right price for the services. It was discussed that three (3) bids were received late due to the delivery service's plane arriving late in San Diego. These bids were never opened by staff and were returned to the vendors. It was noted there were no issues with the bidding process. Staff, however, is considering scheduling the opening of bids to later in the afternoon to avoid future issues with late delivered bids due to delivery services issues.

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

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

to approve staffs' recommendation.

ACTION ITEMS

9. BOARD

a) DISCUSSION OF 2013 BOARD MEETING CALENDAR

Director Croucher indicated that he would be attending training in Sacramento and would be unable to attend the November 6, 2013 board meeting. Director Thompson indicated that he would be out-of-town and would be unable to attend the December 4, 2013 board meeting if a meeting is held. General Manager Watton indicated that staff is prepared if the December board meeting is canceled.

There were no changes to the board meeting calendar.

10. INFORMATIONAL ITEMS

a) FISCAL YEAR 2013 YEAR-END STRATEGIC PLAN AND PERFORMANCE MEASURES REPORT

Chief of Information Technology Geoff Stevens indicated that the District is in its tenth year of the Strategic Plan process. The Strategic Plan is a three (3) year plan and updates are reported twice a year to the Board. Today's presentation is the year-end report. Please reference the Committee Action notes (Attachment A) attached to staff's report for the details of Mr. Stevens' report.

Director Croucher stepped out at 4:32 p.m. and returned at 4:35 p.m.

In response to an inquiry from Director Robak, Mr. Stevens indicated that the Balance Scorecard is based on a book written by Robert Kaplan and Dave Norton from Harvard's Business School. It is the first integrated approach to strategic planning. It is a good approach for the water industry as the industry does not experience a great deal of change like other industries. The studies indicate that if an organization utilizes their approach and continues to use it as a best practice, it will get the results.

Director Robak noted that the District's goal for per capita consumption is 172 gallons per day (GPD) and the District's current per capita consumption is 135 GPD. He inquired if all the District's goals are ambitious enough. Chief of Information Technology indicated that the per capita goal came from the District's allocation from CWA based on the 20/20 goal. He indicated that the goals are set at beginning of each fiscal year to be true stretch goals. As an example, over quite a number of years, staff has been implementing software, etc., to attain the *Answer Rate* goal of answering no less than 97% of calls on average. It has taken time and a lot effort to finally reach this goal. Another example is preventative maintenance. The percentage of funds for labor spent on

preventative maintenance has been a tough goal to reach. The goal for maintenance of the potable water system is that no less than 66% of all labor cost be spent on maintenance and for recycled water the goal is no less than 70%. Identifying the right level has also been a challenge. Part of the annual Strategic Plan development process is to review the current goals and determine if they are still good goals and to add new goals. General Manager Watton indicated that some of the goals are from the AWWA QualServe Program. The District modifies some of the QualServe goals as they do not really fit the District or they are modified to make them more of a stretch goal. Some of the goals serve the purpose of highlighting or putting focus on an area. Also some is developed directly from the District's budget, like overtime percentage; what was budgeted for overtime in the fiscal year and what the actual cost of overtime for the fiscal year. This is a visibility measure.

AWWA Qualserve updates their goals about every two (2) years. The District is just completing its input into the 2013 survey which is now due to AWWA. The information from this update should be available in about six (6) months.

Director Croucher indicated, with regard to the conservation goal, that the County of San Diego has met the requirements of the 20/20 goal. The County of Los Angeles, however, has not yet met their 20/20 goal. As the County of Los Angeles sells more water, they are not as impacted by water cost increases as the County of San Diego ratepayers would be as their allocation stays unchanged. The more water the County of San Diego conserves beyond its 20/20 goals, its allocation from MWD will be adjusted downward which will increase the cost of water if the County of San Diego should go over its reduced allocation. As long as the County of San Diego is meeting its 20/20 goal, the goal should not be stretched as it negatively impacts its customers.

Director Thompson thanked staff for the information and their work on the Strategic Plan program. He stated that he somewhat questions how much the District really stretches its goals based on the outcome of the performance. He indicated if only two (2) goals were behind out of 40 and one (1) was out of staffs' control, by definition the goals are not stretch goals. He stated he would like to participate early in the Strategic Plan process, to develop measures that would not be too costly and would provide the District more information. Chief of Information Technology indicated that President Lopez has requested that staff provide a workshop on the District's Strategic Plan reviewing what has been done over the last ten (10) years and discuss the District's goals, objectives and measures for the next three-year plan. Director Thompson indicated that he felt staff has done a great job in the review of the Strategic Plan.

Director Lopez indicated that the District has been utilizing the Strategic Plan process for ten (10) years now. He stated that he wished the board to have an opportunity to provide input into the plan and the annual workshop with the board was designed for that purpose. He commended Information Technology Chief Stevens for his work on the Strategic Plan.

REPORTS

11. GENERAL MANAGER'S REPORT

General Manager Watton indicated that he has provided a couple handouts on the dias for the Board. The first is an editorial written by Mr. Dan Walters regarding the QSA Agreement. He indicated that the court has ruled and approved the long-pending plan by CWA to buy several hundred thousand acre-feet of water each year from the Imperial Irrigation District. The editorial further comments that this helps to break MWD's control of the state of California's water supply and that Imperial Irrigation District is the state's OPEC of water, controlling three-quarters of the state's Colorado River water. The ruling will likely be appealed. The judge, however, wrote a very intricate 100 page opinion on his ruling and CWA feels that it will prevail on appeal.

He indicated the other handout is a letter the District forwarded to the Jamul Action Committee (JAC) a number of months ago. He stated that Director Robak had sent him an email from an individual from the community inquiring about the Jamul Indian Village Casino. He indicated that there has been several inquiries in the past and there is a "myth" circulating about Otay WD's involvement with the casino. He stated, should the Directors hear from community members on this issue, he has provided a copy of the letter to refresh the Directors on the issues regarding the casino project. The District does not support or oppose the casino, but it does have a legal obligation to provide water services to a customer. In this case the customer is the Jamul Indian Village.

General Manager Watton presented additional information from his report that included the Water Conservation Garden, Employee Recognition Luncheon, wireless infrastructure upgrades, Otay Ranch Village 13 Preserve and Resort Community Village 13, and water purchases. He also shared that he had missed the CWA board meeting as he traveled to Tijuana to meet with the departing Director of CESPT, Tijuana's water purveyor, and they had discussed recycled water, desalination and his future plans.

SAN DIEGO COUNTY WATER AUTHORITY UPDATE

Director Croucher indicated that CWA continues to work on the MWD, Bay Delta and Carlsbad Desalination issues. The Directors of CWA were also provided a tour of CWA's operations center in Escondido and the desalination pipeline that is currently in construction which will connect the Carlsbad desalination plant to CWA's system. They also toured the Carlsbad Desalination plant in depth. He indicated that it was very impressive with regard to their progress and CWA will continue to monitor the project. CWA will also begin addressing the cost of the water from the Carlsbad Desalination plant and how it will be divided among its member agencies.

12. DIRECTORS' REPORTS/REQUESTS

Director Robak indicated that he attended CWA's Special Board meeting on September 12, 2013 where they discussed the Bay Delta Conservation Plan. He stated Mr. Rod Smith provided an analysis of the private sector approach. He stated that he appreciated his perspective and asked if the District could provide him copies of the presentations from the special meeting. Staff indicated that they would do so.

Director Robak also shared that he attended the District's employee picnic and recognition luncheon and congratulated all the employees who were recognized at the recognition luncheon. He stated that he also attended the YMCA Branding Event and he felt it was time well spent in support of the community. He stated he was happy to hear that the Water Conservation Garden (WCG) was headed in the right direction and he felt it was to the benefit of the Garden to look to fundraising to become more self-sufficient.

Director Thompson indicated that he also attended the Employee Recognition Luncheon and it seemed there was a lot of camaraderie among the employees which is a testament to the leadership of the District. He thanked Communications Officer Armando Buelna and the employees who participated in Harbor Fest event. He stated that he, President Lopez and General Manager Watton met with Mr. John Bolthouse, Executive Director of the WCG, to discuss the Garden and their partnership with the District. He also shared that he would be attending the CalDesal Conference tomorrow and Friday, October 3rd to 4th, which is being held in San Diego.

Director Gonzalez indicated that he attended the Water and Energy Conference in September where they discussed desalination, direct potable reuse technology, water border issues, the Rosarito Desalination Plant, the South Bay Water Reclamation Plant, and how oil companies are recycling the water from fracking. There were also companies presenting new filtration technologies. He stated that he brought information back with him from these companies and will share it with staff.

General Manager Watton mentioned that he had met with Commissioner Drusina of the International Boundary and Water Commission (IBWC) and Mr. Drusina had indicated that he had met Director Gonzalez at the Water and Energy Conference. He stated that it was an excellent for him to meet one of the District's Directors as it assists with the District's efforts in acquiring water from the Rosarito Desalination Plant.

13. PRESIDENT'S REPORT

President Lopez reported on meetings he attended during the month of August 2013 (a list of meetings he attended is attached).

a. CLOSED SESSION

The board recessed to closed session at 5:31 p.m. to discuss the following matter:

- a) PUBLIC EMPLOYEE PERFORMANC EVALUATION [GOVERNMENT CODE §54957.6

TITLE: GENERAL MANAGER

The board reconvened at 6:25 p.m. and the District's attorney, Richard Romero, indicated that the board took no reportable actions in closed session.

14. ADJOURNMENT

With no further business to come before the Board, President Lopez adjourned the meeting at 6:25 p.m.

President

ATTEST:

District Secretary

**President's Report
October 2, 2013 Board Meeting**

A) Meetings attended during the Month of September 2013:

- 1) **September 4: Attended the District's Regular Board Meeting**
- 1) **September 7: Attended the District's Employee Picnic**
- 2) **September 11: Attended the Water Conservation Garden Board Meeting** (please see attached copy of agenda)
- 3) **September 17: Attended the District's Finance, Administration and Communications Committee.** Reviewed, discussed, and made recommendation on items that will be presented at the October board meeting.
- 4) **September 23: Attended the District's Engineering, Operations and Water Resources Committee on Director Croucher's behalf.** Reviewed, discussed, and made recommendation on items that will be presented at the October board meeting
- 5) **September 25:**
 - a. **Met with Mr. John Bolthouse, Executive Director of the Water Conservation Garden** to discuss the District's partnership with the Garden. Attendees: Director Thompson and General Manager Watton.
 - b. **Attended the District's Employee Recognition Luncheon.**
- 6) **September 26:**
 - a. **Met with Mr. Hernando Durán, Executive Director of CESPT,** to discuss the Rosarito Desalination Plant Project. Attendees: General Manager Watton, Chief of Engineering Rod Posada, and District Consultant Hector Mares.
 - b. **Attended the South County Economic Development Council's Elected Official Reception.** Attendees: Directors Robak and Thompson, General Manager Watton and Communications Officer Buelna.
- 7) **September 27: Board Agenda Briefing.** Met with General Manager Watton and General Counsel Dan Shinoff to review items that will be presented at the October Board Meeting.

Memorandum

DATE: October 9, 2013

TO: Jose Lopez, President of the Board and Board of Directors
Otay Water District

FROM: Chris Frahm and Rosanna Carvacho

RE: 2013 Legislative Update

Water was one of the hot topics this year in Sacramento. As the Legislative session started in January it was unclear if replacing the current water bond, which is slated to be on the November 2014 ballot, with a smaller bond would be a topic of discussion. It was not until the summer that the discussions around the water bond began to heat up due to the Assembly forming a Water Bond Working Group made up of Legislators from throughout the state and Chaired by Assemblymember Rendon who is also the Chair of the Assembly Water, Parks and Wildlife Committee.

The work of the Assembly Water Bond Working Group culminated in the introduction of their proposed water bond bill, AB 1331 (Rendon). Senator Wolk introduced a water bond bill, SB 42, at the start of the Legislative Session that was a placeholder and did not include much detail, including dollar amounts. In September, with the discussion in the Assembly, Senator Wolk amended her bill to more closely mirror the Assembly bill. An overview of the three bond proposals and Otay's correspondence to the Assembly Water Bond Working Group is attached.

Throughout this entire Legislative Session the Administration did not engage in the water bond discussions. As we move into 2014, what the Governor wants to do with the water bond will be imperative. At this point, with the Legislature on Fall Recess, there may be additional informational hearings on the water bond but the real discussions will not occur until the Legislature reconvenes in January.

Another hot topic this year in Sacramento was AB 145 by Assemblymember Perea to transfer the Drinking Water Program from the Department of Public Health to the State Water Resources Control Board. AB 145 but was held in the Senate Appropriations Committee, however, the Administration has gotten behind the idea of moving the Drinking Water Program and released a reorganization proposal in July and is currently working on implementing the reorganization. Because AB 145 did not pass the Legislature this year and statutory changes are needed it is expected that the necessary statutory changes will be in the Governor's budget proposal that is released in January 2014.

There were two recycled water bills that moved through the Legislature this year both of which were signed by Governor Brown on October 8th.

- AB 803 (Gomez) – the Water Recycling Act of 2013, sponsored by WateReuse, modifies the State Water Resources Control Board and Regional Water Quality Control Boards regulation of recycled water. Specifically, this bill removes some barriers to greater use of recycled water by making spill

reporting standards for recycled water uniform; authorizing hose bibs for recycled water in cemeteries; and, clarifying that advanced treated purified water can be regulated for purity at the point it leaves a wastewater treatment facility and before it comingles with other waters in a conveyance facility if the owner or operator of that conveyance facility consents.

- SB 322 (Hueso) – sponsored by the San Diego County Water Authority, this bill requires, by December 31, 2016, the Department of Public Health in consultation with the State Water Resources Control Board to investigate the feasibility of developing uniform water recycling criteria for direct potable reuse and to provide a final report to the Legislature on the findings.

Overview Of The Water Bond Proposals¹ –

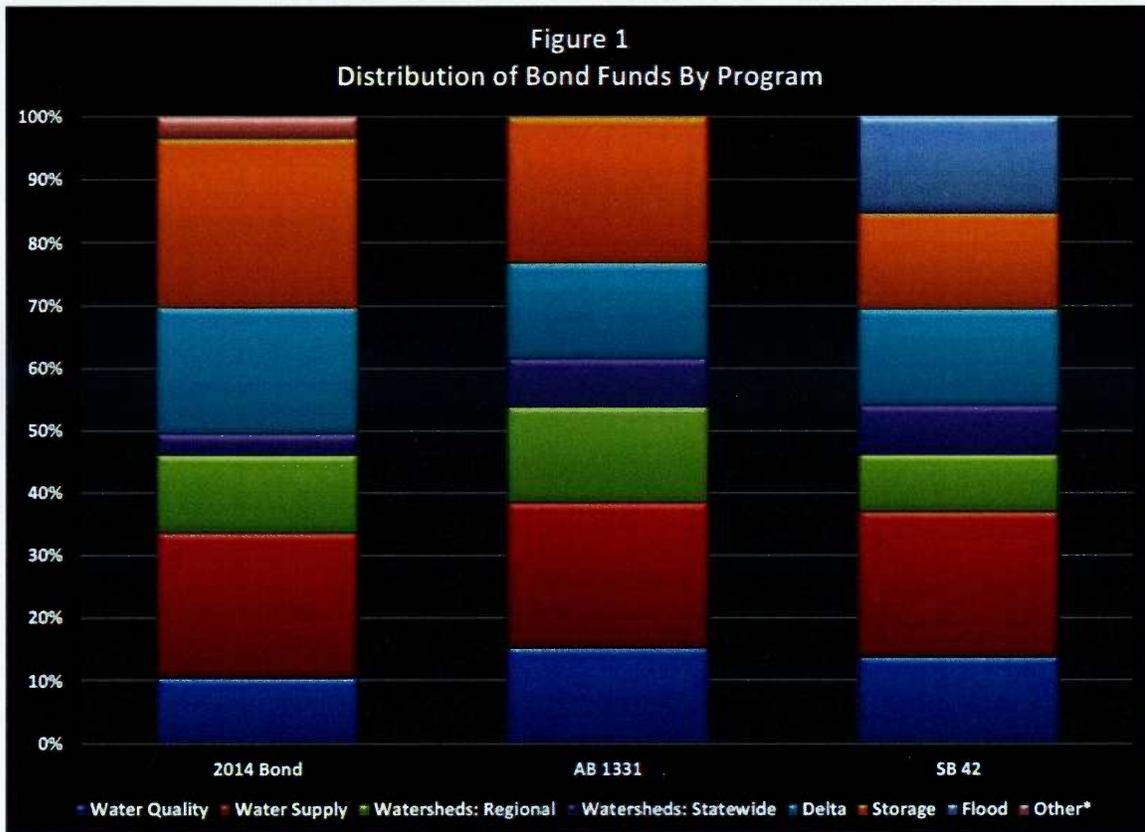
Currently on the November 2014 ballot is the Safe, Clean, and Reliable Drinking Water Supply Act of 2012. That measure would authorize \$11.14 B in general obligation bonds to fund a variety of water related programs and projects. SB 42 (Wolk) would replace the current 2014 bond with the \$6.475 B the Safe Drinking Water, Water Quality, and Flood Protection Act of 2014. Likewise, AB 1331 (Rendon) would replace the current 2014 bond with the \$6.5 B Climate Change Response for Clean and Safe Drinking Water Act of 2014.

Table 1 shows the proposed funding for each proposal by funding category. It should be noted that each bond proposal names and classifies the various programs and projects differently. The data shown in this background brief are staff's attempt to classify the bond funded activities on a consistent basis. The categories are generally self-explanatory. Two categories that require a bit of explanation are Watersheds: Regional Concern and Watersheds: Statewide Concern. Watersheds: Statewide Concern are those watersheds where the State of California has some legal responsibility to fund or otherwise participate in the restoration of a significant part of the watershed; namely, the Klamath River, San Joaquin River, and the Salton Sea. Watersheds: Regional Concern are all other watershed restoration activities, whether by a specific conservancy or some other state funded program.

| Funding Category | 2014 Bond | AB 1331 | SB 42 |
|------------------------------------|-------------------|------------------|------------------|
| Water Quality | \$1,175 M | \$1,000 M | \$900 M |
| Water Supply | 2,580 M | 1,500 M | 1,500 M |
| Watersheds: Regional Concern | 1,390 M | 1,000 M | 600 M |
| Watersheds: Statewide Concern | 375 M | 500 M | 500 M |
| Delta | 2,250 M | 1,000 M | 1,000 M |
| Storage | 3,000 M | 1,500 M | 1,000 M |
| Flood | - | - | 975 M |
| Other* | 370 M | - | - |
| Total | \$11,140 M | \$6,500 M | \$6,475 M |
| *Conveyance & economic development | | | |

Table 1 shows that unlike the current 2014 bond and AB 1331, SB 42 proposes funding for flood protection programs and projects. Also, the current 2014 bond proposes funding for two activities not funded by either AB 1331 or SB 42; namely local and regional conveyance projects and economic development in Siskiyou County.

¹ From the Senate Environmental Quality and Natural Resources and Water Committees Hearing – *Setting the Stage for a 2014 Water Bond: Where Are We and Where Do We Need To Go?*

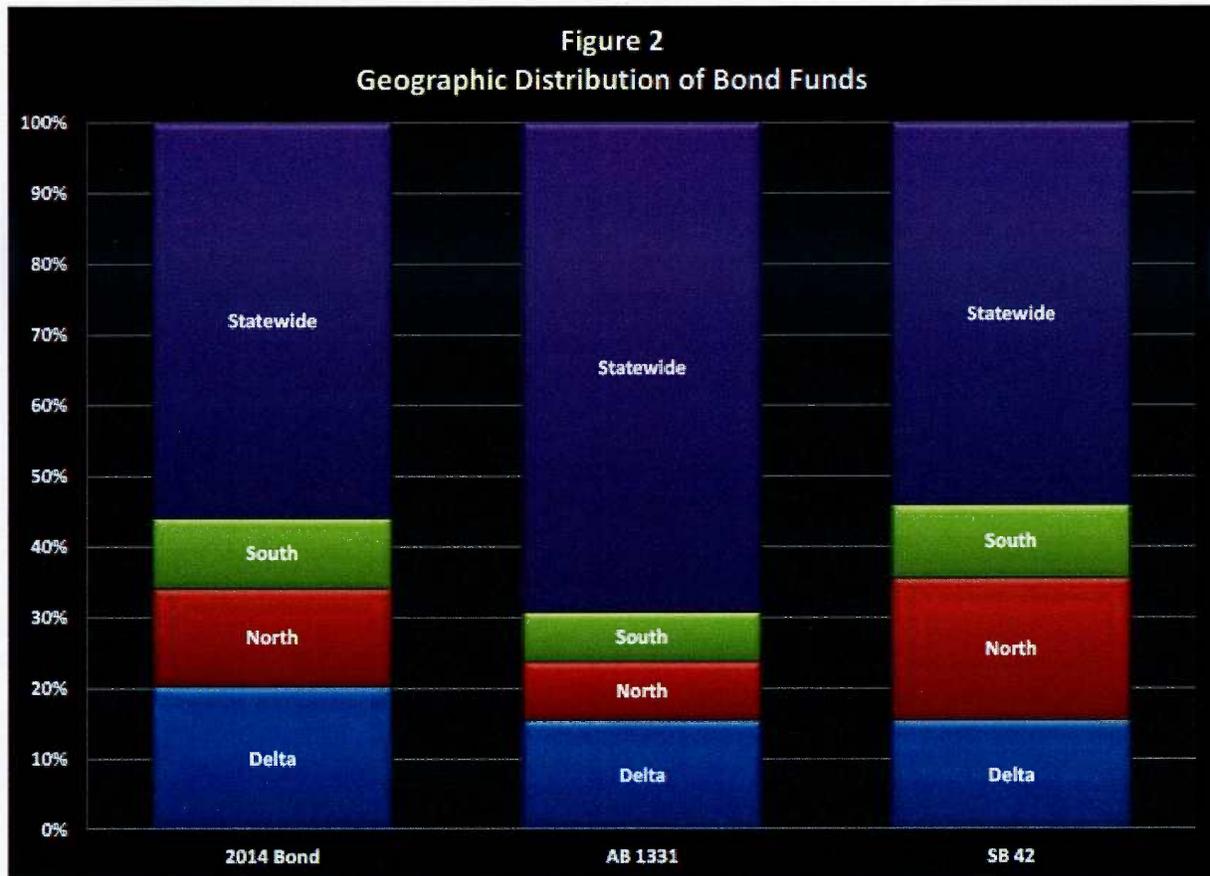


The current 2014 bond proposes about \$1 B more in funding for water supply projects than SB 42 and AB 1331. It also proposes significantly more funding for regional watershed projects, but less for watersheds of statewide concern than the \$500 M proposed in both SB 42 and AB 1331. Another significant difference is the amount of funding for storage projects; the current 2014 bond proposes \$3 B in funding while AB 1331 proposes half that and SB 42 offers only a third as much.

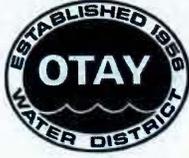
Because the current 2014 bond is significantly larger than that proposed by SB 42 and AB 1331, it is difficult to compare the different priorities within each bond. Figure 1 shows the relative distribution of funds within each bond proposal.

Interestingly, all three bond proposals dedicate just over 23 percent of the funds for water supply projects and programs. The major differences are in the relative funding for storage and regional watersheds. Also the current 2014 bond dedicates about 5 percent more of its fund for supporting the Delta than AB 1331 or SB 42.

Another way of comparing the different proposals is to look at the geographic distribution of the proposed funding. Figure 2 shows the geographic distribution of funds for each proposal.



Geographically, the biggest difference between the three proposals is that AB 1331 distributes nearly 70 percent of its funds on a statewide basis, while the current 2014 bond and SB 42 both distribute about 55 percent of their funds statewide.



...Dedicated to Community Service

2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91978-2004
TELEPHONE: 670-2222, AREA CODE 619

www.otaywater.gov

August 2, 2013

The Honorable Anthony Rendon
Chairman, Assembly Water, Parks & Wildlife Committee
State Capitol – Room 2136
Sacramento, California 95814

Re: Comments on Proposed Principles for Developing a Water Bond

Dear Assemblymember Rendon:

Thank you for providing the Background paper and Draft Principles for Developing a Water Bond (Principles) for public review and comment. We welcome and applaud your effort to make this process transparent and inclusive, so that we will all ultimately be in a position to educate our ratepayers why they should support a water bond.

We are heartened to see that your work and the efforts in the Senate has begun the discussion by taking into account the dual realities that 1) there is a limit to how much debt the State can or should assume; and 2) water is competing with other important public funding priorities including education and transportation. All of this means that we must carefully craft the water bond so that it reflects true priorities and positions of the State to maximize implementation of agreed-upon priorities by leveraging other sources of funding.

In general, we support the draft Principles. Bearing in mind that this is the beginning and not the end of the discussion, this letter is to provide broad comments. We look forward to working with you and your Committee and to continue the dialogue and refine the Principles.

First, specific criteria should be developed for how to balance further investments in imported water supplies (which may under some scenarios sustain or even increase demand on the Delta) and in local water supplies in order to increase regional self-reliance and diversification. As a signatory to the NRDC BDCP alternative, my agency has supported efforts to better define the *demand* the BDCP is intending to support and the amount of that demand that could be met by local water supply development. We believe this is a critical part of the analysis that has not yet been done; until it is done, it is difficult to say what size Delta facility is needed and cost-effective. We support a process in which these investments in local water supply could be supported by State funding based on a demonstrable reduction in the reliance on Delta exports. Unless and until there is a demand analysis and a requirement to account for the use of Delta water, it is difficult to see how demand reduction can be measured.

Second, we support the prohibition on earmarks, but also believe that it is important that specific criteria be developed by the Legislature to guide the competitive process. We believe this is important in order to achieve the priorities that the Legislature ultimately determines for the water bond, as well as to assure ratepayers that we know how water bond funding will be used. In our experience, ratepayers want to know in advance how the government plans to spend their money. This could be done through refinement of the Integrated Regional Water Management (IRWM) Program or otherwise. It is important to continue allocating dollars regionally to ensure some proportional benefit to the State's electorate.

As far as stakeholders are concerned, we believe it is important that the water bond dialogue include a broader range of interests, such as the cities we serve, wastewater and flood control agencies. This is the only way that we can really maximize the integration of service and ensure the best use of limited State bond funding dollars. This issue could also be addressed by establishing more detailed criteria for the IRWM Program.

Finally, we strongly support the notion of "policy before plumbing." We believe that there is a great deal of dialogue that must occur before the State moves forward with a water bond, and that the policies, once refined, should guide both the amount and priorities of the water bond.

We want to thank you again for your leadership and willingness to engage the public in this important dialogue. We look forward to working with you and your Committee.

Sincerely



Mark Watton, General Manager
Otay Water District

AGENDA ITEM 7a



STAFF REPORT

| | | | |
|---------------|--|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| | | PROJECT: | DIV. NO. All |
| SUBMITTED BY: | Rita Bell, Finance Manager | | |
| APPROVED BY: | <input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer | | |
| | <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager | | |
| | <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | Resolutions of Intention to Consolidate Improvement District (ID) 19 into ID 22 and ID 25 into ID 20 and Authorizing Required Advertising of these Resolutions as Required by the Water Code and Government Code | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board approve the attached Resolutions of Intention, Nos. 4219 and 4220, that are necessary to initiate the process for the exclusion of parcels within Improvement Districts (IDs) 19 and 25. Concurrent with said action, that the Board also approve the attached Resolutions of Intention, Nos. 4221 and 4222 that are necessary to initiate the process for the annexation of the excluded parcels in IDs 19 and 25 into IDs 22 and 20, respectively.

PURPOSE:

That the Board authorize and initiate the process for the exclusion of parcels within Improvement Districts (IDs) 19 and 25 to be annexed into IDs 22 and 20, respectively.

Authorize staff to advertise per Government Code Section 6066 the attached Resolutions of Intention 4219, 4220, 4221, and 4222 for a period of two weeks. Once this requirement has been complied with, a second set of resolutions will be presented to confirm the exclusions and annexations. Direct staff to submit the appropriate forms and fees required to complete the Board action with the State Board of Equalization and the County of San Diego that would exclude parcels within IDs 19 and 25 to be annexed into IDs 22 and 20, respectively. A subsequent action will request that IDs 19 and 25 be dissolved effective July 1, 2014.

ANALYSIS:

On May 14, 2013, the Board directed staff to move forward with the consolidation process. This action is the first of two necessary steps to complete this consolidation. Once the exclusion and annexation are initiated by the Board, staff will publish the resolutions as required by statute and then the Board will have the ability to confirm the exclusion and annexation at a subsequent meeting. The exclusion will then become effective on the 31st day after completion of the publication and posting of the resolutions to exclude. The annexations become effective after the date of the adoption of the resolutions approving the annexation.

The availability charges and water rates and charges are identical between IDs 19 and 22 and IDs 25 and 20, and staff has determined that there is no longer a reason to separate these parcels. This will streamline the accounting and tracking of these parcels within the District's various information systems.

Because the proposed consolidation technically imposes a "new" charge on customers, in compliance with the Proposition 218 requirements notices were sent to all customers within these IDs to inform them of their option to protest rate changes. The required public hearing took place at the September 4, 2013 Board Meeting where the Board determined there were no protests regarding this action.

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

None.

STRATEGIC GOAL:

Through well-established financial policies and wise management of funds, the District will continue to guarantee fiscal responsibility to its ratepayers and the community at large.

LEGAL IMPACT:

None.

Attachments:

- A) Committee Action
- B) Resolution No. 4219
- C) Resolution No. 4220
- D) Resolution No. 4221
- E) Resolution No. 4222



ATTACHMENT A

| | |
|-------------------------|--|
| SUBJECT/PROJECT: | Resolutions of Intention to Consolidate Improvement District (ID) 19 into ID 22 and ID 25 into ID 20 and Authorizing Required Advertising of these Resolutions as Required by the Water Code and Government Code |
|-------------------------|--|

COMMITTEE ACTION:

The Finance, Administration and Communications Committee reviewed this item at a meeting held on October 22, 2013 and the following comments were made:

- Staff indicated that this item was reviewed by the board at a workshop last Spring, at the Budget Workshop in May 2013, and again at the Proposition 218 hearing in September 2013.
- Staff is requesting that the board adopt Resolution Nos. 4219 and 4220 to initiate the process to exclude parcels within Improvement Districts (IDs) 19 and 25 respectively and adopt Resolution Nos. 4221 and 4222 annexing the excluded parcels into IDs 22 and 20 respectively.
- The fees between the IDs are identical and there is no debt in the IDs. By consolidating the IDs, it will allow the District to streamline the accounting processes and the GIS tracking of assets by ID.
- Following the board's adoption of the Resolutions, staff will advertise the District's intent to exclude the parcels from IDs 19 and 25 and annexing the parcels into IDs 22 and 20, as required by statute, by publishing the resolutions.
- Staff will then present a final request to the board at the next scheduled board meeting to approve the annexation of the excluded parcels into IDs 22 and 20 and request that IDs 19 and 20 be dissolved.

- The consolidation of the IDs does not require action by LAFCO because the parcels are located within the District's service area boundaries.
- The change, however, will be filed with the State Board of Equalization (SBE) to make them aware of the District's ID consolidations.
- Staff will also contact the County Auditor and Controller, Property Tax Services to close the old funds and to place tax proceeds into the funds for IDs 22 and 20.
- In response to an inquiry from the committee, staff indicated that there is no cost for the County to change the funding proceeds for the ID consolidations. There is a \$300 one-time cost with the SBE to file the paperwork to consolidate the IDs. However, the efficiencies the District will gain by consolidating the ID's will more than offset this cost.

Following the discussion, the committee supported staffs' recommendation and presentation to the full board as a consent item.

RESOLUTION NO. 4219

RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT DECLARING ITS
INTENTION TO EXCLUDE PARCELS FROM
IMPROVEMENT DISTRICT 19

WHEREAS, on April 19th, 1971 by Resolution No. 866, the Otay Water District Board of Directors (“Board”) formed Improvement District (“ID”) 19 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction and completion of water improvements and works; and

WHEREAS, on July 3rd, 1972 by Resolution No. 986, the Board formed ID 22 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction, and completion of water improvements and works; and

WHEREAS, the availability charges and water rates and charges are identical between IDs 19 and 22; and

WHEREAS, staff has determined that there is no longer a reason to separate these parcels; and

WHEREAS, by initiating proceedings to consolidate ID 19 into ID 22 it would streamline the accounting and tracking of these parcels; and

WHEREAS, the Board hereby declares, by its own motion, its intention to exclude parcels in ID 19 pursuant to Water Code Sections 72080, *et seq.*, with an eye towards annexing the excluded parcels into ID 22; and

WHEREAS, in compliance with Proposition 218, the Otay Water District held the required public hearing on the new fees and charges for the parcels excluded from ID 19 and annexed into ID 22, if approved, at its September 4, 2013 Board meeting, where the Board determined that there were no protests regarding this action;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. That the Board of Directors, on its own motion, does hereby declare its intention to exclude parcels within ID 19, as identified in Exhibit 1 to this resolution.

2. That the taxes for carrying out the purposes of ID 19 will not be levied upon taxable property in the excluded territory following such exclusion.

3. That there is no bond debt on ID 19 and, therefore, taxes for the payment of principal and interest on any outstanding bonds of ID 19 will not be levied upon taxable property in the excluded territory following such exclusion.

4. That, following such exclusion, the taxable property in the territory remaining in ID 19, if any, shall continue to be levied upon and taxed to provide funds for the purposes of ID 19.

5. That a map showing the exterior boundaries of the proposed territory to be excluded, with relation to the territory remaining in ID 19, is on file with the Secretary of the District and is available for inspection by any person or persons interested. Said map shall govern for all details as to the extent of the proposed exclusion.

6. That notice is hereby given that a hearing shall be held by the Board on Wednesday, November 6, 2013, at 3:30 p.m. on the questions of the proposed exclusion and the effect of such exclusion upon the Otay Water District, ID 19 and the territory to be excluded. At such time and place, any person interested, including all persons owning property in the Otay Water District or in ID 19, will be heard.

BE IT FURTHER RESOLVED that the Board directs staff to provide notice of the proposed exclusion and publish a copy of this Resolution of Intention to Exclude pursuant to and consistent with Government Code section 6066 and Water Code section 72084.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

President

ATTEST:

Secretary



Id 19

Id 22

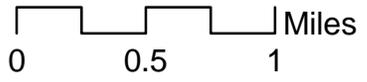
Id 05

Id 05

Id 10

Id 22

Id 10



RESOLUTION NO. 4220

RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT DECLARING ITS
INTENTION TO EXCLUDE PARCELS FROM
IMPROVEMENT DISTRICT 25

WHEREAS, on May 1st, 1978 by Resolution No. 1498, the Otay Water District Board of Directors (“Board”) formed Improvement District (“ID”) 25 for the purpose of incurring bonded indebtedness for the construction of a water transmission and distribution system; and

WHEREAS, on May 17th, 1971 by Resolution No. 880, the Board formed ID 20 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction, and completion of water improvements and works; and

WHEREAS, the availability charges and water rates and charges are identical between IDs 25 and 20; and

WHEREAS, staff has determined that there is no longer a reason to separate these parcels; and

WHEREAS, by initiating proceedings to consolidate ID 25 into ID 20 it would streamline the accounting and tracking of these parcels; and

WHEREAS, the Board hereby declares, by its own motion, its intention to exclude parcels in ID 25 pursuant to Water Code Sections 72080, *et seq.*, with an eye towards annexing the excluded parcels into ID 20; and

WHEREAS, in compliance with Proposition 218, the Otay Water District held the required public hearing on the new fees and charges for the parcels excluded from ID 25 and annexed into ID 20, if approved, at its September 4, 2013 Board meeting, where the Board determined that there were no protests regarding this action;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. That the Board of Directors, on its own motion, does hereby declare its intention to exclude parcels within ID 25, as identified in Exhibit 1 to this resolution.

2. That the taxes for carrying out the purposes of ID 25 will not be levied upon taxable property in the excluded territory following such exclusion.

3. That there is no bond debt on ID 25 and, therefore, taxes for the payment of principal and interest on any outstanding bonds of ID 25 will not be levied upon taxable property in the excluded territory following such exclusion.

4. That, following such exclusion, the taxable property in the territory remaining in ID 25, if any, shall continue to be levied upon and taxed to provide funds for the purposes of ID 25.

5. That a map showing the exterior boundaries of the proposed territory to be excluded, with relation to the territory remaining in ID 25, is on file with the Secretary of the District and is available for inspection by any person or persons interested. Said map shall govern for all details as to the extent of the proposed exclusion.

6. That notice is hereby given that a hearing shall be held by the Board on Wednesday, November 6, 2013, at 3:30 p.m. on the questions of the proposed exclusion and the effect of such exclusion upon the Otay Water District, ID 25 and the territory to be excluded. At such time and place, any person interested, including all persons owning property in the Otay Water District or in ID 25, will be heard.

BE IT FURTHER RESOLVED that the Board directs staff to provide notice of the proposed exclusion and publish a copy of this Resolution of Intention to Exclude pursuant to and consistent with Government Code section 6066 and Water Code section 72084.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

President

ATTEST:

Secretary

EXHIBIT 1



Id 03

Id 03

Id 02

Id 20

Id 01

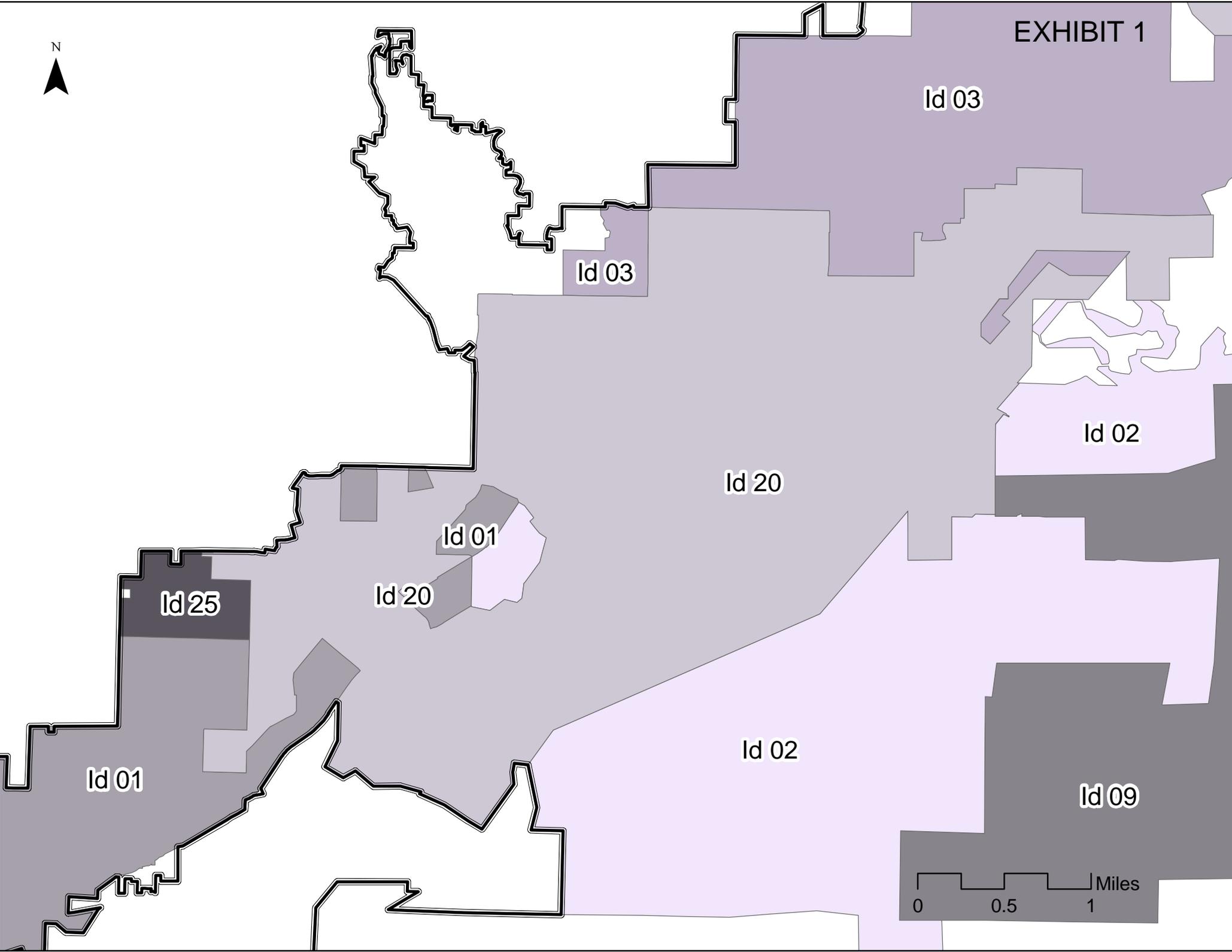
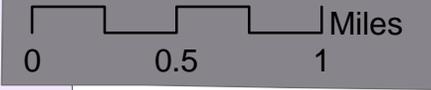
Id 25

Id 20

Id 01

Id 02

Id 09



RESOLUTION NO. 4221

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT DECLARING ITS INTENTION TO
ANNEX PARCELS EXCLUDED FROM IMPROVEMENT
DISTRICT 19 INTO IMPROVEMENT DISTRICT 22

WHEREAS, on April 19th, 1971 by Resolution No. 866, the Otay Water District Board of Directors (“Board”) formed Improvement District (“ID”) 19 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction and completion of water improvements and works; and

WHEREAS, on July 3rd, 1972 by Resolution No. 986, the Board formed ID 22 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction, and completion of water improvements and works; and

WHEREAS, the availability charges and water rates and charges are identical between IDs 19 and 22; and

WHEREAS, staff has determined that there is no longer a reason to separate these parcels; and

WHEREAS, by initiating proceedings to consolidate ID 19 into ID 22 it would streamline the accounting and tracking of these parcels; and

WHEREAS, the Board hereby declares its intention to annex parcels excluded from ID 19, if approved, into ID 22, pursuant to Water Code sections 72700, *et seq.*; and

WHEREAS, in compliance with Proposition 218, the Otay Water District held the required public hearing on the new fees and changes for the parcels excluded from ID 19 and annexed into ID 22, if approved, at its September 4, 2013 Board meeting, where the Board determined that there were no protests regarding this action;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. That the Board of Directors, pursuant to Water Code sections 72700, *et seq.*, does hereby declare its intention to annex the parcels excluded from ID 19, if approved, into ID 22, as described in Exhibit “1”:

2. That the purpose of the proposed annexation, in conjunction with the exclusion of parcels from ID 19, is to streamline the accounting and tracking of parcels in IDs with the same availability charges and water rates and charges, thereby increasing efficiencies for the Otay Water District without resulting in any changes to the fees or charges imposed on property owners.

3. A depiction of the area proposed to be annexed, and the boundaries of IDs 19 and 22 following the annexation, is set forth on a map in Exhibit "1" filed with the Secretary of the District, which map shall govern for all details as to the area proposed to be annexed.

4. That the annexation of said parcels is subject to the owners complying with the following terms and conditions:

- (a) Payment of yearly assessment fees of \$30.00 per acre of land and \$10.00 per parcel of land less than one acre which will be collected through the County Tax Assessor's office.
- (c) In the event that water service is to be provided, the payment of all applicable water meter fees per Equipment Dwelling Unit (EDU) at the time the meter is purchased.
- (d) Payment of all other applicable local or state agency fees or charges.

5. That the holders of title to any of the parcels to be annexed may file written protests with the Secretary of the District regarding the annexation or the annexation upon the terms and conditions identified above, to the following address:

District Secretary
Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978

4. That notice is hereby given that a hearing shall be held by the Board on Wednesday, November 6, 2013, at 3:30 p.m. at which the Board will receive written protests theretofore filed with the Secretary of the District, receive additional written protests, and hear from any and all persons interested in the annexation.

BE IT FURTHER RESOLVED that the Board directs staff to provide notice of the proposed annexation and publish and post a copy of this Resolution of Intention to Annex pursuant to and consistent with Government Code section 6066 and Water Code sections 72702 and 72703.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

President

ATTEST:

District Secretary

EXHIBIT I



Id 19

Id 22

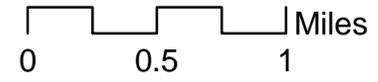
Id 05

Id 05

Id 22

Id 10

Id 10



RESOLUTION NO. 4222

A RESOLUTION OF THE BOARD OF DIRECTORS OF
OTAY WATER DISTRICT DECLARING ITS INTENTION TO
ANNEX PARCELS EXCLUDED FROM IMPROVEMENT
DISTRICT 25 INTO IMPROVEMENT DISTRICT 20

WHEREAS, on May 1st, 1978 by Resolution No. 1498, the Otay Water District Board of Directors (“Board”) formed Improvement District (“ID”) 25 for the purpose of incurring bonded indebtedness for the construction of a water transmission and distribution system; and

WHEREAS, on May 17th, 1971 by Resolution No. 880, the Board formed ID 20 for the purpose of incurring necessary bonded indebtedness for the acquisition, construction, and completion of water improvements and works; and

WHEREAS, the availability charges and water rates and charges are identical between IDs 25 and 20; and

WHEREAS, staff has determined that there is no longer a reason to separate these parcels; and

WHEREAS, by initiating proceedings to consolidate ID 25 into ID 20 it would streamline the accounting and tracking of these parcels; and

WHEREAS, the Board hereby declares its intention to annex parcels excluded from ID 20, if approved, into ID 25, pursuant to Water Code sections 72700, *et seq.*; and

WHEREAS, in compliance with Proposition 218, the Otay Water District held the required public hearing on the new fees and changes for the parcels excluded from ID 25 and annexed into ID 20, if approved, at its September 4, 2013 Board meeting, where the Board determined that there were no protests regarding this action;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. That the Board of Directors, pursuant to Water Code sections 72700, *et seq.*, does hereby declare its intention to annex the parcels excluded from ID 25, if approved, into ID 20, as described in Exhibit “1”:

2. That the purpose of the proposed annexation, in conjunction with the exclusion of parcels from ID 25, is to streamline the accounting and tracking of parcels in IDs with the same availability charges and water rates and charges, thereby increasing efficiencies for the Otay Water District without resulting in any changes to the fees or charges imposed on property owners.

3. A depiction of the area proposed to be annexed, and the boundaries of IDs 25 and 20 following the annexation, is set forth on a map in Exhibit "1" filed with the Secretary of the District, which map shall govern for all details as to the area proposed to be annexed.

4. That the annexation of said parcels is subject to the owners complying with the following terms and conditions:

- (a) Payment of yearly assessment fees of \$30.00 per acre of land and \$10.00 per parcel of land less than one acre which will be collected through the County Tax Assessor's office.
- (c) In the event that water service is to be provided, the payment of all applicable water meter fees per Equipment Dwelling Unit (EDU) at the time the meter is purchased.
- (d) Payment of all other applicable local or state agency fees or charges.

5. That the holders of title to any of the parcels to be annexed may file written protests with the Secretary of the District regarding the annexation or the annexation upon the terms and conditions identified above, to the following address:

District Secretary
Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, CA 91978

4. That notice is hereby given that a hearing shall be held by the Board on Wednesday, November 6, 2013, at 3:30 p.m. at which the Board will receive written protests theretofore filed with the Secretary of the District, receive additional written protests, and hear from any and all persons interested in the annexation.

BE IT FURTHER RESOLVED that the Board directs staff to provide notice of the proposed annexation and publish and post a copy of this Resolution of Intention to Annex pursuant to and consistent with Government Code section 6066 and Water Code sections 72702 and 72703.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

President

ATTEST:

District Secretary

EXHIBIT 1



Id 03

Id 03

Id 02

Id 20

Id 01

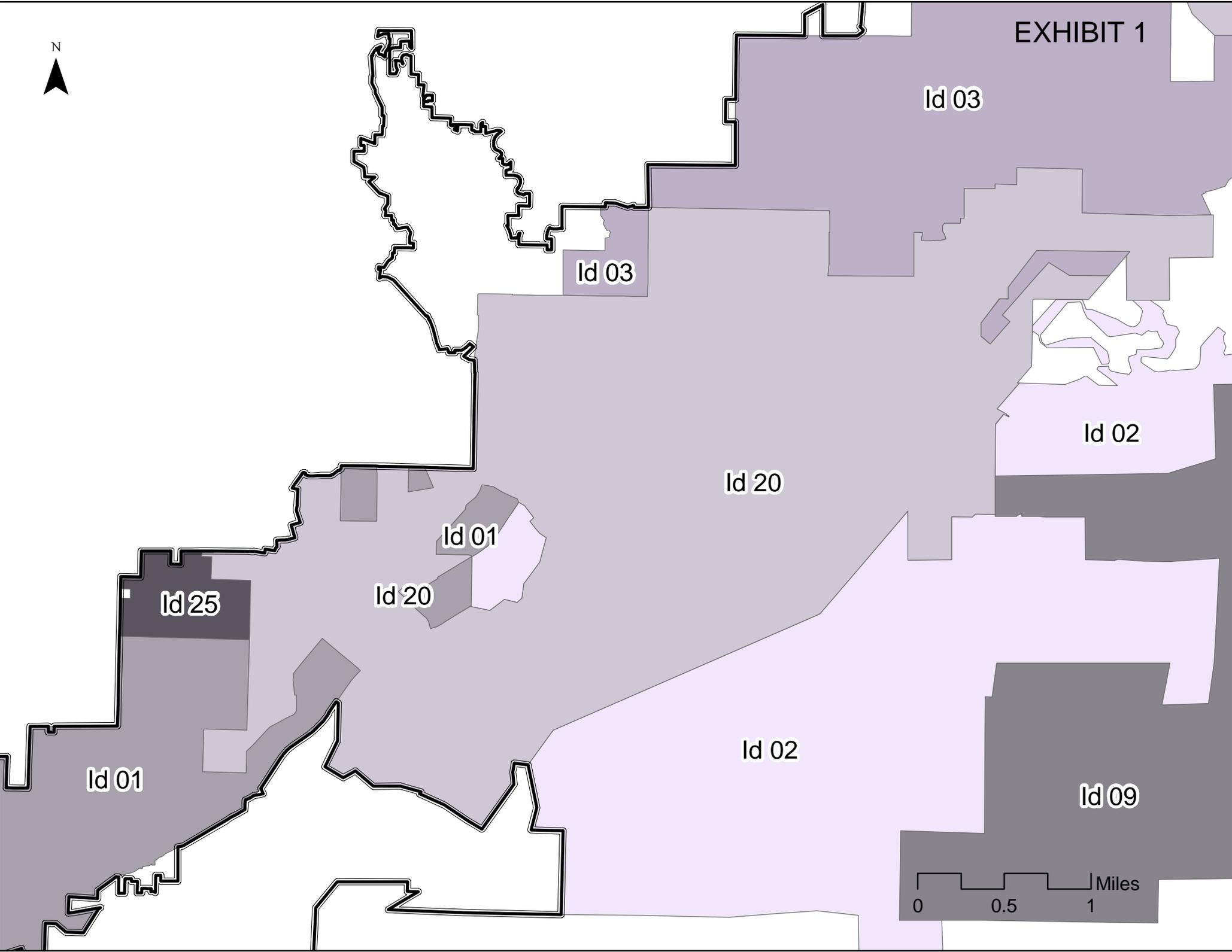
Id 25

Id 20

Id 02

Id 01

Id 09



AGENDA ITEM 7b



STAFF REPORT

| | | | | | |
|---------------|---|---------------|------------------|----------|-----|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 | | |
| SUBMITTED BY: | Jose Martinez, Utility Services Manager | PROJECT: | P2282 | DIV. NO. | ALL |
| APPROVED BY: | <input checked="" type="checkbox"/> Pedro Porras, Chief Water Operations <input checked="" type="checkbox"/> German Alvarez, Asst. General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | | | |
| SUBJECT: | Approval to Purchase Utility Crew Truck | | | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board authorize the General Manager to: 1) Issue a purchase order to Inland Kenworth in the amount of \$175,876.30 for the purchase of one (1) New Kenworth Utility Crew Truck and 2) declare Unit No. 111 Utility Crew Truck surplus.

COMMITTEE ACTION:

See Attachment "A".

PURPOSE:

To obtain Board authorization to purchase a Utility Crew Truck.

ANALYSIS:

Included in the approved FY 2014 budget is one (1) new Utility Crew Truck. The Utility Crew Truck is a replacement vehicle for existing Unit No. 111 and is scheduled to be utilized by the Utility Maintenance Staff.

The crew truck shown on Attachment "B" provides the Utility Maintenance crews with job site access to equipment such as the tools, parts, cranes, generators, air compressors and the safety equipment needed to perform repairs in a timely manner.

Additionally, the crew truck transports the District's heavy-construction equipment including backhoes, skid steers, shoring trailers, etc. The utility crew truck is the most utilized vehicle by the crews when performing the maintenance and repair of the District's infrastructure.

Unit No. 111 is a 1999 GMC C-8500 Class 8 Utility Crew Truck. This unit is 14 years old and has 72,100 chassis miles. Due to the nature of the vehicle's work the useful in-service life of this machine is 7-10 years. Funding for this purchase has been included in P2282 - Vehicle Replacement.

Based on system operation evaluations of work flow by the Construction/Maintenance supervision and management, it is recommended that one (1) new Kenworth Utility Crew Truck be purchased and the older utility truck be declared surplus. Staff evaluated alternative manufacturers and obtained recent pricing paid by other agencies for comparable units. Based on the information obtained it was determined that Kenworth was the one with the best value for the District, therefore, we solicited three quotes in accordance with District policy.

Quotes received include all applicable fees, taxes, and delivery.

| Dealer | Vehicle Bid | Quote Price |
|----------------------------|--|--------------|
| Inland Kenworth El Cajon | Kenworth T-370 Truck with Utility Body and Crane | \$175,876.30 |
| Summit Truck Bodies | Kenworth T-370 Truck with Utility Body and Crane | \$176,948.88 |
| Inland Kenworth Montebello | Kenworth T-370 Truck with Utility Body and Crane | \$179,352.82 |

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

Projected purchase budget for this vehicle is \$170,000.00 The purchase of this vehicle will cost \$175,876.30 which will be charged against the Vehicle Replacement CIP P2282. As a result of savings in the actual costs of replacement of other CIP budgeted items, and the elimination of two replacement vehicles that are no longer required due to staffing needs, the total

projected expenses for this fiscal year will be under the the approved budget amount.

The total FY 2014 project budget for vehicle replacements is \$632,200.00. Existing expenditures and current encumbrances for the CIP, including the vehicle purchased under this request if approved, are \$579,994.63. This will complete the purchases for vehicle replacements for this fiscal year.

Based on the Utility Service Manager's evaluation, the FY 2014 vehicle replacement budget is sufficient to complete the budgeted purchase.

The Finance Department has determined that 100% of the funds are available in the replacement fund.

Expenditure Summary:

| | |
|---|--------------|
| FY14 Vehicle Replacement Budget: | \$632,200.00 |
| FY13 Expenditures and Encumbrances to Date: Vehicle Replacement of existing fleet. | \$366,118.33 |
| Scheduled Vehicle Replacement: | \$38,000.00 |
| Proposed Vehicle Purchase: | \$175,876.30 |
| Projected Expenditures of Vehicle Replacement FY12 CIP 2282 Budget: | \$579,994.63 |

STRATEGIC GOAL:

Operate the system to meet demand twenty-four-hours a day, seven days a week.

LEGAL IMPACT:

None.

General Manager

Attachment "A", Committee Action
Attachment "B", Utility Crew Truck Photo



ATTACHMENT A

| | |
|-------------------------|---|
| SUBJECT/PROJECT: | Approval to Purchase Utility Crew Truck |
|-------------------------|---|

COMMITTEE ACTION:

The Finance, Administration and Communications Committee reviewed this item at a meeting held on October 22, 2013 and the following comments were made:

- Staff indicated that the crew truck shown in Attachment "B" to staffs' report provides the Utility Maintenance crews with job site access to equipment, such as, tools, parts, cranes, generators, air compressors and the safety equipment needed to perform repairs in a timely manner. Additionally, the crew truck transports the District's heavy construction equipment including backhoes, skid steers, shoring trailers, etc. The Utility Crew Truck is the most utilized vehicle by the crews when performing maintenance and repair of the District's infrastructure.
- Staff evaluated alternative manufacturers and obtained recent pricing paid by other agencies for comparable units. Based on the information obtained it was determined that Kenworth was the best value for the District, therefore three quotes were solicited for a Kenworth Utility Crew Truck in accordance with the District's policy.
- Staff is recommending that the board approve the issuance of a purchase order to Inland Kenworth in the amount of \$175,876.30 for the purchase of one (1) New Kenworth Utility Crew Truck and declare Unit No. 111 Utility Crew Truck as surplus. The purchase of this vehicle is approved in the FY 2014 Budget.
- In response to an inquiry from the committee, staff indicated that the vehicle would be disposed of at auction and it is estimated that it would be sold for approximately \$10,000.
- It was indicated that the vehicle has an emission package added on for about \$12,000. The package includes a tank which holds a urea solution which works in the catalytic process to reduce the pollutants released into the atmosphere.

- In response to another inquiry from the committee, staff indicated that the District has offered surplus equipment for purchase to the agencies in Mexico, however, there is difficulty in their importing the equipment over the border. Mexico had purchased a generator from the District several years ago and they needed to handle the import restrictions before they could bring the generator over the border.

Following the discussion, the committee supported staffs' recommendation and presentation to the full board as a consent item.

ATTACHMENT B





STAFF REPORT

| | | | |
|---------------|--|---------------|---------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| | | PROJECT: | Various DIV.NO. All |
| SUBMITTED BY: | Stephen Dobrawa Purchasing and Facilities Manager | | |
| | Dan Martin Engineering Manager | | |
| APPROVED BY: | <input checked="" type="checkbox"/> Rom Sarno, Chief, Administrative Services <input checked="" type="checkbox"/> Rod Posada, Chief, Engineering <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | REQUEST AUTHORIZATION FOR THE GENERAL MANAGER TO DECLARE AND DISPOSE OF SURPLUS REAL ESTATE PROPERTY | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board declare the 2.41-acre parcel on Sweetwater Springs Blvd. (APN 505-230-51-00) as surplus and authorize the General Manager to dispose of the declared property in accordance with applicable statutes and laws in the best interest of the District.

COMMITTEE ACTION:

See "Attachment A".

PURPOSE:

To request that the Board declare real property as surplus to the District's needs and authorize the General Manager to dispose of the property.

ANALYSIS:

APN 505-230-51-00

During the September 4, 2013 Board meeting, a request to have the Board



ATTACHMENT A

| | |
|-------------------------|--|
| SUBJECT/PROJECT: | REQUEST AUTHORIZATION FOR THE GENERAL MANAGER TO DECLARE AND DISPOSE OF SURPLUS REAL ESTATE PROPERTY |
|-------------------------|--|

COMMITTEE ACTION:

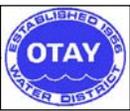
The Finance, Administration and Communications Committee reviewed this item at a meeting held on October 22, 2013 and the following comments were made:

- Staff is recommending that the Board declare the 2.41 acre parcel located on Sweetwater Springs Boulevard (APN: 505-230-51-00) as surplus and authorize the disposal of the declared property in accordance with applicable statutes and laws in the best interest of the District.
- This item was presented at the October board meeting and the board requested that staff contact the adjoining property owners who have expressed interest in acquiring the property before the property is declared surplus.
- Since the board meeting, staff has contacted the adjoining property owners and has received e-mail verifications and they do not have any objections to the District's intent to declare the property surplus and that the owners of the apartment complex have indicated their interest in purchasing the parcel.
- Staff explained that the apartment owners and the HOA on the adjacent properties wish a secondary access to their properties. The apartment owners have the funds to purchase the District's parcel and have indicated their intention to do so, if possible. There have been discussions between the apartment complex owner and the HOA to work out an agreement to provide a secondary access to the HOA's community. The secondary access would provide for an additional emergency entrance for both the apartment complex and the HOA community for public safety. Currently, there is only one entry point for both communities.
- Staff noted that the District would need to have the District's parcel appraised and must first offer the parcel to other local agencies as per statute. If there is no interest from the local

agencies, the parcels will be disposed of in the best interest of the District.

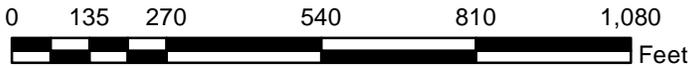
- In response to a comment from the committee in how to assure that the apartment complex and HOA work out an agreement, staff indicated that possibly an easement could be recorded on the property for the secondary access for the HOA at the time the sale documents are recorded. This is something that could be negotiated at the time of the sale.

Following the discussion, the committee supported staffs' recommendation and presentation to the full board as a consent item.

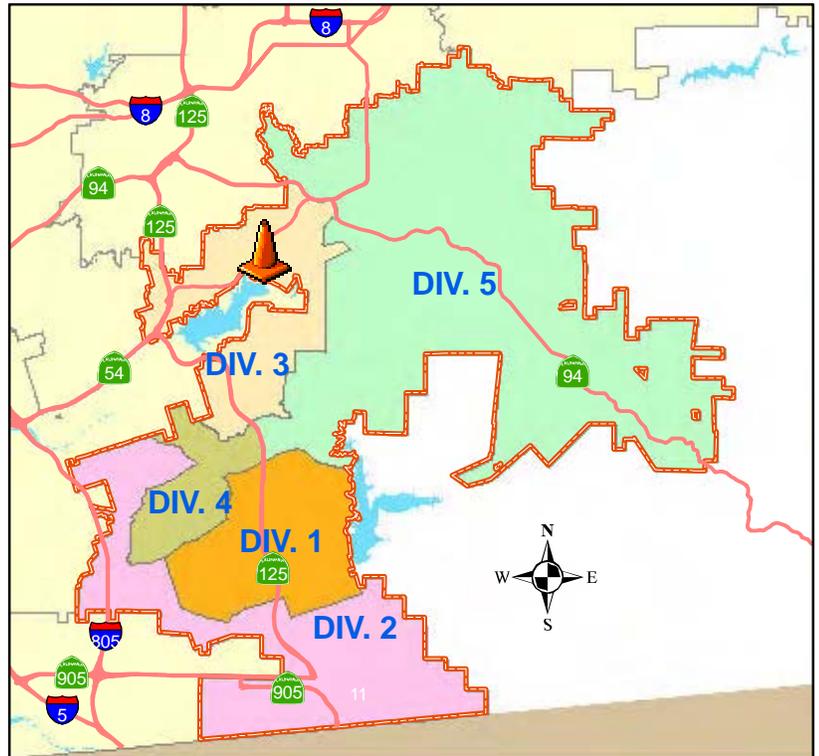


Attachment B - Map 1

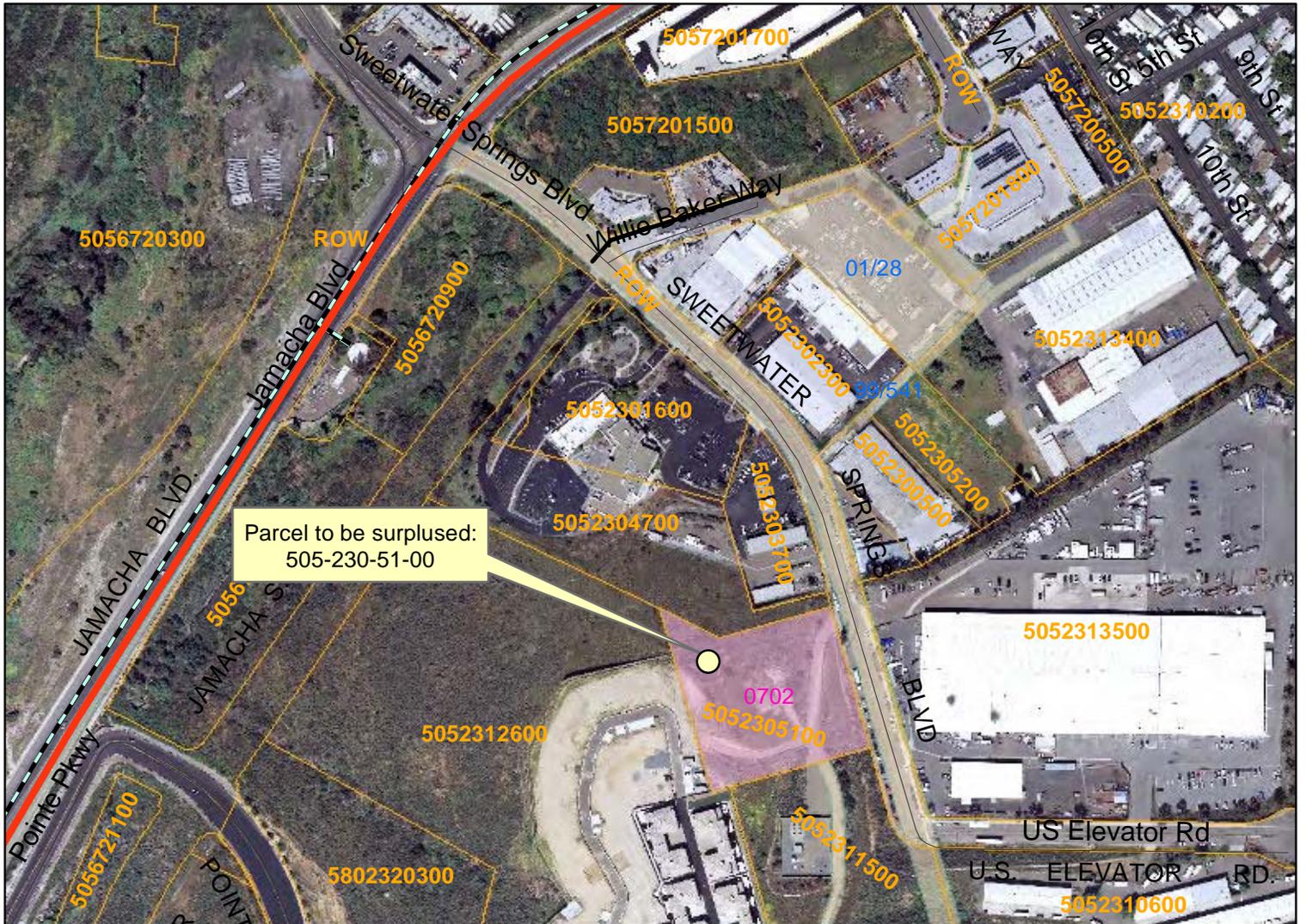
DEVELOPER: N/A
PROJECT#: N/A
APN: 505-230-51-00
AREA: 2.41 ACRES
PROPERTY LOCATION: On Sweetwater Springs Blvd near US Elevator Road, Spring Valley
OWNER: OTAY WATER DISTRICT
DIR: DIV. 3
WID: ID 20
DATE: 6/26/2013



VICINITY MAP



LOCATION MAP



AGENDA ITEM 7d



STAFF REPORT

| | | | |
|---------------|--|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| SUBMITTED BY: | Mark Watton, General Manager | PROJECT: | DIV. NO. ALL |
| SUBJECT: | Approve Agreement for General Counsel Services | | |

GENERAL MANAGER'S RECOMMENDATION:

Approve an agreement with the law firm of Stutz, Artiano, Shinoff and Holtz, A Professional Corporation, for a term of two (2) years through December 31, 2015, to provide general counsel services to the District.

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

To present for the Board's consideration an agreement with the law firm of Stutz, Artiano, Shinoff and Holtz, A Professional Corporation, for a term of two (2) years through December 31, 2015, to provide general counsel services to the District.

ANALYSIS:

Stutz, Artiano, Shinoff and Holtz, A Professional Corporation (SASH), has served as the District's special counsel since January 1, 2011. The District's current contract with SASH was for a two-year period and is set to expire at the end of calendar year 2013.

The District has been happy with the services SASH has provided and is recommending that the board approve the proposed agreement as per the terms indicated in the agreement (Attachment B). If approved, the agreement would provide for a two (2) year term expiring on December 31, 2015.

FISCAL IMPACT:

Joe Beachem, Chief Financial Officer

The agreement allows for one hundred (100) hours or \$20,000 per calendar month of basic retainer services as described in the attached agreement. Additional services, as described in Section 4.b of the agreement, and time in excess of the one hundred (100) hours will be compensated on an hourly basis based on the rates noted in the agreement.

LEGAL IMPACT:

None.

Attachments:

- Attachment A - Committee Actions
- Attachment B - Proposed Legal Services Agreement



ATTACHMENT A

| | |
|------------------|--|
| SUBJECT/PROJECT: | |
|------------------|--|

COMMITTEE ACTION:

The Finance, Administration and Communications Committee reviewed this item at a meeting held on October 22, 2013 and the following comments were made:

- The District's two-year agreement with Stutz Artiano Shinoff and Holtz (SASH) will expire at the end of the year.
- General Counsel is appointed by the Board of Directors.
- Staff has had a successful relationship with SASH and has been happy with their work.
- Staff recommends that the board approve a new two-year agreement with SASH.

Following the discussion, the committee supported staffs' recommendation and presentation to the full board as a consent item.

LEGAL SERVICES AGREEMENT

1. IDENTIFICATION OF PARTIES. This Agreement, executed in duplicate with each party receiving an executed original, is made between Stutz Artiano Shinoff & Holtz, A Professional Corporation, hereinafter referred to as "Law Firm" and Otay Water District, hereinafter referred to as "Client." This Agreement is entered into beginning the month of January, 2014, for legal services. The agreement is made for a term of two years up to and including December 31, 2015. The Client and Law Firm will hold an annual review in 2014 regarding expectations, performance, and other issues impacting the Client and Law Firm under this agreement.

2. LEGAL SERVICES TO BE PROVIDED. The legal services to be provided by Law Firm to Client are as follows:

Representation, counsel and consultation in connection with Client's general counsel needs; human resources, legal support including review of policies and procedures, contract review; preparation and participation in monthly Board meetings and special meetings ("Services").

Without limiting the generality of the foregoing, this Agreement shall govern so long as Client desires to retain the Law Firm in connection with Services.

3. RESPONSIBILITIES OF LAW FIRM AND CLIENT. Law Firm will perform the services called for under this Agreement, keep Client informed of progress and developments, and respond promptly to Client's inquiries and communications. Daniel R. Shinoff and Jeffery A. Morris are intended to be the Law Firm attorneys primarily responsible for the consultation and representation. Client will cooperate with the Law Firm in the representation set forth herein, and will timely make any payments required by this Agreement.

4. ATTORNEY'S FEES. Client will pay Law Firm for attorneys' fees for the consultation and legal services provided under this Agreement as follows:

A. Basic Retainer. Law Firm shall be compensated for the performance of basic retainer services pursuant to this Agreement in the amount of Twenty Thousand Dollars (\$20,000) per calendar month commencing as of the effective date of this Agreement. Basic retainer services for the purposes of this Agreement shall be deemed to be the first one hundred (100) hours of Law Firm's legal services rendered each month.

B. Additional Services. Law Firm shall be compensated for additional services in accordance with the following:

1. As directed by the General Manager or Board President;
2. PERB hearings, writs of mandate, or other litigated matters not covered by insurance;

3. Other complex matters, employment, personnel matters, or special projects with the approval of the General Manager or Board President.

Additional services and time in excess of the one hundred (100) hours per calendar month spent by Law Firm's Attorneys, Law Firm shall be compensated on an hourly basis at \$240.00 per hour for partners, \$210.00 per hour for associates, and \$95.00 per hour for paralegals. The Law Firm will charge in increments of one-tenth of an hour, rounded off for each particular activity to the nearest one-tenth of an hour. The minimum time charged for any particular activity will be one-tenth of an hour.

Law Firm will charge for all activities undertaken in providing consultation and legal services to Client under this Agreement, including, but not limited to, the following: time spent formulating and dispensing legal advice and opinions; negotiation; gathering relevant information; conferences; correspondence and legal documents (review and preparation); legal research; and telephone conversations.

Client acknowledges that Law Firm has made no promises about the total amount of attorneys' fees to be incurred by Client under this Agreement.

5. COSTS. Client will pay all "costs" in connection with Law Firm's representation of Client under this Agreement. Costs will be billed directly to Client unless, at the option of Law Firm, costs are advanced by Law Firm. Costs include, but are not limited to, long-distance telephone charges, messenger service fees, photocopying expenses, as well as any other items generally accepted as "costs."

6. STATEMENTS AND PAYMENTS. Law Firm will send Client monthly statements indicating attorneys' fees and costs incurred and their basis, any amounts applied from deposits, and any current balance owed. If no attorney's fees or costs are incurred for a particular month, or if they are minimal, the statement may be held and combined with that for the following month. Any balance will be paid in full within thirty (30) days after the statement is mailed.

7. MEDIATION CLAUSE. Client and Law Firm are agreeing to have any and all disputes (except where Client may request arbitration of a fee dispute by the State Bar) that arise out of, or relate to this Agreement, including but not limited to claims of negligence or malpractice arising out of or relating to the legal services provided by Law Firm to Client, go to mediation before the filing of any civil proceeding. Client, however, may request arbitration of a fee dispute by the State Bar or San Diego County Bar Association as provided by Business and Professions Code Section 6200, et seq.

8. ERRORS AND OMISSIONS INSURANCE. The Law Firm maintains errors and omissions insurance coverage applicable to the services to be rendered under this Agreement.

9. TERMINATION. The Client or the Law Firm may, at any time, with or without reason, terminate this Agreement upon thirty (30) days prior written notice to the other party. In the event of termination, the Law Firm shall be entitled to payment only for acceptable and allowable work performed under this Agreement through the date of termination.

THE FOREGOING IS AGREED TO BY:

DATED: _____

OTAY WATER DISTRICT

By: _____

Mark Watton
General Manager

DATED: _____

STUTZ ARTIANO SHINOFF & HOLTZ
A Professional Corporation

By: _____

Jeffery A. Morris, Esq.
Partner



STAFF REPORT

| | | | |
|---------------|---|---------------|---|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| SUBMITTED BY: | Dan Martin Engineering Manager | FILE NO: | 0210- DIV. NO. 5 20.307 |
| APPROVED BY: | <input checked="" type="checkbox"/> Rod Posada, Chief, Engineering <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | St. Gregory of Nyssa Greek Orthodox Church Sewer Annexation to Improvement District No. 18 (APNs 498-320-04-00 and 498-320-45-00) | | |

GENERAL MANAGER'S RECOMMENDATION:

Adopt Resolution No. 4223 approving the annexation of the property owned by St. Gregory of Nyssa Greek Orthodox Church to Improvement District (ID) No. 18 (see Exhibit A for Location Map).

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

The proposed annexation is to provide sewer service to parcels located at 1454 Jamacha Road, in an unincorporated area of the County of San Diego (APNs 498-320-04-00 and 498-320-45-00).

ANALYSIS:

A written request and Petition signed by St. Gregory of Nyssa Greek Orthodox Church, c/o Mr. Charles George, has been received for annexation of APNs 498-320-04-00 and 498-320-45-00, located at 1454 Jamacha Road, in an unincorporated area of the County of San Diego, for sewer service. The total acreage to be annexed is 1.739 acres. The property is within the jurisdictional boundary of the Otay Water District and following the Board's approval, it will become part of ID No. 18.

The parcels are fronted by the District's sewer main that exists within the Rancho San Diego Basin. Sewer laterals exist to

serve the parcels, but have not been connected to date, since the properties have been served by private septic systems. As part of the Church's construction under permit with the County of San Diego, the County has required that the properties be tied into the District's sewer system. These parcels are part of the District's Wastewater Master Plan.

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

The property owners will pay the District's annexation processing fee of \$751.88, sewer annexation fees in effect at the time the sewer service is provided (current fee is \$5,743.84 per EDU), any additional fees including the \$30 per year availability fee as established in the attached Resolution.

STRATEGIC GOAL:

Provide enhanced sewer service to meet customer needs.

LEGAL IMPACT:

No legal impact.

DM/RP:tc

Y:\Board\CurBdPkg\ENGRPLAN\2014\BD 11-06-13\St Gregory of Nyssa Greek Orthodox Church Sewer Annexation\Staff Report, Sewer Annexation ID 18- St Gregory of Nyssa Greek Orthodox Church.doc

- Attachments: Attachment A - Committee Action
 Attachment B - Resolution No. 4223
 Exhibit A - Location Map



ATTACHMENT A

| | |
|--|---|
| SUBJECT/PROJECT: 0210-20.307 | St. Gregory of Nyssa Greek Orthodox Church Sewer Annexation to Improvement District No. 18 (APNs 498-320-04-00 and 498-320-45-00) |
|--|---|

COMMITTEE ACTION:

The Engineering, Operations, and Water Resources Committee reviewed this item at a meeting held on October 23, 2013 and the following comments were made:

- Staff is requesting that the board adopt Resolution No. 4223 to approve the annexation of the property identified by APN Nos. 498-320-04-00 and 498-320-45-00 into Otay's Improvement District No. 18 for sewer service.
- The property is owned by St. Gregory of Nyssa Greek Orthodox Church and the total acreage to be annexed is 1.739 acres. The owner(s) will pay all necessary fees to hook to the District's sewer system following approval of their request.
- Staff indicated that Parcel 498-320-04-00 is currently served with potable water from the District and that both parcels have been served by private septic systems.
- It was noted that as part of the Church's construction under permit with the County of San Diego, the County has required that the properties be tied into the District's sewer system.

Following the discussion, the committee supported staffs' recommendation and presentation to the board on the consent calendar.

RESOLUTION NO. 4223

A RESOLUTION OF THE BOARD OF DIRECTORS OF OTAY WATER DISTRICT APPROVING THE ANNEXATION OF THOSE LANDS DESCRIBED AS "ST. GREGORY OF NYSSA GREEK ORTHODOX CHURCH SEWER ANNEXATION" TO IMPROVEMENT DISTRICT NO. 18
(APNS: 498-320-04-00 AND 498-320-45-00)

WHEREAS, a letter has been submitted by ST. GREGORY OF NYSSA GREEK ORTHODOX CHURCH, C/O CHARLES GEORGE, the owners and party that has an interest in the land described in Exhibit "A," attached hereto, for annexation of said land to Otay Water District Improvement District No. 18 pursuant to California Water Code Section 72670 et seq.; and

WHEREAS, pursuant to Section 72680.1 of said Water Code, the Board of Directors may proceed and act thereon without notice and hearing.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE OTAY WATER DISTRICT FINDS, RESOLVES, ORDERS AND DETERMINES as follows:

1. A depiction of the area proposed to be annexed, and the boundaries of ID 18 following the annexation, is set forth on a map in Exhibit "B" filed with the Secretary of the District, which map shall govern for all details as to the area proposed to be annexed.

2. The purpose of the proposed annexation is to make sewer service available to the area to be annexed, which availability constitutes a benefit to said area.

3. The Board finds and determines that the area proposed to be annexed to ID 18 will be benefited by such annexation and that the property currently within ID 18 will also be benefited and not injured by such annexation because after the annexation a

larger tax base will be available to finance the water facilities and improvements of ID 18.

4. The Board of Directors hereby declares that the annexation of said property is subject to the owners complying with the following terms and conditions:

(a) The petitioners for said annexation shall pay to Otay Water District the following:

- (1) The annexation processing fee at the time of application;
- (2) State Board of Equalization filing fees in the amount of \$350;
- (3) The current sewer annexation cost is \$5,743.84 per EDU; however, this fee changes quarterly subject to the Engineering-News Record (ENR) and will be determined at the time of connection to the District's system;
- (4) Yearly assessment fees will be collected through the County Tax Assessor's office in the amount of \$30 for APNs 498-320-04-00 and 498-320-45-00;
- (5) In the event that water service is to be provided, Petitioners shall pay all applicable water meter fees per Equipment Dwelling Unit (EDU) at the time the meter is purchased; and

(6) Payment by the owners of APNs 498-320-04-00 and 498-320-45-00 of all other applicable local or state agency fees or charges.

(b) The property to be annexed shall be subject to taxation after annexation thereof for the purposes of the improvement district, including the payment of principal and interest on bonds and other obligations of the improvement district, authorized and outstanding at the time of annexation, the same as if the annexed property had always been a part of the improvement district.

5. The Board hereby declares the property described in Exhibit "A" shall be considered annexed to ID 18 upon passage of this resolution.

6. The Board of Directors further finds and determines that there are no exchanges of property tax revenues to be made pursuant to California Revenue and Taxation Code Section 95 et seq., as a result of such annexation.

7. The annexation of APNs 498-320-04-00 and 498-320-45-00 to the District's Improvement District 18 is hereby designated as the "ST. GREGORY OF NYSSA GREEK ORTHODOX CHURCH SEWER ANNEXATION".

8. Pursuant to Section 57202(a) of the Government Code, the effective date of the ST. GREGORY OF NYSSA GREEK ORTHODOX CHURCH SEWER ANNEXATION shall be the date this Resolution is adopted by the Board of Directors of the Otay Water District.

9. The General Manager of the District and the Secretary of the District, or their respective designees, are hereby ordered to take all actions required to complete this annexation.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 6th day of November, 2013.

President

ATTEST:

District Secretary

EXHIBIT "A"

**LEGAL DESCRIPTION
PARCEL "A" (LOTS 1 AND 2)**

ALL THAT PORTION OF THE NORTHEAST QUARTER OF SECTION 24, TOWNSHIP 16 SOUTH, RANGE 1 WEST, SAN BERNARDINO BASE AND MERIDIAN, IN THE COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO THE OFFICIAL PLAT THEREOF MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHEAST CORNER OF SAID SECTION 24; THENCE,

COURSE 1: SOUTH 00°01' 00" EAST 589.19 FEET

ALONG THE EAST LINE THEREOF, ALSO BEING THE CENTERLINE OF JAMACHA ROAD, (ALSO KNOWN AS R.S. 322-A AND R.S. 632), BEING THE TRUE POINT OF BEGINNING, ALSO BEING THE NORTHEAST CORNER OF THAT PARCEL OF LAND DESCRIBED IN THAT CERTAIN QUIT CLAIM DEED TO JOSEPH S. SWITZER, ET UX, RECORDED JUNE 29, 1960 UNDER DOCUMENT NO. 131906 OF OFFICIAL RECORDS; THENCE,

COURSE 2: SOUTH 00° 01' 00" EAST 282.08 FEET

ALONG SAID EASTERLY LINE OF SECTION 24 AND CENTERLINE OF JAMACHA ROAD, TO THE POINT OF INTERSECTION WITH THE NORTHERLY LINE OF THE LAND DESCRIBED IN DEED TO WILLIS J. FOSS, RECORDED NOVEMBER 18, 1889 IN BOOK 154, PAGE 405 OF DEEDS; THENCE;

COURSE 3: NORTH 89°59' 00" WEST 312.95 FEET

ALONG SAID NORTHERLY LINE OF SAID WILLIS J. FOSS PARCEL; THENCE,

COURSE 4: NORTH 00° 01' 00" WEST 294.10 FEET

ALONG A LINE PARALLEL WITH AND 312.95 FEET DISTANT FROM THE CENTERLINE OF SAID JAMACHA ROAD; TO THE POINT OF INTERSECTION WITH THE NORTHERLY LINE OF SAID JOSEPH S. SWITZER, ET UX, PARCEL; THENCE,

COURSE 5: SOUTH 87°47' 01" EAST 313.19 FEET

ALONG THE NORTHERLY LINE OF SAID JOSEPH S. SWITZER, ET UX PARCEL TO THE POINT OF INTERSECTION WITH SAID EASTERLY LINE OF SECTION 24 AND CENTERLINE OF JAMACHA ROAD AND THE TRUE POINT OF BEGINNING.

EXCEPTING THEREFROM THE EASTERLY 51 FEET.

SAID PARCEL CONTAINS 75,739 SQ. FT., (1.739 ACRE) MORE OR LESS.



[Handwritten signature]
10/18/2013

PLAT

COUNTY OF SAN DIEGO
DEPARTMENT OF PLANNING AND LAND USE
5201 RUFFIN ROAD, SUITE B, SAN DIEGO, CA 92123-1666

SCALE 1"= 80' (e.g. 1"=200')
ZONING: RR2 (MIN. LOT SIZE: 2.0 ACRE)

PARCEL "A" 75,739 SQ. FT.
NET AC: 1.739 ACRES
APN NO(S):

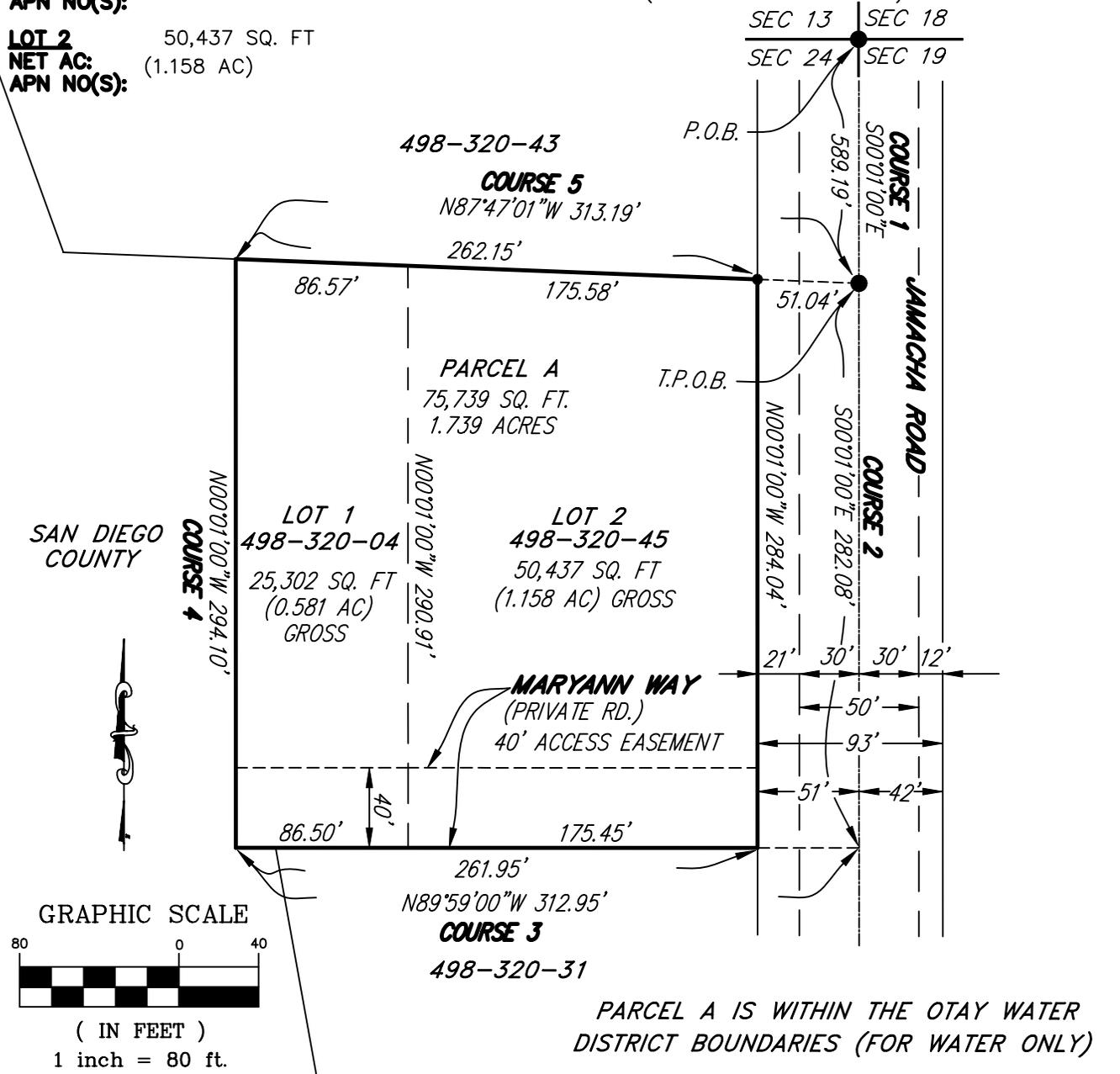
LOT 1 25,302 SQ. FT.
NET AC: (0.581 AC)
APN NO(S):

LOT 2 50,437 SQ. FT.
NET AC: (1.158 AC)
APN NO(S):

LEGAL:

PORTION OF NE1/4, SECTION 24, T16S, R1W, SAN BERNADINO BASE AND MERIDIAN, ALL IN THE COUNTY OF SAN DIEGO, STATE OF CALIFORNIA.

ZONING: RR2 (RURAL RESIDENTIAL)



DATE FILED _____
REC'D BY: _____

PRELIMINARY ACTION DATE: _____
SIGNED BY: _____

FINAL ACTION DATE: _____
SIGNED BY: _____

PLAT NO. _____

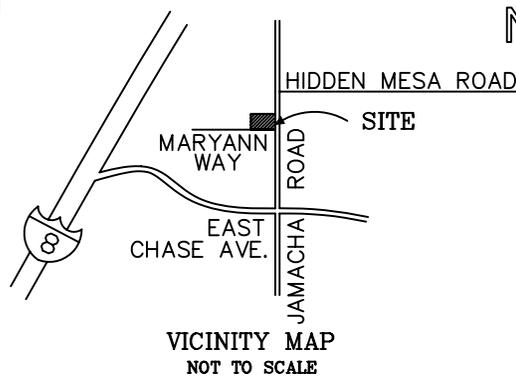
HEALTH DEPARTMENT CERTIFICATION (if nec.)



NOTE:
Proposed Boundary: _____
Existing Boundary: _____
Different Zones: _____

- CHECKLIST**
- Fill in all names above
 - Vicinity map/Engr. scale
 - Legal description (abbrev)
 - Label Parcel "A", etc.
 - All owners must sign
 - Sign as Trustee if Trust
 - Parcel(s) net area only
 - Parcel(s) dimensions
 - Existing structures
 - Structure setback*
 - *(if less than 100')
 - Street name & width
 - Dedicated Open Space
 - No utility easements
 - No bearing/curve data

OPTIONAL USE AREA: Vicinity map, details, License Seal Stamp, etc.



PARCEL A OWNER(S) SAINT GREGORY OF NYSSA GREEK ORTHODOX CHURCH **PARCEL B OWNER(S)** N/A

ADDRESS 1454 JAMACHA ROAD **ADDRESS** _____

CITY EL CAJON **ZIP** 92019 **PHONE** 619-249-7871 **CITY** _____ **ZIP** _____ **PHONE** _____

THIS PLAT WAS PREPARED WITH MY/OUR KNOWLEDGE AND CONSENT: Owner(s) sign here
(Print name here) PETER SHENAS (AGENT FOR)
SAINT GREGORY OF NYSSA GREEK ORTHODOX CHURCH

PARCEL C OWNER(S) RUDY P. PACHECO **MAP PREPARED BY:(SIGN)** _____ **RE/LS#** LS 5717
(or Applicant) (print name here) RUDY P. PACHECO

ADDRESS 1919 GRAND AVE., SUITE 1G **ADDRESS** 1919 GRAND AVE., SUITE 1G

CITY SAN DIEGO, CA **ZIP** 92109 **PHONE** 858-483-6665 **CITY** SAN DIEGO, CA **ZIP** 92109 **PHONE** 858-483-6665

AGENDA ITEM 7f



STAFF REPORT

| | | | |
|---------------|---|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| SUBMITTED BY: | Jeff Marchioro Senior Civil Engineer | PROJECT: | P1043- 008000 |
| | Bob Kennedy Engineering Manager | DIV. NO. | ALL |
| APPROVED BY: | <input checked="" type="checkbox"/> Rod Posada, Chief, Engineering <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | Award of a Professional Engineering Services Contract to HDR Engineering, Inc. for Corrosion Engineering Services in support of the District's Cathodic Protection Program | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Otay Water District (District) Board of Directors (Board) award a professional services contract to HDR Engineering, Inc. (HDR) and authorize the General Manager to execute an agreement with HDR for corrosion engineering services in support of the District's Cathodic Protection Program for Fiscal Years 2014, 2015, and 2016 (ending December 31, 2015) in an amount not-to-exceed \$684,750.

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

To obtain Board authorization for the General Manager to enter into a professional engineering services contract with HDR for corrosion engineering services in support of the District's Cathodic Protection Program for Fiscal Years 2014, 2015, and 2016 (ending December 31, 2015) in an amount not-to-exceed \$684,750.

ANALYSIS:

The District's Cathodic Protection Program (Program) was implemented more than a decade ago to provide the long-term benefit of preserving the life expectancy of steel pipeline and reservoir facilities by preventing corrosion and reducing the risk of costly failures. The Program includes the selection of appropriate corrosion resistant materials, the use of coatings and linings to prevent corrosion, and cathodic protection. The Cathodic Protection Program also ensures that all facilities are consistently designed, specified, constructed, and tested in accordance with the District's corrosion control standards.

The District has regularly awarded two-year duration professional services contracts in support of the District's Cathodic Protection Program. V&A Consulting Engineers (V&A) held the most recent contract from June 11, 2011 to September 30, 2013. Schiff & Associates (Schiff), which was acquired by HDR Engineering, Inc. (HDR) in 2011, held the previous contract from November 2009 to June 2011. Previous contracts were also held by DeC Consulting Inc. which was acquired by V&A in 2007. The general scope of work for the new contract includes the following items:

- Annual maintenance and improvements to the District's Corrosion Control Program Annual Report.
- Annual testing of 88 existing steel pipeline cathodic protection systems.
- Annual testing and inspection of 29 existing steel reservoir cathodic protection systems.
- Reservoir in-service inspections including interior underwater dive inspections, interior above-water raft inspections, and exterior inspections.
- Reservoir coating construction project inspection.
- As-Needed Corrosion Engineering Services.

The new contract will also include As-Needed Corrosion Engineering services to provide the District with the ability to obtain consulting services in a timely and efficient manner and on an as-needed basis. The District will issue task orders to the consultant for specific projects during the contract period. The consultant will prepare a detailed Scope of Work, schedule, and cost estimate for each task order assigned under the contract. Upon written task order authorization from the District, the consultant shall then proceed with the project as described in the Scope of Work.

The anticipated CIP projects that are estimated to require corrosion engineering design services for the duration of this contract are listed below:

| CIP | DESCRIPTION | ESTIMATED COST |
|---------------|--|-----------------------|
| P2507 | East Palomar Street Utility Relocation | \$10,000 |
| P2508 | Pipeline Cathodic Protection Replacement Program | \$125,000 |
| P2513 | 12-Inch Potable Water Pipeline East Orange Avenue Bridge, I-805 Crossing | \$10,000 |
| P2529 | 711-2 Reservoir Interior & Exterior Coating | \$5,000 |
| P2530 | 711-1 Reservoir Interior & Exterior Coating | \$5,000 |
| P2531 | 944-1 Reservoir Interior & Exterior Coating | \$5,000 |
| P2532 | 944-2 Reservoir Interior & Exterior Coating | \$5,000 |
| P2541 | 624 Pressure Zone PRSs | \$5,000 |
| P2542 | 850-3 Reservoir Interior Coating | \$5,000 |
| R2091 | 927-1 (944-1R) Pump Station Upgrade and System Enhancements | \$5,000 |
| TOTAL: | | \$180,000 |

The corrosion engineering design scopes of work for the above projects are estimated from preliminary information and past projects. Therefore, staff believes that a \$200,000 cap on the As-Needed Engineering Design Services contract is adequate, while still providing additional capacity for unforeseen support needs by the District.

The As-Needed Engineering Design Services portion of this contract does not commit the District to any expenditure until a task order is approved to perform work on a CIP project. The District does not guarantee work to the consultant, nor does the District guarantee that it will expend all of the funds authorized by the contract on professional services.

In accordance with the Board of Directors Policy Number 21, the District initiated the consultant selection process on August 2, 2013, by placing an advertisement in the San Diego Daily Transcript, and posting the Project on the District's website for Professional Engineering Services. The advertisements attracted Letters of Interest and Statements of Qualifications from eight (8) consulting firms. A Pre-Proposal Meeting was held on August 20, 2013. Ten (10) people representing six (6) prime consulting firms attended the meeting.

On August 30, 2013, proposals were received from the following four (4) consulting firms:

1. Corrpro Companies
2. HDR Engineering
3. JDH Corrosion Consultants
4. V&A Consulting Engineers

Among the potential engineering firms that submitted letters of interest but did not propose were Lockwood, Andrews & Newnam (LAN), Russell Corrosion Consultants, Universal Technical Resource Services, and R.F. Yeager.

After the proposals were evaluated and ranked by a five-member review panel consisting of District Engineering, Operations and I.T. staff, it was determined that all proposals ranked sufficiently close to warrant being invited to make an oral presentation and respond to questions from the panel. After conducting the interviews on September 26, 2013, the panel completed the consultant ranking process and concluded that HDR had the best approach to the Project and provided the best overall value to the District. Staff contacted references for the two firms with the highest scores (HDR and Corrpro Companies). HDR's references were excellent. A summary of the complete evaluations is shown in Exhibit A.

Scope and fee negotiations with HDR concluded on September 26, 2013 and resulted in a fee decrease of \$165,505 to their original proposed fee of \$850,255. HDR's revised proposed fee was \$684,750. Staff reviewed each of HDR's scope and fee adjustments and concluded that each modification was fair and insignificant to the outcome of the selection process.

As mentioned above, Schiff, which was acquired by HDR Engineering, Inc. in 2011, has successfully held this contract in the past. HDR has proposed the same core Schiff team with Graham Bell, Ph.D., P.E., and Steven Fox, P.E., in the Principal-In-Charge and Project Manager roles, respectively. Over the years, District staff has noticed the high quality and clarity of design deliverables consistently completed by Graham Bell and Steven Fox. Staff has appreciated the Schiff team's past achievements in improving and modernizing the District's Corrosion Control Program and associated data management using GIS.

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

This contract is for professional services based on the District's need and schedule, and expenditures will not be made until individual main tasks or task orders under the as-needed portion of this contract are authorized by District Staff.

Approximately \$300,000 of this contract will be funded by P1043 operating budget over FY 2014, FY 2015, and FY 2016. The remaining \$385,000 will be funded by specific CIP budgets comprised of \$200,000 as-needed budget as detailed above and approximately \$185,000 for reservoir coating construction project inspection.

The Project Manager anticipates that the FY 2014 budget is sufficient to support the professional services planned for the remainder this fiscal year. The Project Manager also anticipates that FY 2015, FY2016 budgets, if approved, will be sufficient to support the future professional services required.

Finance has determined that, with approval of the future budgets, funding will be available from the General, Expansion, Betterment, and Replacement funds, as outlined in the individual CIP project budgets described above.

STRATEGIC GOAL:

This Project supports the District's Mission statement, "To provide high value water and wastewater services to the customers of the Otay Water District in a professional, effective, and efficient manner" and the General Manager's Vision, "A District that is at the forefront in innovations to provide water services at affordable rates, with a reputation for outstanding customer service."

LEGAL IMPACT:

None.

JM/BK:jf

P:\WORKING\CIP P1043 (Cathodic)\Sub 008000\Staff Report\BD-11-06-13, Staff Report, Award Engineering Contract to HDR, (JM-BK).docx

Attachments: Attachment A - Committee Action
Exhibit A - Summary of Proposal Rankings



ATTACHMENT A

| | |
|---|--|
| SUBJECT/PROJECT: P1043-008000 | Award of a Professional Engineering Services Contract to HDR Engineering, Inc. for Corrosion Engineering Services in support of the District's Cathodic Protection Program |
|---|--|

COMMITTEE ACTION:

The Engineering, Operations, and Water Resources Committee (Committee) reviewed this item at a meeting held on October 23, 2013, and the following comments were made:

- Staff recommended that the Board award a professional services contract to HDR Engineering, Inc. (HDR) and authorize the General Manager to execute an agreement with HDR for corrosion engineering services in support of the District's Cathodic Protection Program for Fiscal Years 2014, 2015, and 2016 (ending December 31, 2015) in an amount not-to-exceed \$684,750.
- Staff provided a background of the District's Cathodic Protection Program and indicated that the District regularly awards two-year duration professional services contracts in support of the Program. V&A Consulting Engineers (V&A) held the most recent contract, and Schiff & Associates (Schiff), which was acquired by HDR in 2011, held the contract before V&A.
- Staff discussed that corrosion engineers are experts in both coatings and cathodic protection systems. The most common type of cathodic protection systems employed at the District includes sacrificial anodes. The District has approximately 750 pipeline test stations total and also 29 steel reservoirs with their own set of test stations.
- It was stated that in accordance with the District's Policy 21, staff advertised a Request for Proposal. By the deadline of August 30, 2013, the District received four (4) proposals. Results of the selection process are provided in Exhibit A of the staff report.
- Staff indicated that HDR received the highest score. It was noted that staff checked HDR's references, reviewed their Company Background Questionnaire form, and performed an internet search on the company and did not find any significant issues.

- It was discussed that the District had previously worked with HDR when the company acquired Schiff in 2011. Staff indicated that HDR has proposed the same core Schiff team.

Following the discussion, the Committee supported staffs' recommendation and presentation to the full board on the consent calendar.

The above signatures attest that the attached document has been reviewed and to the best of their ability the signers verify that it meets the District quality standard by clearly and concisely conveying the intended information; being grammatically correct and free of formatting and typographical errors; accurately presenting calculated values and numerical references; and being internally consistent, legible and uniform in its presentation style.

EXHIBIT A
Summary of Proposal Rankings for Corrosion Engineering Services

| | | WRITTEN | | | | | | | ORAL | | | | | | | REFERENCES | |
|-----------------------|----------------------|------------------------|--|-----------------------------------|-------------------------------|----------------------------|---------------|--------------------------------|-----------------|-----------------------------------|-----------------------------|---------------------------------------|------------------------|-------------------------|--------------------|------------|----------------------------|
| | | Qualifications of Team | Responsiveness and Project Understanding | Technical and Management Approach | INDIVIDUAL SUBTOTAL - WRITTEN | AVERAGE SUBTOTAL - WRITTEN | Proposed Fee* | Consultant's Commitment to DBE | TOTAL - WRITTEN | Additional Creativity and Insight | Strength of Project Manager | Presentation and Communication Skills | Responses to Questions | INDIVIDUAL TOTAL - ORAL | AVERAGE TOTAL ORAL | | TOTAL SCORE |
| MAXIMUM POINTS | | 30 | 25 | 30 | 85 | 85 | 15 | Y/N | Y/N | 15 | 15 | 10 | 10 | 50 | 50 | 150 | Poor/Good/Excellent |
| Corrpro | <i>Bob Kennedy</i> | 25 | 21 | 24 | 70 | 70 | 15 | Y | 85 | 10 | 12 | 7 | 7 | 36 | 38 | 123 | Poor |
| | <i>Kevin Schmidt</i> | 27 | 20 | 22 | 69 | | | | | 10 | 11 | 8 | 8 | 37 | | | |
| | <i>Kevin Cameron</i> | 25 | 21 | 24 | 70 | | | | | 12 | 12 | 7 | 7 | 38 | | | |
| | <i>Ming Zhao</i> | 25 | 23 | 23 | 71 | | | | | 14 | 12 | 8 | 8 | 42 | | | |
| | <i>Jose Martinez</i> | 25 | 21 | 26 | 72 | | | | | 13 | 12 | 7 | 7 | 39 | | | |
| HDR/Schiff | <i>Bob Kennedy</i> | 27 | 23 | 26 | 76 | 79 | 1 | Y | 80 | 13 | 14 | 9 | 9 | 45 | 46 | 126 | Excellent |
| | <i>Kevin Schmidt</i> | 28 | 24 | 28 | 80 | | | | | 12 | 13 | 9 | 9 | 43 | | | |
| | <i>Kevin Cameron</i> | 29 | 25 | 28 | 82 | | | | | 14 | 15 | 9 | 9 | 47 | | | |
| | <i>Ming Zhao</i> | 30 | 24 | 28 | 82 | | | | | 14 | 15 | 10 | 9 | 48 | | | |
| | <i>Jose Martinez</i> | 28 | 22 | 27 | 77 | | | | | 14 | 14 | 8 | 9 | 45 | | | |
| JDH | <i>Bob Kennedy</i> | 24 | 20 | 23 | 67 | 67 | 10 | Y | 77 | 11 | 13 | 8 | 8 | 40 | 42 | 119 | |
| | <i>Kevin Schmidt</i> | 27 | 18 | 20 | 65 | | | | | 13 | 13 | 8 | 7 | 41 | | | |
| | <i>Kevin Cameron</i> | 24 | 21 | 23 | 68 | | | | | 14 | 14 | 9 | 8 | 45 | | | |
| | <i>Ming Zhao</i> | 20 | 20 | 23 | 63 | | | | | 13 | 12 | 10 | 8 | 43 | | | |
| | <i>Jose Martinez</i> | 25 | 19 | 26 | 70 | | | | | 13 | 14 | 9 | 7 | 43 | | | |
| V&A | <i>Bob Kennedy</i> | 25 | 21 | 24 | 70 | 71 | 8 | Y | 79 | 10 | 10 | 7 | 7 | 34 | 31 | 110 | |
| | <i>Kevin Schmidt</i> | 27 | 18 | 24 | 69 | | | | | 10 | 8 | 5 | 5 | 28 | | | |
| | <i>Kevin Cameron</i> | 25 | 23 | 23 | 71 | | | | | 10 | 10 | 5 | 5 | 30 | | | |
| | <i>Ming Zhao</i> | 25 | 20 | 24 | 69 | | | | | 10 | 8 | 5 | 5 | 28 | | | |
| | <i>Jose Martinez</i> | 27 | 23 | 27 | 77 | | | | | 11 | 11 | 6 | 6 | 34 | | | |

| RATES SCORING CHART | | | | |
|---------------------|-----------|------------|-----------|-----------|
| Firm | Corrpro | HDR/Schiff | JDH | V&A |
| Fee | \$553,445 | \$850,255 | \$659,260 | \$698,880 |
| Score | 15 | 1 | 10 | 8 |

*Note: Review Panel does not see or consider proposed fee when scoring other categories. The proposed fee is scored by the PM, who is not on Review Panel.

AGENDA ITEM 7g



STAFF REPORT

| | | | |
|---------------|---|---------------|-----------------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| SUBMITTED BY: | Jeff Marchioro Senior Civil Engineer | PROJECT: | R2108- DIV. NO. 5 001102 |
| | Bob Kennedy Engineering Manager | | |
| APPROVED BY: | <input checked="" type="checkbox"/> Rod Posada, Chief, Engineering <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | Award of a Construction Contract to Layfield Environmental Systems Corporation for 927-1 Recycled Water Reservoir Floating Cover and Liner Replacement | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Otay Water District (District) Board of Directors (Board) award a construction contract to Layfield Environmental Systems Corporation (Layfield) for the floating cover and liner replacement at the 927-1 Recycled Water Reservoir in an amount not-to-exceed \$873,400 (see Exhibit A for Project location).

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE:

To obtain Board authorization for the General Manager to enter into a construction contract with Layfield in an amount not-to-exceed \$873,400 for the floating cover and liner replacement at the 927-1 Recycled Water Reservoir.

ANALYSIS:

The 16.3 million gallon 927-1 Recycled Water Reservoir was originally constructed in the 1980s as part of the Jamacha Basin Water Reclamation Site. The reservoir was improved and fitted with its existing reinforced polypropylene (RPP) liner and floating cover in 1997. The floating cover has been repeatedly repaired to maintain the integrity of the geomembrane material. The existing cover had substantial damage and had to be repaired due to the fire that went through the Habitat Management Area (HMA) in 2007. The existing cover material typically has a life expectancy of 15-20 years. It is no longer cost effective to continue to repair the existing cover that has reached the end of its life expectancy. The District has typically replaced polypropylene covers on other reservoirs at a frequency of approximately 15 years which is commensurate with the age of the existing 927-1 existing cover and liner material.

District staff performed a life cycle cost analysis for the replacement of the liner and cover with various combinations of geomembrane materials and concluded that RPP was the best alternative. The analysis considered replacement frequencies of materials with dissimilar warranties for various material combinations.

District staff prepared the bid documents in-house. Mayer Reprographics (Mayer) distributed the bid documents electronically through Mayer's online planroom.

Staff contacted the three contractors that bid on the previous Patzig 624-1 Reservoir floating cover project (Erosion Control Applications, Inc., Layfield, and MPC Containment International LLC) prior to the bid process to encourage them to submit a bid for the Project. Floating cover installation work is very specialized and only these three contractors are commonly known to install the "mechanically tensioned" style cover that is currently in use at the 927-1 Reservoir.

The Project was advertised for bid on August 26, 2013. A Pre-bid Meeting and site visit were held on September 4, 2013, which was attended by four (4) contractors. Two addenda were sent out to all bidders and plan houses on September 5, 2013 and September 11, 2013 to address contractors' questions asked during the bidding period.

Two (2) bids were received on September 19, 2013. The table below provides the bid results.

| <u>CONTRACTOR</u> | <u>TOTAL BID AMOUNT</u> |
|---|-------------------------|
| 1. Layfield Environmental Systems Corporation | \$873,400 |
| 2. MPC Containment International LLC | \$995,920 |

The Engineer's Estimate is \$950,000.

The evaluation process included reviewing all bids submitted for conformance to the contract documents. The lowest bidder, Layfield, submitted a responsible bid and holds a Class A Contractor's license which expires on May 31, 2014. Staff checked the references provided with Layfield's bid. The references indicated that Layfield is a well-established and well recognized company as well as a recognized leader for development of the "mechanically tensioned" style cover that is currently in use at the 927-1 Reservoir. Layfield acquired the business assets of CW Neal Corporation (CW Neal) in April 2004. CW Neal installed the existing 927-1 Reservoir floating cover in 1997. The District has previously worked with Layfield to install, repair, and maintain floating covers at the 927-1 Reservoir and other reservoirs in the District including the liner and cover recently installed at the 624-1 Reservoir. The proposed Project Manager has experience throughout southern California on similar projects and received good references. A background search of the company was performed on the internet and revealed no outstanding issues with this company. Layfield submitted the Company Background and Company Safety Questionnaires as required by the Contract Documents.

Staff has verified that the bid bond provided by Hartford Fire Insurance Company is valid. Once Layfield signs the contract, they will furnish the performance bond and labor and materials bond. Staff will verify both bonds prior to executing the contract.

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

The total budget for CIP R2108, as approved in the FY 2014 budget, is \$1,400,000. Total expenditures, plus outstanding commitments and forecast, are \$1,103,660.

Based on a review of the financial budget, the Project Manager anticipates that the budget is sufficient to support the Project. See Attachment B for Budget Detail.

Finance has determined that 100% of the funding is available from the Replacement Fund for CIP R2108.

STRATEGIC GOAL:

This Project supports the District's Mission statement, "To provide high value water and wastewater services to the customers of the Otay Water District in a professional, effective, and efficient manner" and the General Manager's Vision, "A District that is at the forefront in innovations to provide water services at affordable rates, with a reputation for outstanding customer service."

LEGAL IMPACT:

None.

JM/BK:jf

P:\WORKING\CIP R2108 - 927-1 Reservoir Cover Replacement\Staff Reports\BD-11-06-13, Staff Report, 927-1 Res Floating Cvr Repl , (JM-BK).docx

Attachments: Attachment A - Committee Action
Attachment B - Budget Detail
Exhibit A - Location Map



ATTACHMENT A

| | |
|---|--|
| SUBJECT/PROJECT: R2108-001102 | Award of a Construction Contract to Layfield Environmental Systems Corporation for 927-1 Recycled Water Reservoir Floating Cover and Liner Replacement |
|---|--|

COMMITTEE ACTION:

The Engineering, Operations, and Water Resources Committee (Committee) reviewed this item at a meeting held on October 23, 2013, and the following comments were made:

- Staff recommended that the Board award a construction contract to Layfield Environmental Systems Corporation (Layfield) for the floating cover and liner replacement at the 927-1 Recycled Water Reservoir in an amount not-to-exceed \$873,400.
- Staff stated that the 16MG 927-1 Reservoir is also known as Pond 4 and was originally constructed in the 1980s as part of the Jamacha Basin Water Reclamation Site. In 1997, the Reservoir was improved and fitted with its existing reinforced polypropylene liner and floating cover.
- Staff indicated that the 927-1 floating cover and liner is in need of replacement and will become cost prohibitive to continue to repair as it has reached the end of its expected useful life. District staff has performed a life cycle cost analysis and evaluated replacement options in-house. Staff has also prepared the bid documents in-house.
- Staff stated that floating cover installation work is very specialized and there are only three (3) installers in the United States that are commonly recognized to install the type of cover that is currently in use at Patzig and the 927-1 Reservoir. Similar to the Patzig Reservoir bid process, District staff reached out to several contractors to encourage them to submit a bid.
- Staff stated that the Project was advertised for bid on August 26, 2013. The District received bids from two of the three commonly recognized contractors. One of the three commonly recognized contractors indicated that they tried to assemble a bid, but was ultimately too busy to submit.

- It was indicated that Layfield submitted the lowest, responsive bid on September 19, 2013. Staff noted that the Engineer's Estimate at \$950,000 was nearly equivalent to the average of the two bids.
- It was noted that Layfield is a well-established and well recognized company, as well as a recognized leader for development of the floating covers. Staff checked Layfield's references, reviewed their Company Background and Company Safety Questionnaire forms, and performed an internet search on the company and did not find any significant issues.
- It was stated that staff has successfully worked with Layfield in the past as the company has installed, repaired, and maintained floating covers at the Patzig, 927-1, and other reservoirs in the District.
- In response to a question by the Committee, staff stated that the Project does include replacing the liner. Staff noted that the cover has many patches as a result of the 2007 fires and is in worse condition compared to the cover at the Patzig Reservoir before it was replaced. Staff also noted that maintaining the reservoir with a reliable cover and liner is a good business practice.

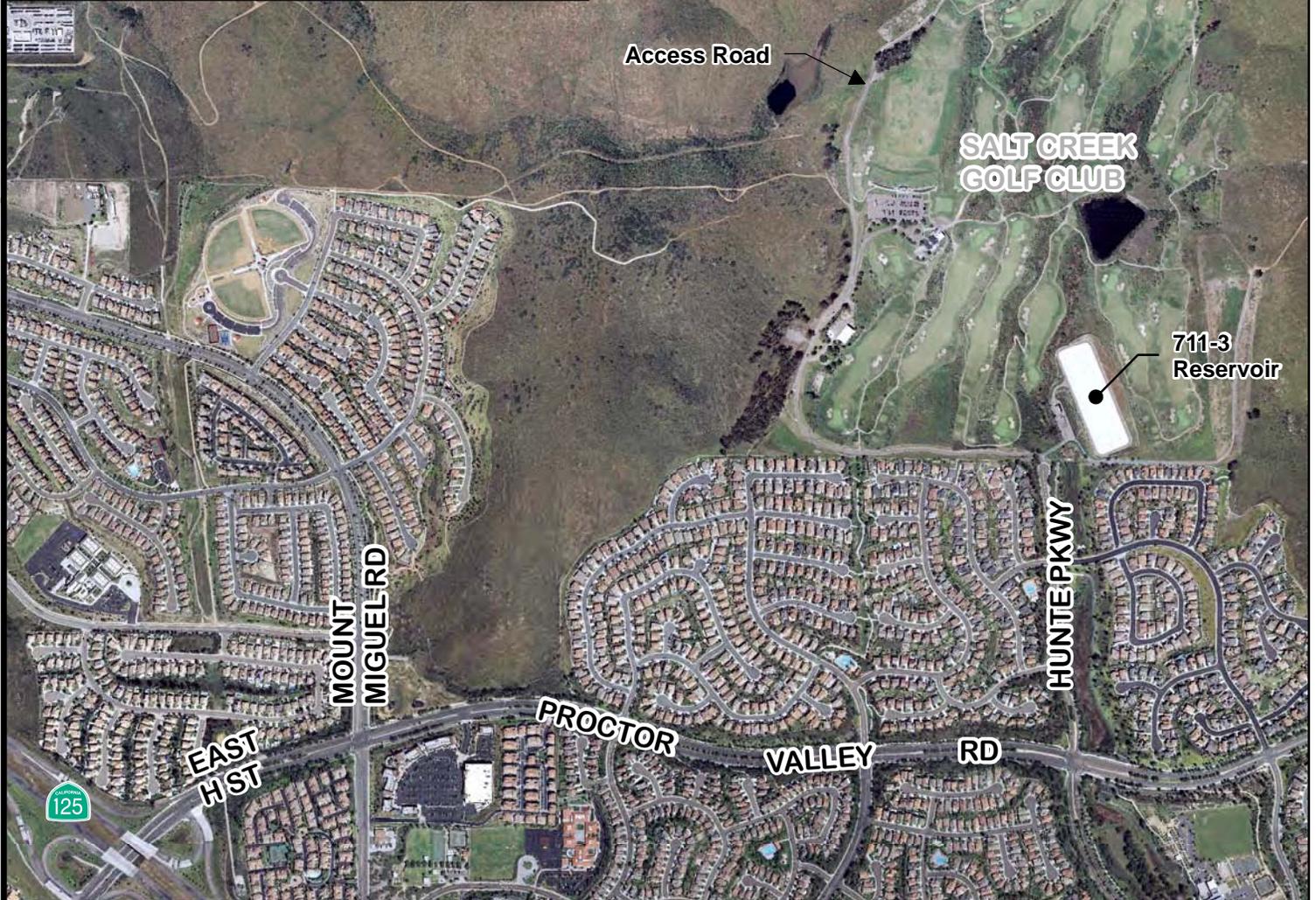
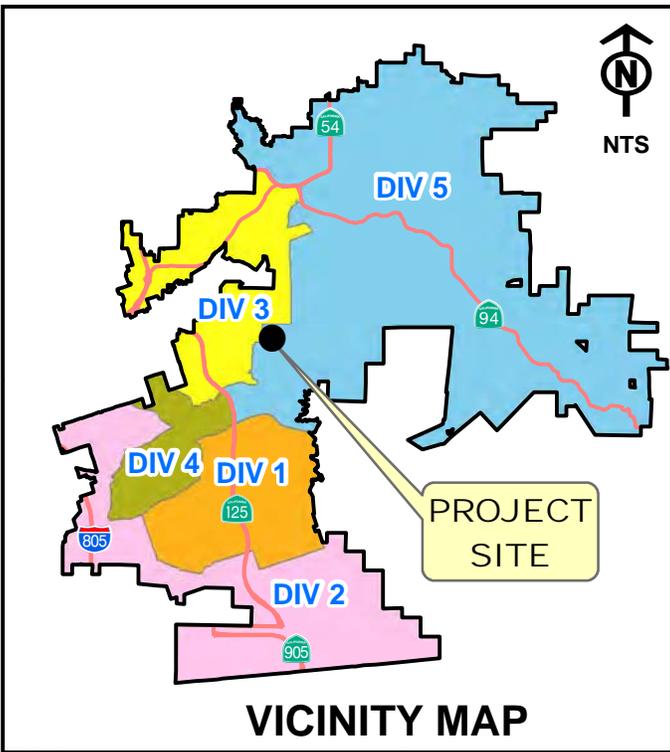
Following the discussion, the EO&WR Committee supported staffs' recommendation and presentation to the full board as a consent item.



ATTACHMENT B – Budget Detail

| | |
|-------------------------|--|
| SUBJECT/PROJECT: | Award of a Construction Contract to Layfield Environmental Systems Corporation for 927-1 Recycled Water Reservoir Floating Cover and Liner Replacement |
| R2108-001102 | |

| Otay Water District | | | | | Date Updated: 9/19/2013 |
|---|------------------|---------------------|--|-----------------------------|--------------------------------|
| R2108-Res - 927-1 Reservoir Cover Replacement | | | | | |
| <i>Budget</i> | <i>Committed</i> | <i>Expenditures</i> | <i>Outstanding Commitment & Forecast</i> | <i>Projected Final Cost</i> | <i>Vendor/Comments</i> |
| 1,400,000 | | | | | |
| Planning | | | | | |
| Regulatory Agency Fees | 50 | 50 | - | 50 | PETTY CASH CUSTODIAN |
| Standard Salaries | 1,547 | 1,547 | - | 1,547 | |
| Total Planning | 1,597 | 1,597 | - | 1,597 | |
| Design | | | | | |
| Consultant Contracts | 2,445 | 2,445 | - | 2,445 | ALTA LAND SURVEYING INC |
| | 500 | 500 | - | 500 | LAYFIELD ENVIRONMENTAL SYSTEMS |
| Service Contracts | 76 | 76 | - | 76 | SAN DIEGO DAILY TRANSCRIPT |
| | 1,610 | 1,610 | - | 1,610 | MAYER REPROGRAPHICS INC |
| Standard Salaries | 44,032 | 44,032 | - | 44,032 | |
| Total Design | 48,663 | 48,663 | - | 48,663 | |
| Construction | | | | | |
| Labor | 150,000 | - | 150,000 | 150,000 | |
| | 30,000 | - | 30,000 | 30,000 | CM CONSULTANT |
| | 873,400 | - | 873,400 | 873,400 | LAYFIELD ENVIRONMENTAL SYSTEMS |
| Total Construction | 1,053,400 | - | 1,053,400 | 1,053,400 | |
| Grand Total | 1,103,660 | 50,260 | 1,053,400 | 1,103,660 | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |



PROJECT SITE
927-1 Reservoir



OTAY WATER DISTRICT
RESERVOIR 927-1 FLOATING COVER
AND LINER REPLACEMENT

CIP R2108

AGENDA ITEM 7h



STAFF REPORT

| | | | |
|---------------|--|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| SUBMITTED BY: | Jeff Marchioro Senior Civil Engineer | PROJECT NO: | N/A |
| | Bob Kennedy Engineering Manager | DIV. NO. | 3, 5 |
| APPROVED BY: | <input checked="" type="checkbox"/> Rod Posada, Chief, Engineering <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | Approval of a Second Agreement between Otay Water District and Helix Water District for the Canta Lomas/Vista Grande Road Metered Interconnection and Approval of Amendments to Three (3) Agreements between Otay Water District and Helix Water District for the Sir Francis Drake Drive/Explorer Road, Sweetwater Springs Boulevard/Loma Lane, and Gillispie Drive and Del Rio Road Metered Interconnections | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Otay Water District (Otay) Board of Directors (Board) authorize the General Manager to execute a Second Agreement for the Canta Lomas/Vista Grande Road metered interconnection and three (3) amendments to existing agreements for the Sir Francis Drake Drive/Explorer Road, Sweetwater Springs Boulevard/Loma Lane, and Gillispie Drive and Del Rio Road metered interconnections between Otay and the Helix Water District (Helix) (see Exhibit A for Project locations).

COMMITTEE ACTION:

Please see Attachment A.

PURPOSE :

To obtain Board authorization for the General Manager to execute a Second Agreement for the Canta Lomas/Vista Grande Road metered interconnection and three (3) amendments to existing agreements for the Sir Francis Drake Drive/Explorer Road, Sweetwater Springs Boulevard/Loma Lane, and Gillispie Drive and Del Rio Road metered interconnections between Otay and Helix.

ANALYSIS :

For many years, Otay and Helix have mutually benefited from various interconnections between the two water districts for emergencies. These interconnections have provided increased reliability and flexibility during power outages and other disruptions in service.

To date, Otay has thirty-one (31) emergency interconnections with various water purveyors including Cal-Am, Sweetwater Authority, City of San Diego, and Helix. Eight (8) of these interconnections are between Otay and Helix, as summarized in the table below.

| Inter-connection with Helix | Date Installed | Metered/Not Metered, Flow Direction | Agreement Status | Agreement Revision ² |
|---|----------------|-------------------------------------|---|---------------------------------|
| 1 Blossom Lane | 1969 | Not metered, to Otay | no agreement ¹ | Not applicable |
| 2 Grand Avenue | unknown | Not metered, from Otay | no agreement ¹ | Not applicable |
| 3 S. Barcelona Street | 1975 | Not metered, to/from Otay | no agreement ¹ | Not applicable |
| 4 Sir Francis Drake Drive/ Explorer Road | 2010 | Metered, to Otay | Executed 2008, due to expire 2018 | Attached Amendment |
| 5 Canta Lomas/Vista Grande | 2001 | Metered, to/from Otay | Executed 2001, Expired 2011 | Attached "Second Agreement" |
| 6 Sweetwater Springs Boulevard/ Loma Lane | 2006 | Metered, to/from Otay | Executed 2005, due to expire 2015 | Attached Amendment |
| 7 Gillispie Drive | 2011 | Metered, to/from Otay | Combined agreement executed 2012, no expiration | Attached Amendment |
| 8 Del Rio Road | 2011 | Metered, to/from Otay | | |

1. An agreement will be created when the interconnect is improved (e.g., a meter added) in the future.
2. Agreement revisions described in detail below.

The five (5) interconnections with agreements summarized in the table above were compared and reviewed by Otay and Helix staff and corresponding legal counsels with the general intent of consistently updating all existing agreements. The attached "Second Agreement" was prepared for the Canta Lomas/Vista Grande. The attached amendments were created for the remaining interconnections with agreements (Sir Francis Drake Drive/Explorer Road, Sweetwater Springs Boulevard/Loma Lane and Gillispie Drive and Del Rio Road).

The most significant change to the agreements was removing expiration dates from the Term Section to match the Gillispie Drive and Del Rio Road existing agreement that was executed last year. Removing the current 10 year term from the existing agreements will save staff time tracking expiration dates and renewing agreements and also prevent the oversight of an expired agreement. The attached "Second Agreement" (see Attachment B-1) was created since the Canta Lomas/Vista Grande Road original agreement (see Attachment B-2) expired on April 16, 2011.

Other modifications include updates to Sections titled Delivery, Ability to Supply Water, Estimation of Quantity of Water Delivered, Maintenance, Water Quality, Access, Term, and Notice to provide consistency across all interconnect agreements. Also record site plans and/or improvement drawings were added to all agreements/amendments to provide consistent exhibits for each agreement. Where necessary, new Exhibits were edited in red to clarify ownership or maintenance boundaries.

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

None.

STRATEGIC GOAL:

This Project supports the District's Mission statement, "To provide high value water and wastewater services to the customers of the Otay Water District in a professional, effective, and efficient manner" and the General Manager's Vision, "A District that is at the forefront in innovations to provide water services at affordable rates, with a reputation for outstanding customer service."

LEGAL IMPACT:

None.

JM/BK:jf

P:\WORKING\CIP P2422\Staff Reports\Staff Report 11-6-13 Attachments and Exhibit\BD 11-06-13, Staff Report, Helix-Otay Interconnections Agreements and Amendments, (JM-BK).docx

Attachments:

Exhibit A - Location Map

Attachment A - Committee Action

Attachment B-1 - Second Agreement (Canta Lomas/Vista Grande Rd)

Attachment B-2 - Existing Agreement (Canta Lomas/Vista Grande Rd)

Attachment C-1 - Amendment (Sir Francis Drake Dr/Explorer Rd)

Attachment C-2 - Existing Agreement (Sir Francis Drake Dr/Explorer Rd)

Attachment D-1 - Amendment (Sweetwater Springs Blvd/Loma Ln)

Attachment D-2 - Existing Agreement (Sweetwater Springs Blvd/Loma Ln)

Attachment E-1 - Amendment (Gillispie Drive and Del Rio Road)

Attachment E-2 - Existing Agreement (Gillispie Drive and Del Rio Rd)



ATTACHMENT A

| | |
|------------------------------------|---|
| SUBJECT/PROJECT: N/A | Approval of a Second Agreement between Otay Water District and Helix Water District for the Canta Lomas/Vista Grande Road Metered Interconnection and Approval of Amendments to Two (2) Agreements between Otay Water District and Helix Water District for the Sir Francis Drake Drive/Explorer Road and Sweetwater Springs Boulevard/Loma Lane Metered Interconnections |
|------------------------------------|---|

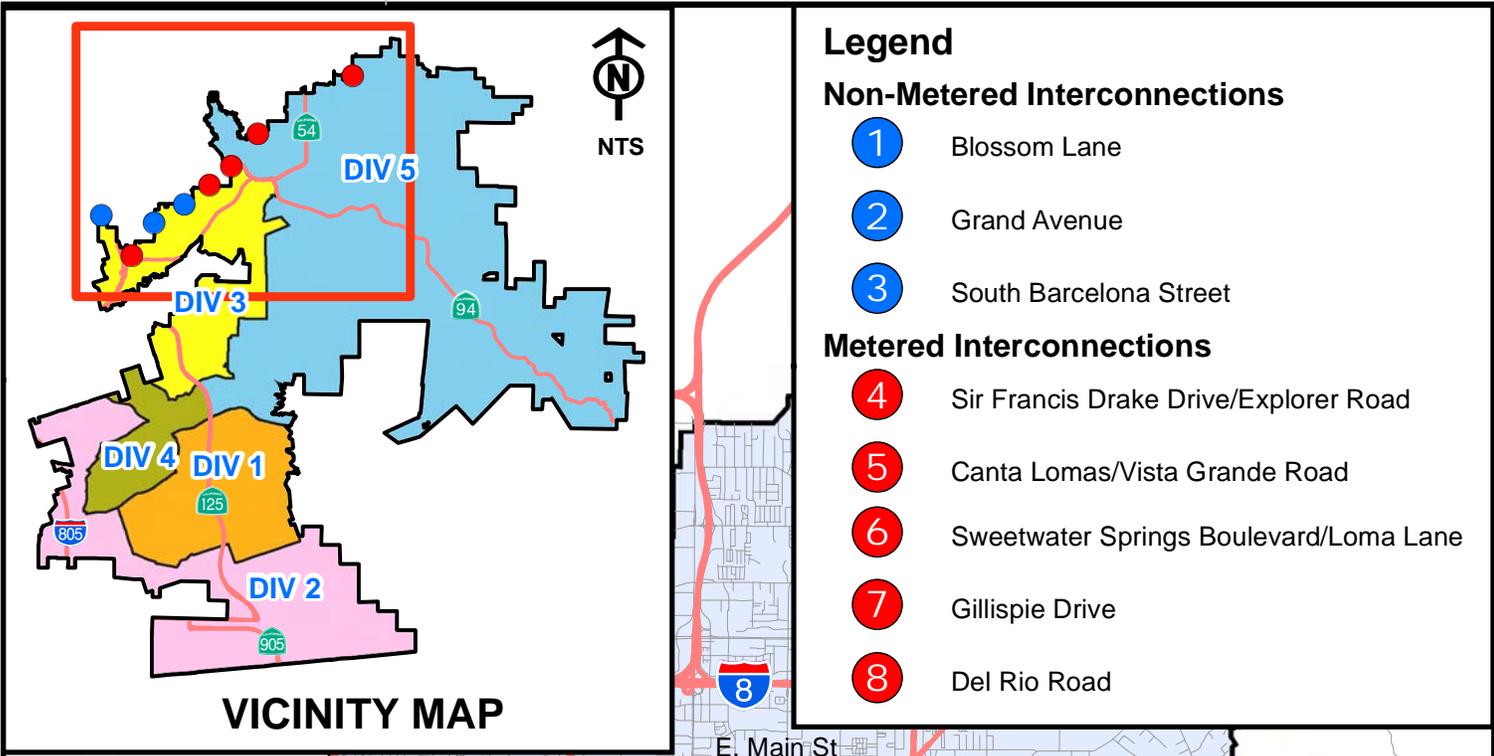
COMMITTEE ACTION:

The Engineering, Operations, and Water Resources Committee (Committee) reviewed this item at a meeting held on October 23, 2013, and the following comments were made:

- Staff recommended that the Board authorize the General Manager to execute a Second Agreement for the Canta Lomas/Vista Grande Road metered interconnection and three (3) amendments to existing agreements for the Sir Francis Drake Drive/Explorer Road, Sweetwater Springs Boulevard/Loma Lane, and Gillispie Drive and Del Rio Road metered interconnections between Otay and the Helix Water District (Helix).
- Staff noted that page 2 of the staff report provides a summary table for all interconnections between Otay and Helix Water Districts. There are a total of eight (8) interconnections.
- Staff indicated that the most significant change to the agreements was removing expiration dates from the Term Section to match the Gillispie Drive and Del Rio Road agreement that was executed last year. This action will save staff time tracking expiration dates and renewing agreements.
- It was noted that another important change was to more clearly define maintenance and each agency's responsibilities regarding maintenance.

- Staff stated that Otay and Helix engineering staff, and legal counsels, drafted the amendments and 2nd agreement that took over a year to complete. Otay staff suggested creating a master agreement rather than modifying four separate agreements; however, Helix staff preferred to maintain the four agreements separately.
- Staff indicated that although the amendments and 2nd agreement have no expiration dates and are designed to be in perpetuity, they do include a termination clause.
- In response to a question from the Committee, Staff noted that the non-metered interconnections indicated in Exhibit A of the staff report will eventually be metered.

Following the discussion, the EO&WR Committee supported staffs' recommendation and presentation to the full board as a consent item.



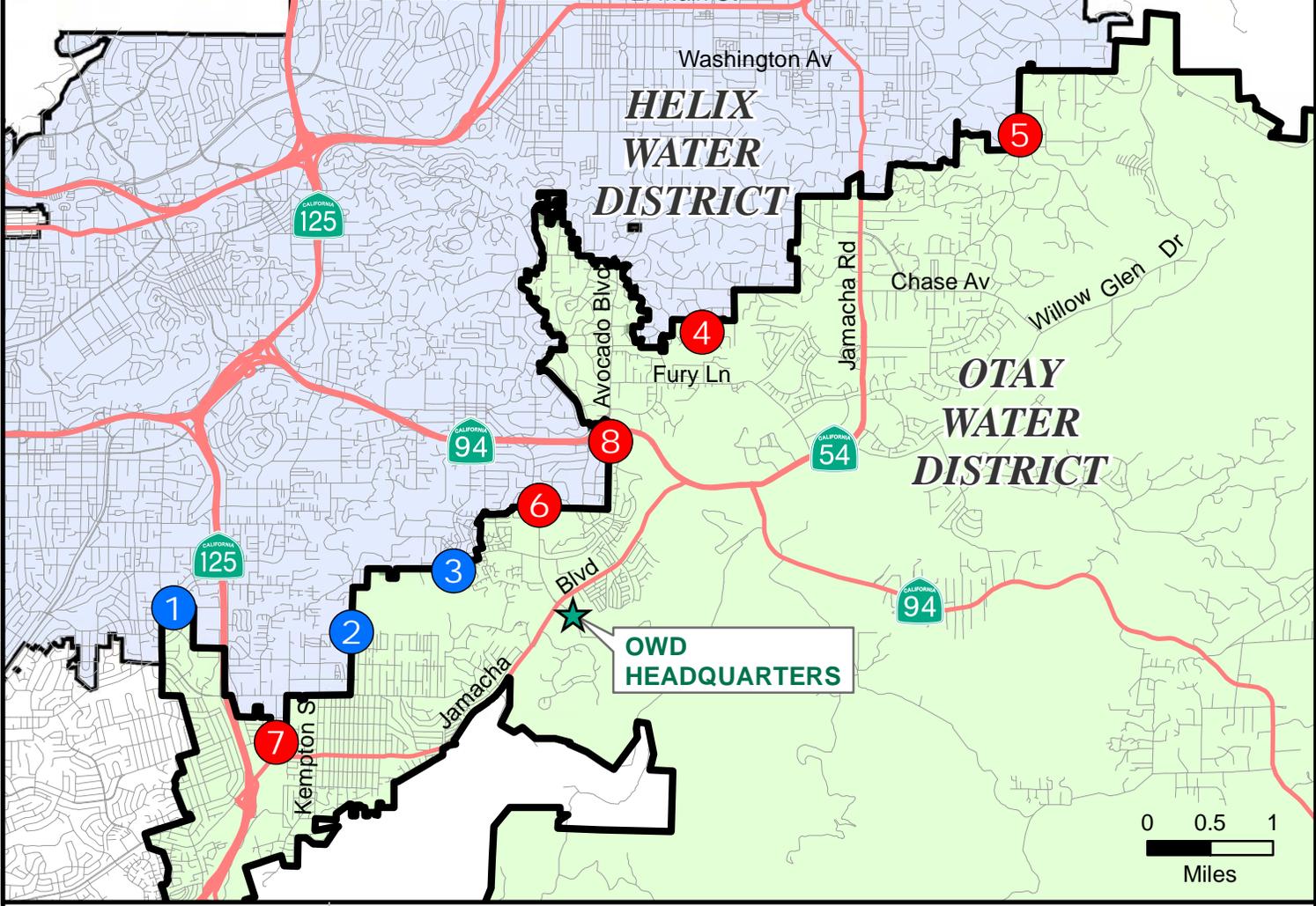
Legend

Non-Metered Interconnections

- ① Blossom Lane
- ② Grand Avenue
- ③ South Barcelona Street

Metered Interconnections

- ④ Sir Francis Drake Drive/Explorer Road
- ⑤ Canta Lomas/Vista Grande Road
- ⑥ Sweetwater Springs Boulevard/Loma Lane
- ⑦ Gillispie Drive
- ⑧ Del Rio Road



OTAY WATER DISTRICT
HELIX WATER DISTRICT & OTAY WATER DISTRICT
EMERGENCY INTERCONNECTIONS



P:\WORKING\CIP_P2422\Graphics\Exhibits\Exhibit A, Location Map.mxd

ATTACHMENT B-1

OWD WO 8960 / HELIX WO 3513 CANTA LOMAS – VISTA GRANDE INTERCONNECTION

SECOND AGREEMENT FOR EMERGENCY INTERCONNECTIONS BETWEEN OTAY WATER DISTRICT AND HELIX WATER DISTRICT

This Agreement is made and entered into as of _____, 2013 and effective as of April 16, 2011, by and between Otay Water District, a Municipal Water District organized and existing pursuant to Water Code Section 71000 *et seq.*, (hereinafter referred to as “Otay”) and Helix Water District, an Irrigation District organized and existing under the Irrigation District Law of the State of California, Water Code Section 20500 *et seq.*, (hereinafter referred to as “Helix”). Otay and Helix are collectively referred to herein as the “Parties.”

RECITALS

- A. Otay and Helix are member agencies of the San Diego County Water Authority (hereinafter referred to as the “Authority”), and are retail water purveyors that receive water from the Authority.
- B. The Authority is the regional wholesale water purveyor organized and existing under the County Water Authority Act of the State of California (Chapter 45, Water Code-Appendix).
- C. Helix and Otay entered into an Agreement for Emergency Interconnections Between Otay Water District and Helix Water District on April 16, 2001 (“First Agreement”), for a term of ten (10) years. After the ten-year period, the Parties continued to operate as though the First Agreement were effective and did not engage in the termination activities identified in Paragraph 14 of the First Agreement.
- D. The Parties desire by this Second Agreement to restate, renew, and clarify the terms of the First Agreement to continue providing emergency water service connections to each other.

AGREEMENT

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Definitions. For purposes of this Agreement, the following words and phrases shall have the following meanings:
 - a. Emergency. "Emergency" shall mean any sudden unexpected occurrence that significantly reduces available water so as to jeopardize the public health or safety, or scheduled maintenance where the interconnection is deemed the only source of potable water.

ATTACHMENT B-1

- b. Surplus Capacity. "Surplus capacity" shall mean that amount of water, as determined by Helix and/or Otay, in excess of the amount necessary to meet the demand of its respective system.
2. Delivery. In emergency situations, as defined above in Section 1 (a), Helix and Otay shall supply treated water through their facilities to the interconnection located at Canta Lomas and Vista Grande Road, County of San Diego, as shown in Exhibit A, attached hereto and incorporated herein, when requested by either Party pursuant to the terms of this Agreement. Both Parties shall use their best efforts to provide 24 hours written advance notice of the need for such emergency interconnection, and in all cases shall notify the supplying Party prior to actual use. The supplying Party shall operate the interconnection.
3. Ability to Supply Water. Neither district guarantees that surplus capacity, as defined above in Section 1(b), will be available at the time an emergency occurs. To the extent that surplus capacity is available, in the sole discretion of the delivering district with no undue burden on its water consumers, the receiving district may utilize the interconnection(s) described in the attached exhibit to the extent of such availability. Water service connections provided hereunder shall not be used to provide supplemental or additional water supply to meet growth in demand not already addressed in the Water Resources Master Plan for either district.
4. Estimate of Quantity of Water Delivered. The estimated quantity of water to be delivered under this agreement shall be mutually agreed upon by the two parties prior to its delivery. Both Parties shall use their best efforts to not exceed ninety (90) days delivery of water through the agreed upon connection in the aggregate in any calendar year.
5. Payment for Water Delivered. If water is delivered under the terms of this Agreement, the supplying district will report the amount of water that has been supplied through a meter to the receiving district, and to the Authority for credit, within ten (10) calendar days of receipt of delivered water. The districts agree to request that the Authority bill this amount to the receiving district and credit this amount to the supplying district. The cost of the water delivered through the emergency interconnection shall be the Authority's treated water rate in effect at the time of delivery.
6. Maintenance. Helix and Otay shall be responsible for the maintenance and operation costs of the valve(s) connecting to their respective systems as shown in Exhibit A, attached hereto and incorporated herein. Helix and Otay shall be responsible for any costs associated with their respective pipelines leading up to the interconnection, and responsible for 50% of all costs of any repair, required future relocation, or modification of the connection itself (vault, meter, etc.). Maintenance and maintenance costs related to the cleanup of graffiti on the facilities and meter testing and/or calibration (performed on October of each year) will alternate each calendar year between the Parties. Otay will be responsible for the even years, while Helix will be responsible for the odd years. Helix and Otay shall promptly share test results.

ATTACHMENT B-1

7. Water Quality. Neither district warrants the quality of treated water delivered through any emergency interconnection established pursuant to this Agreement. The receiving District shall flush the connection at their own cost prior to providing service to its customers.
8. Access. During the term of this Agreement, authorized representatives of each district shall be granted access to the facilities and property of the other district for the purpose of establishing emergency interconnections pursuant to this Agreement, provided that the Party desiring access will provide at least 24 hour notice of such access. Such notice may be oral or written.
9. Indemnification. Each district shall be responsible for the willful misconduct and negligent acts or omissions of its officer, directors, agents, employees, and subcontractors. Each district shall indemnify, hold harmless, and defend the other from and against all claims, demands, and liabilities for bodily injury, property damage, or other damages caused by the willful or negligent act or omission of the indemnifying party or its officer, directors, agents, employees or subcontractors.
10. Term. The term of this Agreement shall be from the date of its execution until terminated pursuant to the terms of this Agreement.
11. Integration. This Agreement, including any and all Exhibits to it, represent the entire understanding of both districts as to those matters contained in it, and supersedes and cancels any prior oral or written understandings, promises or representations with respect to those matters covered in it. This Agreement may not be modified or altered except in writing signed by both districts.
12. Laws, Venue, and Attorneys' Fees. This Agreement shall be interpreted in accordance with the laws of the State of California. The Parties agree that if any dispute shall arise in relation to this Agreement, they will attempt to resolve such dispute informally, in good faith. If such good faith informal resolution does not resolve the issue, the Parties agree that the matter will be directed to the General Managers of both Parties for another good faith attempt at resolution. If that attempt does not resolve the issue, the Parties agree to mediation under the rules of the American Arbitration Association or any other neutral organization agreed upon before having recourse in a court of law. Any agreements resulting from mediation shall be documented in writing by all Parties. All mediation results shall be "non-binding" and inadmissible for any purpose in any legal proceeding, unless all Parties otherwise agree in writing. If mediation is not successful, and an action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California. In the event of any such litigation between the parties, the prevailing party shall be entitled to recover all reasonable costs incurred, including reasonable attorney's fees, as determined by the court.
13. Termination. Either party may terminate this agreement upon ninety (90) days written notice to the other party. In the event of termination, Helix and Otay will

ATTACHMENT B-1

be responsible for 50% each of the costs of disconnecting or removing connections. Salvaged metering devices, valves and hardware shall remain the property of the district that is responsible as shown on the approved improvement plans. The party that retains shared components owned 50% by each agency (e.g.; meter and vault) shall pay the other agency 50% of fair market salvage value of shared components.

14. Notice. Proposed amendments to this Agreement will be delivered by United States Post Office, certified mail, and addressed to:

General Manager
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

General Manager
Helix Water District
7811 University Avenue
La Mesa, CA 91941-4927

Any notice or instrument required to be given or delivered by this Agreement (e.g.; flow reporting) may be given or delivered by regular or electronic mail addressed to the designated representative.

15. Severability. In the event any one of the provisions of this Agreement shall for any reason be held invalid, illegal or unenforceable, the remaining provisions of this Agreement shall be unimpaired, and the invalid, illegal or unenforceable provision(s) shall be replaced by a mutually acceptable provision, which being valid, legal and enforceable, comes closest to the intention of the parties underlying the invalid, illegal or unenforceable provision.
16. Assignment. In no event shall this Agreement be assigned by either Party without first obtaining the prior written consent of the other Party.
17. Waiver. No covenant, term or condition of this Agreement shall be deemed to be waived by any party hereto unless such waiver is in writing and executed by the party making the waiver. No waiver of any breach of any of the terms, covenants, or conditions of this Agreement shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition contained herein.
18. Execution of Agreement. This Agreement shall not be deemed to have been accepted and shall not be binding upon either Party until duly authorized officers of both parties have executed it. This Agreement, including any and all Exhibits to it, represents the entire understanding of both districts as to those matters contained in it, and supersedes and cancels any prior oral or written understandings, promises or representations with respect to those matters covered in it. This agreement may not be modified or altered except in writing, signed by both Parties.

ATTACHMENT B-1

[signatures continued on next page]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

By: _____
Mark Watton, General Manager
Otay Water District

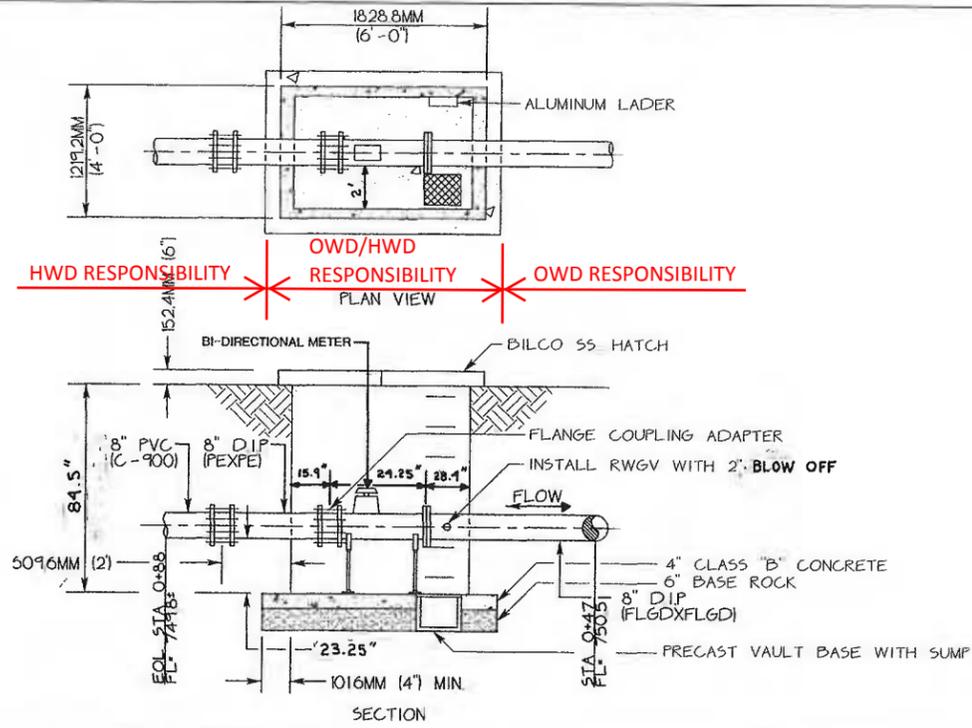
By: _____
Carlos V. Lugo, General Manager
Helix Water District

Approved as to form:

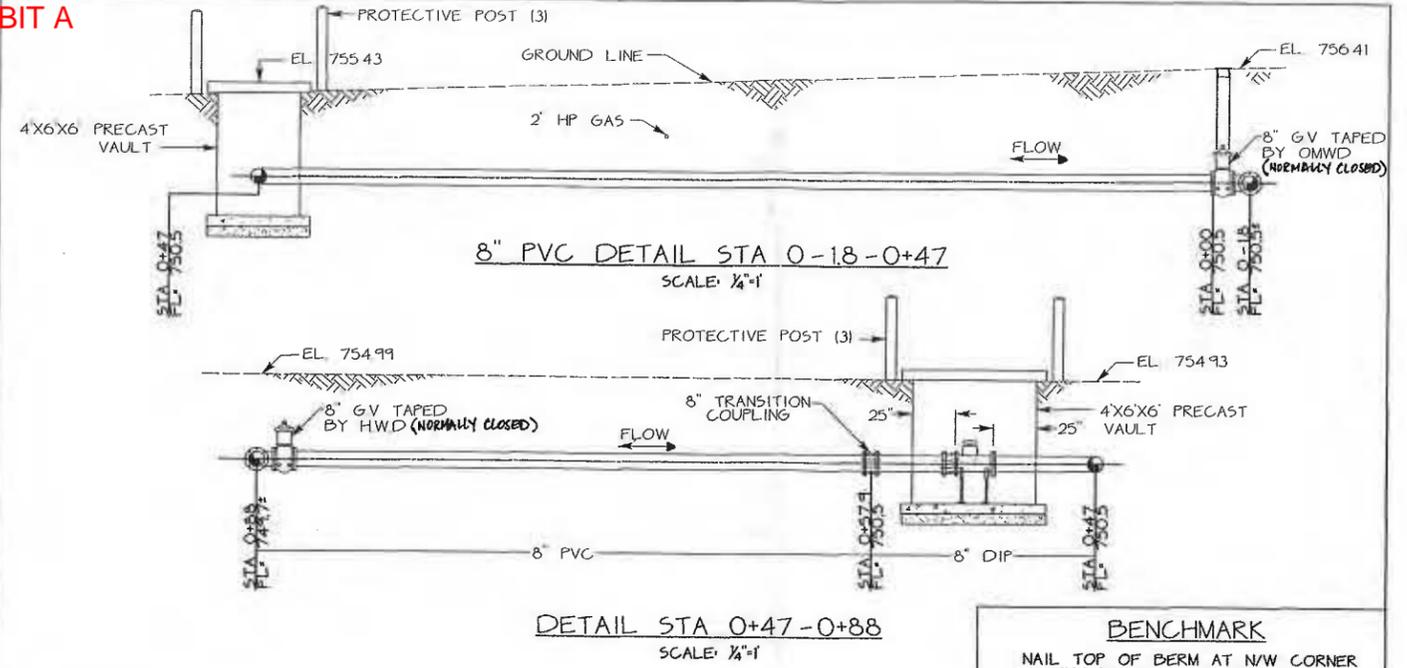
By: _____
General Counsel
Otay Water District

By: _____
General Counsel
Helix Water District

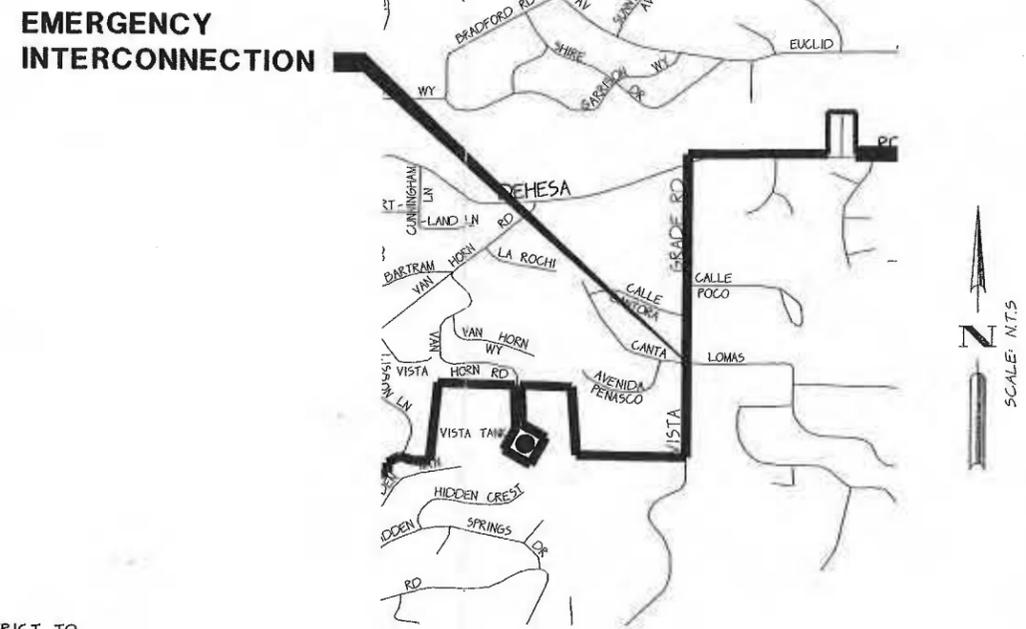
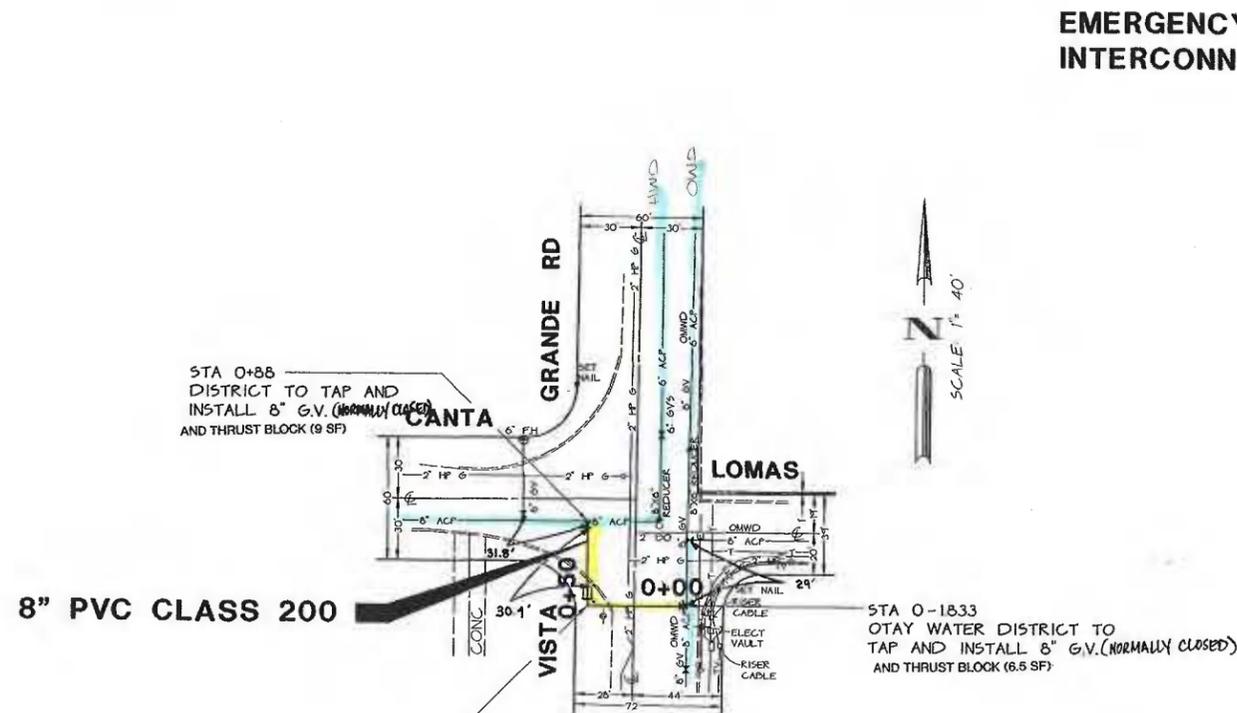
EXHIBIT A



VAULT DETAIL
SCALE: NTS



BENCHMARK
NAIL TOP OF BERM AT N/W CORNER
OF INTERSECTION @ VISTA GRANDE
AND CANTA LOMAS, 225' OF F.H.
44' NNE OF F.H. G.V.
ELEV. 754.25 USGS DATUM



- NOTES
1. INSTALL INSULATED WIRE ENTIRE LENGTH OF JOB.
 2. DISTRICT FORCES TO POTHOLE TO VERIFY ELEVATIONS.
 3. MAKE CONNECTIONS TO EXISTING TRACER WIRE AT OTAY W.D. AND H.W.D. (USE 3M-DBR-6)
 4. OTAY WATER DISTRICT HGL = 978 FEET
HELIX WATER DISTRICT HGL = 978 FEET
 5. MAINTENANCE, REPAIR, OR OPERATION COSTS FOR THE INTERCONNECTION SHALL BE THE RESPONSIBILITY OF THE HELIX WATER DISTRICT.



OTAY WATER DISTRICT
2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA 91778-2096
(619) 670-2222

DATE: 01/11/06
ACTING DEPT. HEAD: JAMES P. PEASLEY
R.C.E.: 29586

DATE: 01/11/06
ENGINEERING MANAGER: MEHDI ARGABIAN

WO 3513 EST. _____ DISTRICT WORK
CONTRACTOR _____ DISTRICT WORK
PIPELINE TYPE AND CLASS 8" CLASS 200 PVC
INSPECTOR DISTRICT WORK
AS CONSTRUCTED 1-6-2006 BY P. MCGINTY
PLAN SHEETS CORRECTED 01/11/06 BY JH. [Signature]
REFERENCES: _____
*NO REVISIONS ALLOWED FOR THIS PROJECT

DISTRICT WORK

HELIX WATER DISTRICT
EMERGENCY INTERCONNECTION
@ S/W CORNER OF VISTA
GRANDE AND CANTA LOMAS

SURVEYED BY ADAMS SCALE: AS SHOWN APPROVED: [Signature]
DRAWN BY WILLIAMS DATE: 06/21/00
CHECKED BY ANIB LUGO
SHEET 1 OF 1 W.O.3513

ATTACHMENT B-2

AGREEMENT FOR EMERGENCY INTERCONNECTION BETWEEN HELIX WATER DISTRICT AND OTAY WATER DISTRICT

This Agreement is made and entered into this 16th day of APRIL, 2001, between Helix Water District, an Irrigation District organized and existing under the Irrigation District Law of the State of California, Water Code Section 20500 et seq., (hereinafter referred to as the "Helix") and Otay Water District, a Municipal Water District organized and existing pursuant to Water Code Section 71000 et seq., (hereinafter referred to as "Otay").

RECITALS

- A. Helix and Otay are member agencies of the San Diego County Water Authority (hereinafter referred to as "Authority"), and are retail water purveyors, which receive water from Authority.
- B. Authority is the regional wholesale water purveyor organized and existing under the County Water Authority Act of the State of California (Chapter 45, Water Code-Appendix).
- C. Helix and Otay desire by this Agreement to provide emergency water service connections to each other.

AGREEMENT

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Definitions. For purposes of this Agreement, the following words and phrases shall have the following meanings:
 - a. Emergency. "Emergency" shall mean any sudden unexpected occurrence that significantly reduces available water so as to jeopardize the public health or safety.
 - b. Surplus Capacity. "Surplus capacity" shall mean that amount of water, as determined by Helix and Otay, in excess of the amount necessary to meet the demand of the Helix and Otay systems.
2. Delivery. In emergency situations, as defined below in Section 1 (a), Each district shall supply treated water through its facilities to the interconnection location shown on Exhibit A, attached hereto and incorporated herein, when requested by the other district pursuant to the terms of this Agreement. Each district shall use its best efforts to provide 24 hours written advance notice of the need for such emergency interconnection, and in all cases shall notify the supplying district prior to actual use. The supplying district shall operate the

ATTACHMENT B-2

interconnection.

3. Ability to Supply Water. Neither district guarantees that surplus capacity will be available at the time an emergency occurs. To the extent that surplus capacity is available, in the sole discretion of the delivering district with no undue burden on its water consumers, the receiving district may utilize the interconnection(s) described in the attached Exhibit B to the extent available.
4. Design and Construction. Otay agrees that Helix shall front fund all costs of the design and construction of the interconnection. The design and specifications shall be subject to Helix' s and Otay' s mutual approval. Helix shall furnish all materials and perform all construction work necessary to make all connections, in accordance with approved plans and specifications. Upon 100% completion of the work, Helix shall bill Otay for 50% of all costs incurred. Payment shall be made by Otay within 30 days of receipt of invoice.
5. Estimate of Quantity of Water Delivered. The estimated quantity of water to be delivered under this agreement shall be mutually agreed upon by the two parties prior to its delivery. The delivery of water through the agreed upon connection shall not exceed ninety (90) days in the aggregate in any calendar year.
6. Payment for Water Delivered. If water is delivered under the terms of this Agreement, the supplying district will report the amount of water that has been supplied through a meter to the receiving district, and to the Authority for credit, within ten (10) calendar days of receipt of delivered water. The districts agree to request that the Authority bill this amount to the receiving district and credit this amount to the supplying district. The cost of the water delivered through the emergency interconnection shall be the Authority's treated water rate in effect at the time of delivery.
7. Maintenance. Helix and Otay shall be responsible for their fair share of maintenance and operation costs of the valve(s) connecting to their respective systems, as shown in exhibit(s), attached hereto and incorporated herein. Helix and Otay shall be solely responsible for any costs associated with their respective pipelines leading up to the interconnection, and responsible for 50% of all costs of any repair, required future relocation, or modification of the connection itself.
8. Water Quality and Demand. Neither district warrants the quality of treated water delivered through any emergency interconnection established pursuant to this Agreement. Water service connections provided hereunder shall not be used to provide supplemental or additional water supply to meet growth in demand not already addressed in the Water Resource Management Plan for either district.
9. Access. During the term of this Agreement, authorized representatives of each district shall be granted access to the facilities and property of the other district for the purpose of

ATTACHMENT B-2

establishing emergency interconnections pursuant to this Agreement.

10. Indemnification. Each district shall be responsible for the willful misconduct and negligent acts or omissions of its officer, directors, agents, employees, and subcontractors. Each district shall indemnify, hold harmless, and defend the other from and against all claims, demands, and liabilities for bodily injury, property damage, or other damages caused by the willful or negligent act or omission of the indemnifying party or its officer, directors, agents, employees or subcontractors.
11. Term. The term of this Agreement shall be from the date of its execution for a period of ten (10) years ("Term"), unless terminated prior to that time pursuant to the terms of this Agreement. In addition, the Agreement may be extended for one (1) additional and successive ten (10) year period or part thereof, based upon Helix' s and Otay' s needs. A request for extension may be made by either Helix or Otay by written notice to the other, one hundred and eighty (180) days prior to the expiration of the term of this Agreement. Extensions of this Agreement shall require the approval of the Board of Directors of both the Otay Water District and Helix Water District, which approval shall not unreasonably be withheld.
12. Integration. This Agreement, including any and all Exhibits to it, represent the entire understanding of both districts as to those matters contained in it, and supersedes and cancels any prior oral or written understandings, promises or representations with respect to those matters covered in it. This Agreement may not be modified or altered except in writing signed by both districts.
13. Laws, Venue and Attorneys' Fees. This Agreement shall be interpreted in accordance with the laws of the State of California. If any action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California. In the event of any such litigation between the parties, the prevailing party shall be entitled to recover all reasonable costs incurred, including reasonable attorneys' fees, as determined by the court.
14. Termination. Either party may terminate this agreement upon ninety (90) days written notice. In the event of termination, Helix and Otay will be responsible for 50% each of the costs of disconnecting or removing connections. Salvaged metering devices, valves and hardware shall remain the property of the district that is responsible as shown on the approved improvement plans.
15. Notice. Any notice or instrument required to be given or delivered by this Agreement may be given or delivered by depositing the same in any United States Post Office, certified mail, return receipt requested, postage prepaid, addressed to:

ATTACHMENT B-2

Assistant Chief of Engineering
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, California 91978-2096

Director of Engineering/Chief Engineer
Helix Water District
7811 University Avenue
La Mesa, California 92941-4927

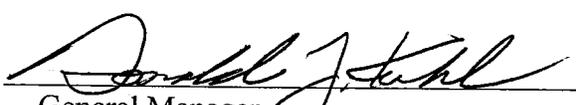
and shall be effective upon receipt.

16. Severability. In the event any one of the provisions of this Agreement shall for any reason be held invalid, illegal or unenforceable, the remaining provisions of this Agreement shall be unimpaired, and the invalid, illegal or unenforceable provision(s) shall be replaced by a mutually acceptable provision, which being valid, legal and enforceable, comes closest to the intention of the parties underlying the invalid, illegal or unenforceable provision.
17. Assignment. In no event shall this Agreement be assigned by either party without first obtaining the prior written consent of the other party.
18. Waiver. No covenant, term or condition of this Agreement shall be deemed to be waived by any party hereto unless such waiver is in writing and executed by the party making the waiver. No waiver of any breach of any of the terms, covenants or conditions of this Agreement shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition contained herein.
19. Execution of Agreement. This Agreement shall not be deemed to have been accepted and shall not be binding upon either district until duly authorized officers of both parties have executed it. This Agreement, including any and all Exhibits to it, represents the entire understanding of both districts as to those matters contained in it, and supersedes and cancels any prior oral or written understandings, promises or representations with respect to those matters covered in it. This Agreement may not be modified or altered except in writing signed by both districts.

ATTACHMENT B-2

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

By: 
Assistant Chief of Engineering
Otay Water District

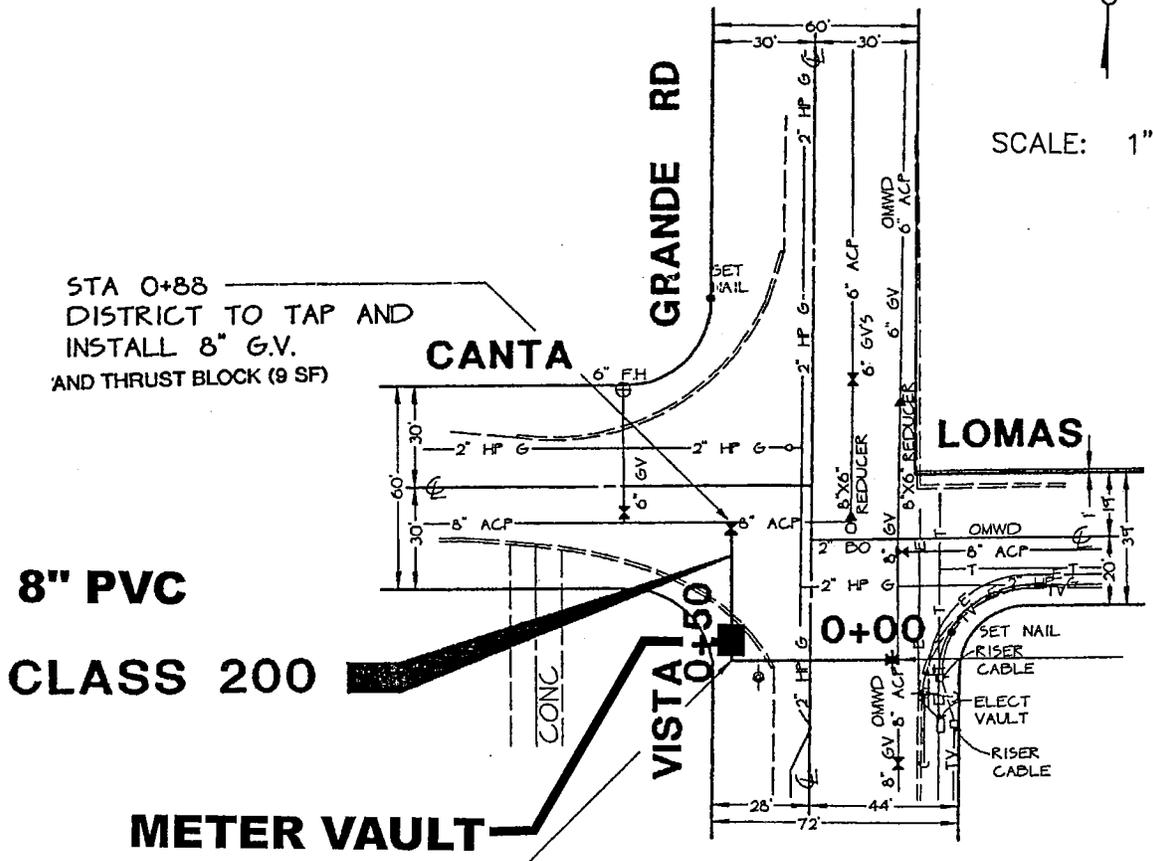
By: 
General Manager
Helix Water District

APPROVED AS TO FORM:

By: 
General Counsel
Helix Water District



SCALE: 1"=400'



STA 0+88
DISTRICT TO TAP AND
INSTALL 8" G.V.
AND THRUST BLOCK (9 SF)

CANTA

GRANDE RD

LOMAS

8" PVC
CLASS 200

VISTA

METER VAULT

STA 0+47 INSTALL 8" 90'
BEND D = 90' RT.
(FLGDXMJ) AND THRUST BLOCK (9 SF)



DRAWING 960 Exhibit A.dwg 03/23/2001 08:32:57 AM PST



OTAY WATER DISTRICT
AGREEMENT FOR EMERGENCY INTERCONNECTION
BETWEEN HELIX WATER DISTRICT AND OTAY WATER DISTRICT

W.O. 8960

EXHIBIT "A"

MEMORANDUM

Date: October 17, 1997
To: Donald R. Kaiser, Assistant General Manager/Chief Engineer
From: Aneld Anub, Jr. Civil Engineer
Subject: UPDATED PRIORITIZED INTERCONNECTIONS

Joe Young, Carlos Lugo, and myself had a meeting on May 1997 concerning the above mentioned. It was determined that the proposed interconnections would be prioritized in the following matter, based on importance and necessity:

1. Otay Water District (Otay #1):

-Location: Intersection of Canta Lomas and Vista Grande.
-Gradient: Otay's gradient is 978.0 ft. and Helix's Vista and South Rim gradients are also at 978.0 ft..
-Storage Capacity: Otay's tank is 2.5 MG, Helix's Vista Tank is 1.16 MG and South Rim is 1.0 MG.
-Existing Facilities: Helix has a 6" main that runs parallel to Otay's 6" main along Vista Grande at Canta Lomas.
-This connection would benefit both agencies.

2. Otay Water District (Otay #3):

-Location: Intersection of Sweetwater Springs Blvd. and Helix Water District/Otay Water District's boundary.
-Gradient: Otay's gradient is 850 ft. and Helix's Dictionary Hill is 851.3 ft..
-Storage Capacity: Otay's tank is 3.0 MG and Helix's Dictionary Hill is 3.01 MG.
-Existing Facilities: Helix has an 8" main that ends approximately 150 ft. north of the District Boundary. Otay has a 12" main that ends at the District Boundary.
-This connection would benefit both agencies.

3. Riverview Water District (Riverview #1):

-Location: Intersection of Winter Gardens Blvd. and Royal Road.
-Gradient: Riverview's gradient is 836 ft. and Helix's Tunnel Hill (reduced) gradient is 783.0 ft..
-Storage Capacity: Riverview's tank is 2.0 MG and Helix's Tunnel Hill 1A & 1B tanks total 2.98 MG.
-Existing Facilities: Helix has a 6" main that runs along Royal Road, while Riverview has a 6" main in Winter Gardens Blvd. ending at Royal Rd..
-This connection would benefit Helix Water District only.

EXHIBIT B

4. City of San Diego (City of San Diego #1):

- Location:* Intersection of San Angelo Dr. and the District Boundary.
- Gradient:* City's gradient in the San Carlos area is 849.0 ft., while Helix's Aldwych system gradient is 835.5 ft..
- Storage Capacity:* City's storage capacity is 5.0 MG, while Helix's Aldwych tanks are 1.90 MG & 0.93 MG.
- Existing Facilities:* Helix has a 14" main that runs along Dallas St., approximately 200' south of the City's 8" main at the intersection of Blue Lake Dr. and Arrowhead Dr..
- This connection would benefit both agencies.*

Other proposed interconnections that were not prioritized due to the longevity of the budget and construction process of the first 4 interconnections. But will be prioritized upon completion of the first 4 proposed interconnection. They are as follows:

Otay Water District:

- Otay #2:**
- Location:* Intersection of Del Rio Rd. and Helix/Otay Boundary.
 - Gradient:* Otay's gradient is 850', Helix's Dictionary Hill gradient is 851.3'.
 - Storage Capacity:* Otay's tank is 3.0 MG and Helix's Dictionary Hill tank is 3.01 MG.
 - Existing Facilities:* Helix has a 6" main that ends approximately 150' west of Helix/Otay Boundary. Otay has a 10" main that ends at the boundary.
 - This connection would benefit both agencies.*

- Otay #4:**
- Location:* Intersection of Gallespie Dr. and Orville St.
 - Gradient:* Otay's gradient is 657' and helix's gradient is 656'.
 - Storage Capacity:* Otay's total storage is 1.84 MG and Helix's Grossmont Reservoir is 30 MG.
 - Existing Facilities:* Helix has a 6" main that ends approximately 150' north of Orville St.. Otay has a 14" main that runs along Orville St..
 - This connection would benefit both agencies.*

Padre Dam Municipal Water District:

- Padre Dam #2:**
- Location:* Intersection of Graves Avenue and Helix/Padre Dam Boundary.
 - Gradient:* Padre Dam's gradient is 629' and Helix's gradient is approximately 650'.

- Storage Capacity:* Padre Dam's tank is 0.714 MG. Helix's is 25MGD to 40 MGD supplied from Levy through the 54" transmission main.
- Existing Facilities:* Helix has an 8" main in Graves Ave. that ends at District's boundary, approximately 150' south of Padre Dam's existing 10" main in Graves Ave.
- This connection will primarily benefit Padre Dam. Under extreme conditions, Padre's system could supply approximately 50 psi to Helix's El Cajon Gravity system.*

Padre Dam #3:

- Location:* Intersection of Cuyamaca St. and Helix/Padre Dam Boundary.
- Gradient:* Padre Dam's gradient is 629' and Helix's gravity system gradient is approximately 650'.
- Storage Capacity:* Padre Dam's tank capacity is 1.5 MG and Helix's capacity is 25 to 40 MGD from Levy supplied through the 54" transmission main.
- Existing Facilities:* Helix has a 6" main in Cuyamaca St. that ends approximately 200' from Padre Dam's 10" main which ends at the District Boundary.
- This connection will primarily benefit Padre Dam. Under extreme conditions, Padre's system could supply about 50 psi to Helix's El Cajon Gravity system.*

Lakeside Water District:**Lakeside #1:**

- Location:* Intersection of Ha-Hanna Rd. and District Boundary.
- Gradient:* Lakeside's gradient is 688' and Helix's Johnstown (reduced) gradient is 784'.
- Storage Capacity:* Lakeside Reservoir No. 1 is 2.0 MG while Helix's Johnstown tank is 2.31 MG and Tunnel Hill No. 1 (A & B) tanks are 2.04 MG and 0.94 MG, respectively.
- Existing Facilities:* Helix has a 6" main in Ha-Hanna Rd. that ends approximately 200' from Lakeside's 8" main.
- This connection would benefit Lakeside Water District only.*

cc: Mike Brown
Carlos Lugo
Joe Young
Chuck Sepich
Jean Shaff

ATTACHMENT C-1

HELIX WO 1841 / OWD CIP P2487 SIR FRANCIS DRAKE DRIVE EMERGENCY INTERCONNECTION

AMENDMENT TO AGREEMENT FOR EMERGENCY INTERCONNECTION BETWEEN HELIX WATER DISTRICT AND OTAY WATER DISTRICT

This Amendment is made and entered into as of _____, 2013 by and between Otay Water District, a Municipal Water District organized and existing pursuant to Water Code Section 71000 *et seq.*, (hereinafter referred to as “Otay”) and Helix Water District, an irrigation district organized and existing under the Irrigation District Law of the State of California, Water Code section 20500 *et seq.*, (hereinafter referred to as “Helix”). Otay and Helix are collectively referred to herein as the “Parties.”

RECITALS

WHEREAS, the Parties entered into an Agreement (the “Agreement”) on May 21, 2008 for emergency interconnection for the **Sir Francis Drake Drive Emergency Interconnection Project, Helix WO 1841 and Otay CIP P2487** (the “Project”); and

WHEREAS, Section 19 of the Agreement provides that either Helix or Otay may give notice that they wish to amend this Agreement at any time, an amendment to the Agreement will be mutually agreed upon by both Helix and Otay in writing; and

WHEREAS, Helix and Otay desire to amend the Agreement to incorporate the required revisions to the Agreement.

NOW THEREFORE, in consideration of the Recitals and mutual obligations of the parties as herein expressed, Helix and Otay agree as follows:

1. That Section 1, Delivery be deleted in its entirety and replaced with the following:

“1. Delivery. In emergency situations, as defined below in Section 1 (a), Helix shall supply treated water through its facilities to the interconnection located as shown in Exhibit A and Exhibit B, attached hereto and incorporated herein, when requested by Otay pursuant to the terms of this Agreement. Otay shall use its best efforts to provide 24 hours written advance notice of the need for such emergency interconnection and in all cases shall notify Helix prior to actual use. Otay shall operate the interconnection.”

2. That Section 1(a), “Emergency”, Defined be deleted in its entirety and replaced with the following:

“a. “Emergency”, Defined. Emergency shall mean any sudden unexpected occurrence that significantly reduces available water so as to jeopardize the public

ATTACHMENT C-1

health or safety, or scheduled maintenance where the interconnection is deemed the only source of potable water.”

3. That Section 1(b), “Surplus Capacity”, Defined be deleted in its entirety and replaced with the following:

“b. “Surplus Capacity”, Defined. Surplus Capacity is defined as the amount of water, as determined by Helix and/or Otay, in excess of the amount necessary to meet the demand of its respective system.”

4. That Section 2, Ability to Supply Water be deleted in its entirety and replaced with the following:

“2. Ability to Supply Water. Helix does not guarantee that surplus capacity, as defined above in Section 1(b), will be available at the time an emergency occurs. To the extent that surplus capacity is available, in the sole discretion of Helix with no undue burden on its water consumers, the receiving district may utilize the interconnection(s) described in Exhibit A and Exhibit B to the extent of such availability. Water service connections provided hereunder shall not be used to provide supplemental or additional water supply to meet growth in demand not already addressed in the Water Resources Master Plan for either district.”

5. That Section 4, Estimation of Quantity of Water Delivered be deleted in its entirety and replaced with the following:

“4. Estimation of Quantity of Water Delivered. The estimated quantity of water to be delivered under this Agreement shall be mutually agreed upon by the Parties prior to its delivery. Otay shall use its best effort to not exceed ninety (90) days delivery of water through the agreed upon connection in the aggregate in any calendar year.”

6. That Section 6, Maintenance be deleted in its entirety and replaced with the following:

“6. Maintenance. Otay and Helix shall be responsible for the maintenance and operation costs of the valve(s) connecting to their respective systems as shown in Exhibit A and Exhibit B, attached hereto and incorporated herein. Maintenance, repair, or operation costs for the interconnection facility shall be the responsibility of Otay. Otay shall be solely responsible for any costs associated with the pipelines leading up to the interconnection, and responsible for 100% of all costs of any repair, relocation, abandonment, meter testing and/or calibration (performed on October of each year), or modification of the connection itself (vault, meter, etc.). Otay shall promptly share any test results with Helix.”

7. That Section 7, Water Quality be amended to include the following:

ATTACHMENT C-1

“The receiving district shall flush the connection at their own cost prior to providing service to its customers.”

8. That Section 8, Access be amended to include the following:

“The Party desiring access will provide at least 24 hour notice of such access. Such notice may be oral or written.”

9. That Section 10, Term be deleted in its entirety and replaced with the following:

“10. Term. The term of this Agreement shall be from the date of its execution until terminated pursuant to the terms of this Agreement.”

10. That Section 12, Laws, Venue, and Attorneys’ Fees be deleted in its entirety and replaced with the following:

“12. Laws, Venue, and Attorneys’ Fees. This Agreement shall be interpreted in accordance with the laws of the State of California. The Parties agree that if any dispute shall arise in relation to this Agreement, they will attempt to resolve such dispute informally, in good faith. If such good faith informal resolution does not resolve the issue, the Parties agree that the matter will be directed to the General Managers of both Parties for another good faith attempt at resolution. If that attempt does not resolve the issue, the Parties agree to mediation under the rules of the American Arbitration Association or any other neutral organization agreed upon before having recourse in a court of law. Any agreements resulting from mediation shall be documented in writing by all Parties. All mediation results shall be “non-binding” and inadmissible for any purpose in any legal proceeding, unless all Parties otherwise agree in writing. If mediation is not successful, and an action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California. In the event of any such litigation between the parties, the prevailing Party shall be entitled to recover all reasonable costs incurred, including reasonable attorney’s fees, as determined by the court.”

11. That Section 13, Termination be deleted in its entirety and replaced with the following:

“13. Termination. Either party may terminate this Agreement upon ninety (90) days written notice to the other party. In the event of termination, Otay will be responsible for 100% of the total costs of disconnecting or removing connections. Helix shall be responsible of the cost of the removal of the valve that is connected to its system only. Salvaged metering devices, valves, and hardware shall remain the property of Otay.”

12. That Section 14, Notice be deleted in its entirety and replaced with the following:

ATTACHMENT C-1

“14. Notice. Proposed amendments to this Agreement will be delivered by United States Post Office, certified mail, and addressed to:

General Manager
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

General Manager
Helix Water District
7811 University Avenue
La Mesa, CA 91941-4927

Any notice or instrument required to be given or delivered by this Agreement (e.g.; flow reporting) may be given or delivered by regular or electronic mail addressed to the designated representative.”

- 13. That all of the terms and conditions of the original Agreement shall remain in full force and effect.
- 14. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
- 15. If any provision of this Amendment shall be held invalid or unenforceable by a court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Amendment unless elimination of such provision materially alters the rights and obligations set forth herein.

IN WITNESS WHEREOF, this First Amendment to Agreement is executed by Helix and Otay on the day and year first written above.

HELIX WATER DISTRICT

OTAY WATER DISTRICT

By: _____
Name: Carlos V. Lugo
Title: General Manager

By: _____
Name: Mark Watton
Title: General Manager

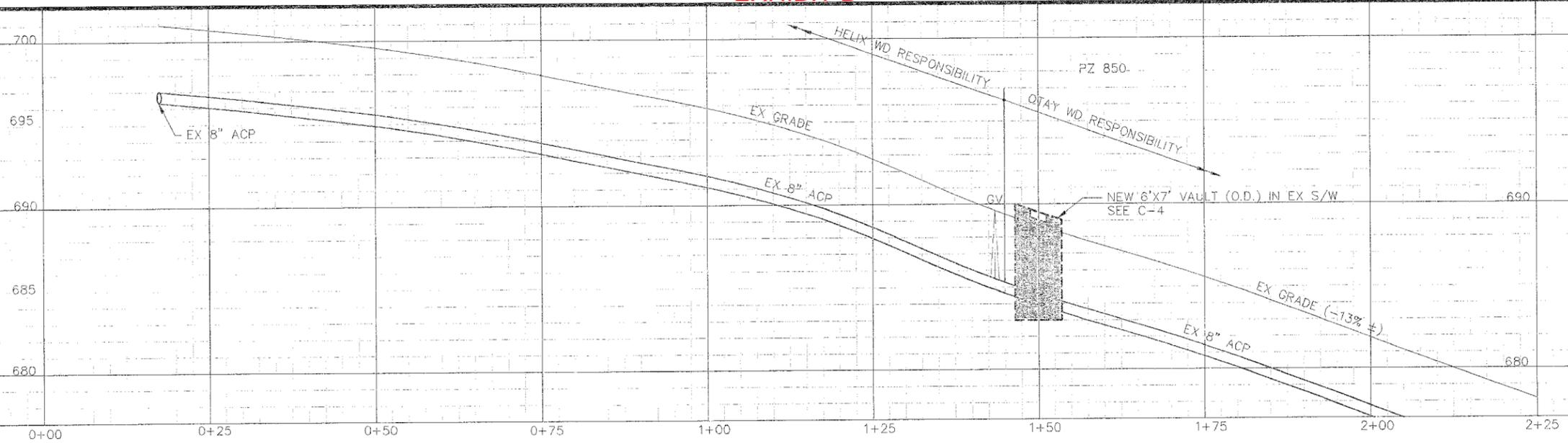
APPROVED AS TO FORM:

APPROVED AS TO FORM:

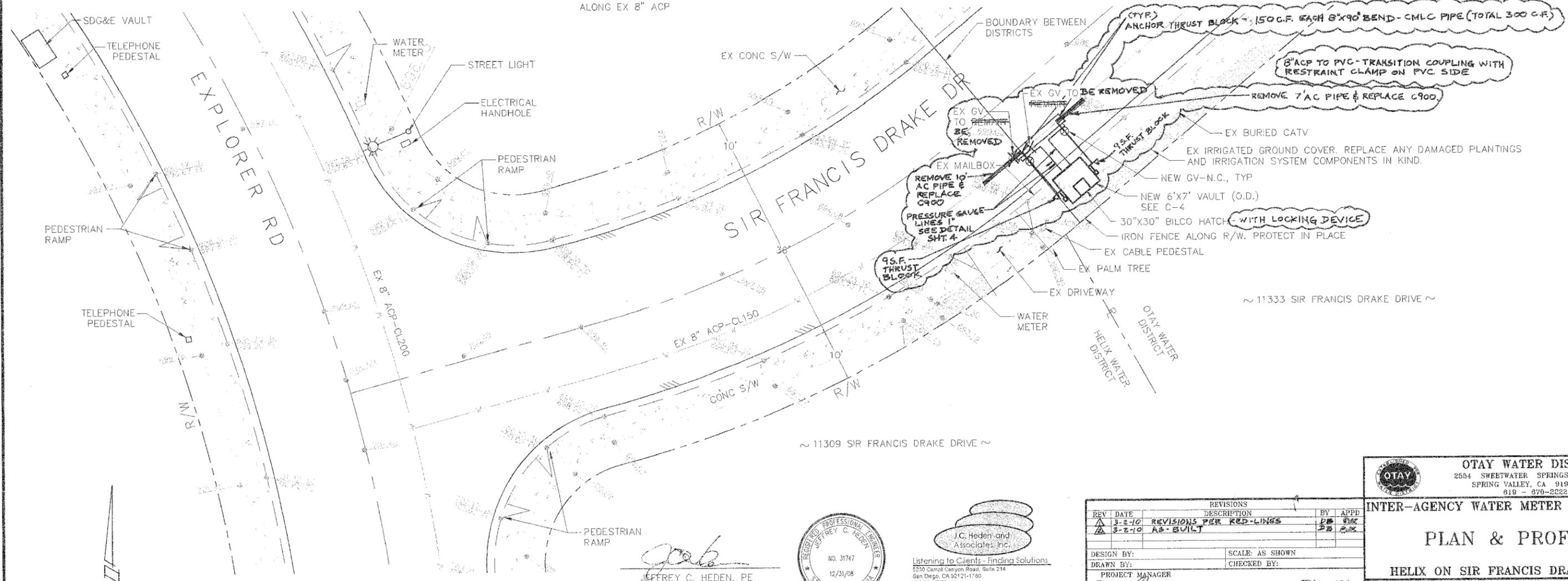
By: _____
General Counsel
Helix Water District

By: _____
General Counsel
Otay Water District

ATTACHMENT C-1
EXHIBIT B



PROFILE
ALONG EX 8" ACP



PLAN

GRAPHIC SCALE



J.C. Heden and Associates, Inc.
Listening to Clients - Finding Solutions
5230 Carral Canyon Road, Suite 214
San Diego, CA 92121-1780
619.332.9335
www.jcheden.com

DRAWING REFERENCES:
Co of SD WO 9511 File No : Est 2032

| REVISIONS | | | |
|-----------|--------|-------------------------|----|
| REV | DATE | DESCRIPTION | BY |
| 1 | 3-2-10 | REVISIONS PER RED-LINES | DB |
| 2 | 3-2-10 | AS-BUILT | DB |

| | |
|-------------------|-----------------|
| DESIGN BY: | SCALE: AS SHOWN |
| DRAWN BY: | CHECKED BY: |
| PROJECT MANAGER | C71077 |
| DANIEL E. KAY, PE | RCE NO. 5/13/08 |
| | DATE |
| RECORD DRAWINGS | C72575 |
| ENGINEER OF WORK | RCE NO. 3/25/10 |
| | DATE |

C-3

OTAY WATER DISTRICT
2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CA 91970-2004
619 - 370-2222

INTER-AGENCY WATER METER CONNECTIONS

PLAN & PROFILE

HELIX ON SIR FRANCIS DRAKE DRIVE

| | | |
|------|------------|--------------|
| DATE | 5-14-08 | SHEET 6 |
| DATE | RCE C48145 | OF 10 SHEETS |

ATTACHMENT C-2

OWD CIP P2422 / Helix WO 1841

AGREEMENT FOR EMERGENCY INTERCONNECTION BETWEEN OTAY WATER DISTRICT AND HELIX WATER DISTRICT

This Agreement is made and entered into as of May 21, 2008, by and between Otay Water District, a Municipal Water District organized and existing pursuant to Water Code Section 71000 et seq, (hereinafter "Otay") and Helix Water District, an Irrigation District organized and existing under the Irrigation District Law of the State of California, Water Code Section 20500 et seq, (hereinafter referred to as "Helix"). Otay and Helix are collectively referred to herein as the "Parties."

RECITALS

- A. Otay and Helix are member agencies of the San Diego County Water Authority (hereinafter referred to as "Authority"), and are retail water purveyors that receive water from the Authority.
- B. Authority is the regional wholesale water purveyor organized and existing under the County Water Authority Act of the State of California (Chapter 45, Water Code-Appendix).
- C. Otay desires and Helix is amenable to, pursuant to the terms and conditions of this Agreement, provide emergency water service connections to from Helix to Otay; such water service connections are not and shall not be used to provide a supplemental or additional water supply to meet the growth in demand not already addressed in the Water Resource Master Plans for either Party.

AGREEMENT

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

- 1. Delivery. In an Emergency, as defined below in Section 1 (a), Helix shall supply treated water through its facilities to the interconnection located as shown in the following Exhibit A, attached hereto and incorporated herein, when requested by Otay pursuant to the terms of this Agreement. Otay shall use its best efforts to provide 24 hours written advance notice of the need for such emergency interconnection and in all cases shall notify Helix prior to actual use. Otay shall operate the interconnection.
 - a. "Emergency", Defined. An "emergency" is defined as any sudden unexpected occurrence that significantly reduces available water so as to jeopardize the health and/or safety of the public.

ATTACHMENT C-2

- b. “Surplus Capacity”, Defined. “Surplus Capacity” is defined as the amount of water, as determined by Helix or Otay, respectively, in excess of the amount necessary to satisfy the demand of the supplying party.
2. Ability to Supply Water. Neither District guarantees that Surplus Capacity, as defined above in Section I(b), will be available at the time an emergency situation occurs. To the extent that Surplus Capacity is available, in the sole discretion of the supplying Party with no undue burden on its water consumers, the receiving Party may utilize the interconnection(s) described in Exhibit A to the extent of such availability.
3. Design and Construction. Otay shall fund all costs of the design and construction of the rehabilitation of the emergency interconnection, and of all work related to the interconnection as set forth herein. The design and specifications shall conform to the Water Agency Standards (WAS). Items that are not covered by the WAS, shall be subject to Otay’s and Helix’s mutual approval. Otay shall act as the lead agency for purposes of the California Environmental Quality Act. Otay shall furnish all materials and hire a contractor to perform all construction work necessary to make all connections, in accordance with approved plans and specifications. Upon completion, Otay shall provide Helix with “As-built” record drawings of the interconnection and provide any amendments to these drawings as they are developed.
4. Estimation of Quantity of Water Delivered. If water is to be delivered under the terms of this Agreement, the estimated quantity of water to be delivered and duration shall be mutually agreed upon by the two Parties prior to delivery of any water by the supplying Party.
5. Payment for Water Delivered. If water is delivered under the terms of this Agreement, the supplying Party will report the amount of water that has been supplied through a meter to the receiving Party and to the Authority. It is the Parties intention that the Authority will credit the supplying Party the cost of the water and the receiving Party will be billed this amount by the Authority. If the Authority is unable or unwilling to credit the supplying Party and bill the receiving Party appropriately, the receiving Party shall pay the supplying Party within 30 days of receiving written notice of the cost of the water. The cost of the water delivered through the emergency interconnection shall be the Authority’s treated water rate in effect at the time of delivery.
6. Maintenance. Otay and Helix shall be responsible for the maintenance and operation costs of the valve(s) connecting to their respective systems as shown in Exhibit A, attached hereto and incorporated herein. Maintenance, repair, or operation costs for the interconnection facility shall be the responsibility of Otay. Otay shall be solely responsible for any costs associated with the pipelines leading up to the interconnection, and responsible for 100% of all costs of any repair, relocation, abandonment, or modification of the connection itself (vault, meter, etc.).

ATTACHMENT C-2

7. Water Quality. Neither District warrants the quality of treated water delivered through any emergency interconnection established pursuant to this Agreement.
8. Access. During the term of this Agreement, authorized representatives of both Parties shall be granted access to the facilities and property of the other party for the purpose of establishing emergency interconnections pursuant to this Agreement.
9. Indemnification. Each party shall be responsible for the willful misconduct and negligent acts or omissions of its officers, directors, agents, employees, and subcontractors. Each party shall indemnify, hold harmless, and defend the other from and against all claims, demands, and liabilities for bodily injury, property damage, or other damages caused by the willful or negligent act or omission of the indemnifying party or its officer, directors, agents, employees, or subcontractors.
10. Term. The term of this Agreement shall be from the date of its execution for a period of ten (10) years ("Term"), unless terminated prior to that time pursuant to the terms of this Agreement. The Agreement may be extended for one (1) additional and successive ten (10) year period, or such term as may be mutually agreed upon by the Parties based upon Helix and Otay's needs. Either Helix or Otay may exercise this option by providing written notice to the other District, one hundred and eighty (180) days prior to the expiration of the term of this Agreement. The renewal of the Agreement shall require the approval of the Board of Directors of both the Otay Water District and Helix Water District, which approval shall not unreasonably be withheld.
11. Integration. This Agreement and any and all Exhibits to it, represents the entire understanding of the Parties as to those matters contained in it, and supersedes and cancels any prior oral or written understandings, promises or representations with respect to those matters covered in it. This Agreement may not be modified or altered except in writing signed by both Parties.
12. Laws, Venue, and Attorneys' Fees. This Agreement shall be interpreted in accordance with the laws of the State of California. If any action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California. In the event of any such litigation between the parties, the prevailing party shall be entitled to recover all reasonable costs incurred, including reasonable attorney's fees, as determined by the court.
13. Termination. Either party may terminate this Agreement upon thirty (30) days written notice to the other party. In the event of termination, Otay will be responsible for 100% of the total costs of disconnecting or removing connections. Helix shall be responsible of the cost of the removal of the valve that is connected to its system only. Salvaged metering devices, valves, and hardware shall remain the property of Otay.

ATTACHMENT C-2

14. Notice. Any notice or instrument required to be given or delivered by this Agreement may be given or delivered by depositing the same in any United States Post Office, certified mail, and return receipt requested, postage prepaid, addressed to:

General Manager, Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2096

General Manager, Helix Water District
Helix Water District
7811 University Avenue
La Mesa, CA 91941-4927

and shall be effective upon receipt thereof.

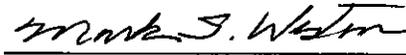
15. Severability. In the event any one of the provisions of this Agreement shall for any reason be held invalid, illegal or unenforceable, the remaining provisions of this Agreement shall be unimpaired, and the invalid, illegal or unenforceable provision(s) shall be replaced by a mutually acceptable provision which being valid, legal and enforceable, comes closest to the intention of the parties underlying the invalid, illegal or unenforceable provision.
16. Assignment. In no event shall this Agreement be assigned by either party without first obtaining the prior written consent of the other party.
17. Waiver. No covenant, term or condition of this Agreement shall be deemed to be waived by any party hereto unless such waiver is in writing and executed by the party making the waiver. No waiver of any breach of any of the terms, covenants, or conditions of this Agreement shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition contained herein.
18. Execution of Agreement. This Agreement shall not be deemed to have been accepted and shall not be binding upon either District until duly authorized officers of both parties have executed it. This agreement may not be modified or altered except in writing, signed by both Parties.
19. Amendment of Agreement. Either Helix or Otay may give notice that they wish to amend this Agreement at any time with thirty (30) calendar days written notice. Any amendments will have to be mutually agreed upon by both Helix and Otay in writing.

[signatures continued on next page]

ATTACHMENT C-2

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

By: 
Mark Watton, General Manager
Otay Water District

By: 
Mark Weston, General Manager
Helix Water District

Approved as to form:

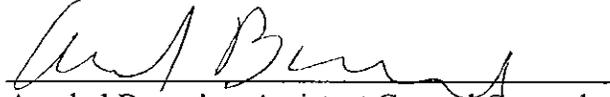
By: 
General Counsel
Helix Water District

ATTACHMENT C-2

**AGREEMENT FOR EMERGENCY INTERCONNECTION
BETWEEN OTAY WATER DISTRICT AND
HELIX WATER DISTRICT**

The Agreement (Agreement) for Emergency Interconnection between the Otay Water District ("Otay") and Helix Water District ("Helix"), providing for the emergency water service connections for water to be transferred from Helix to Otay in an Emergency (as defined in the Agreement), is approved as to form on the date indicated below.

APPROVED AS TO FORM:



Aerobel Banuelos, Assistant General Counsel

6-10-08

Date

ATTACHMENT D-1

HELIX WO 730 / OWD CIPW422-WO30093 SWEETWATER SPRINGS BLVD EMERGENCY INTERCONNECTION

AMENDMENT TO AGREEMENT FOR EMERGENCY INTERCONNECTION BETWEEN HELIX WATER DISTRICT AND OTAY WATER DISTRICT

This Amendment is made and entered into as of _____, 2013 by and between Otay Water District, a Municipal Water District organized and existing pursuant to Water Code Section 71000 *et seq*, (hereinafter referred to as “Otay”) and Helix Water District, an irrigation district organized and existing under the Irrigation District Law of the State of California, Water Code section 20500 *et seq*, (hereinafter referred to as “Helix”). Otay and Helix are collectively referred to herein as the “Parties.”

RECITALS

WHEREAS, the Parties entered into an Agreement (the “Agreement”) on October 26, 2005 for emergency interconnection for the **Emergency Interconnection at Sweetwater Springs Blvd Project, Helix WO 730 and Otay CIPW422-WO 30093** (the “Project”); and

WHEREAS, Section 19 of the Agreement provides that either Helix or Otay may give notice that they wish to amend this Agreement at any time, an amendment to the Agreement will be mutually agreed upon by both Helix and Otay in writing; and

WHEREAS, Helix and Otay desire to amend the Agreement to incorporate the required revisions to the Agreement.

NOW THEREFORE, in consideration of the Recitals and mutual obligations of the parties as herein expressed, Helix and Otay agree as follows:

1. That Section 1, Delivery be deleted in its entirety and replaced with the following:

“1. Delivery. In emergency situations, as defined below in Section 1 (a), Helix and Otay shall supply treated water through their facilities to the interconnection located as shown in Exhibit A, Exhibit B and Exhibit C, attached hereto and incorporated herein, when requested by either Party pursuant to the terms of this Agreement. Both Parties shall use their best efforts to provide 24 hours written advance notice of the need for such emergency interconnection and in all cases shall notify the supplying Party prior to actual use. The supplying Party shall operate the interconnection.”

2. That Section 1(a), “Emergency”, Defined be deleted in its entirety and replaced with the following:

“a. “Emergency”, Defined. Emergency shall mean any sudden unexpected occurrence that significantly reduces available water so as to jeopardize the public health or safety, or scheduled maintenance where the interconnection is deemed the only source of potable water.”

ATTACHMENT D-1

3. That Section 1(b), “Surplus Capacity”, Defined be deleted in its entirety and replaced with the following:

“b. “Surplus Capacity”, Defined. Surplus Capacity is defined as the amount of water, as determined by Helix and/or Otay, in excess of the amount necessary to meet the demand of its respective system.”
4. That Section 2, Ability to Supply Water be deleted in its entirety and replaced with the following:

“2. Ability to Supply Water. Neither District guarantees that surplus capacity, as defined above in Section 1(b), will be available at the time an emergency occurs. To the extent that surplus capacity is available, in the sole discretion of the delivering district with no undue burden on its water consumers, the receiving district may utilize the interconnection(s) described in Exhibit A, Exhibit B and Exhibit C to the extent of such availability. Water service connections provided hereunder shall not be used to provide supplemental or additional water supply to meet growth in demand not already addressed in the Water Resources Master Plan for either district.”
5. That Section 4, Estimation of Quantity of Water Delivered be deleted in its entirety and replaced with the following:

“4. Estimation of Quantity of Water Delivered. The estimated quantity of water to be delivered under this Agreement shall be mutually agreed upon by the Parties prior to its delivery. Both Parties shall use their best efforts to not exceed ninety (90) days delivery of water through the agreed upon connection in the aggregate in any calendar year.”
6. That Section 6, Maintenance be deleted in its entirety and replaced with the following:

“6. Maintenance. Otay and Helix shall be responsible for the maintenance and operation costs of the valve(s) connecting to their respective systems as shown in Exhibit A, Exhibit B and Exhibit C, attached hereto and incorporated herein. Helix and Otay shall be responsible for any costs associated with their respective pipelines leading up to the interconnection, and responsible for 50% of all costs of any repair, required future relocation, or modification of the connection itself (vault, meter, etc.). Maintenance and maintenance costs related to the cleanup of graffiti on the facilities and meter testing and/or calibration (performed on October of each year) will alternate each calendar year between the Parties. Otay will be responsible for the even years, while Helix will be responsible for the odd years. Helix and Otay shall promptly share test results.”
7. That Section 7, Water Quality be amended to include the following:

“The receiving district shall flush the connection at their own cost prior to providing service to its customers.”

ATTACHMENT D-1

8. That Section 8, Access be amended to include the following:

“The Party desiring access will provide at least 24 hour notice of such access. Such notice may be oral or written.”
9. That Section 10, Term be deleted in its entirety and replaced with the following:

“10. Term. The term of this Agreement shall be from the date of its execution until terminated pursuant to the terms of this Agreement.”
10. That Section 12, Laws, Venue, and Attorneys’ Fees be deleted in its entirety and replaced with the following:

“12. Laws, Venue, and Attorneys’ Fees. This Agreement shall be interpreted in accordance with the laws of the State of California. The Parties agree that if any dispute shall arise in relation to this Agreement, they will attempt to resolve such dispute informally, in good faith. If such good faith informal resolution does not resolve the issue, the Parties agree that the matter will be directed to the General Managers of both Parties for another good faith attempt at resolution. If that attempt does not resolve the issue, the Parties agree to mediation under the rules of the American Arbitration Association or any other neutral organization agreed upon before having recourse in a court of law. Any agreements resulting from mediation shall be documented in writing by all Parties. All mediation results shall be “non-binding” and inadmissible for any purpose in any legal proceeding, unless all Parties otherwise agree in writing. If mediation is not successful, and an action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California. In the event of any such litigation between the parties, the prevailing Party shall be entitled to recover all reasonable costs incurred, including reasonable attorney’s fees, as determined by the court.”
11. That Section 13, Termination be deleted in its entirety and replaced with the following:

“13. Termination. Either party may terminate this agreement upon ninety (90) days written notice to the other party. In the event of termination, Helix and Otay will be responsible for 50% each of the costs of disconnecting or removing connections. Salvaged metering devices, valves and hardware shall remain the property of the district that is responsible as shown on the approved improvement plans. The party that retains shared components owned 50% by each agency (e.g.; meter and vault) shall pay the other agency 50% of fair market salvage value of shared components.”
12. That Section 14, Notice be deleted in its entirety and replaced with the following:

“14. Notice. Proposed amendments to this Agreement will be delivered by United States Post Office, certified mail, and addressed to:

ATTACHMENT D-1

General Manager
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

General Manager
Helix Water District
7811 University Avenue
La Mesa, CA 91941-4927

Any notice or instrument required to be given or delivered by this Agreement (e.g.; flow reporting) may be given or delivered by regular or electronic mail addressed to the designated representative.”

- 13. That all of the terms and conditions of the original Agreement shall remain in full force and effect.
- 14. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
- 15. If any provision of this Amendment shall be held invalid or unenforceable by a court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Amendment unless elimination of such provision materially alters the rights and obligations set forth herein.

IN WITNESS WHEREOF, this First Amendment to Agreement is executed by Helix and Otay on the day and year first written above.

HELIX WATER DISTRICT

OTAY WATER DISTRICT

By: _____
Name: Carlos V. Lugo
Title: General Manager

By: _____
Name: Mark Watton
Title: General Manager

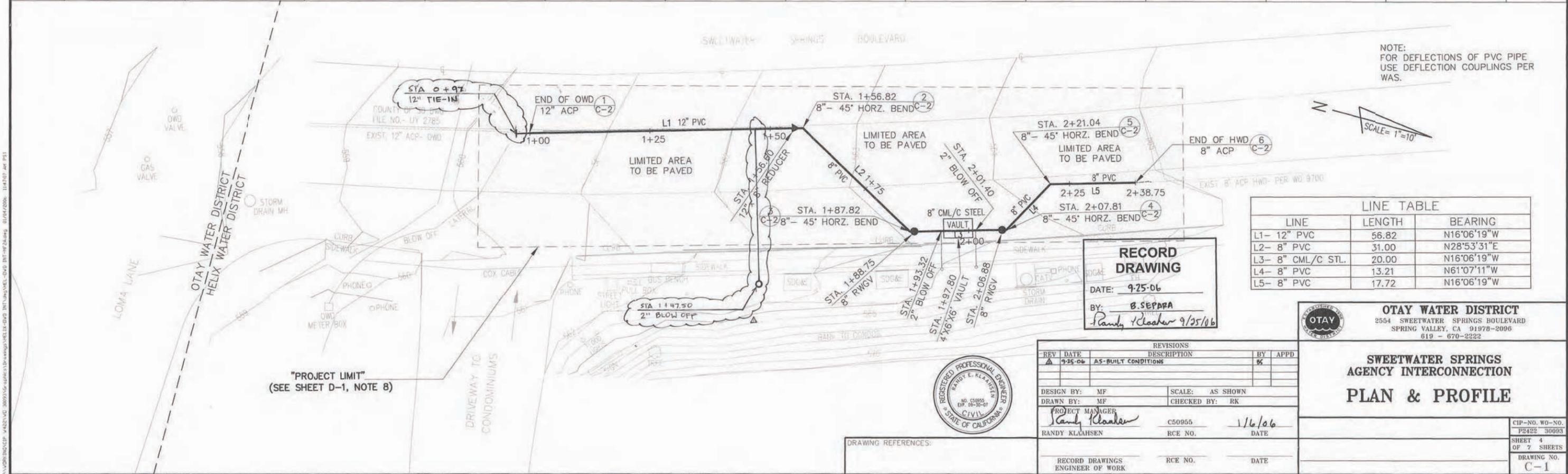
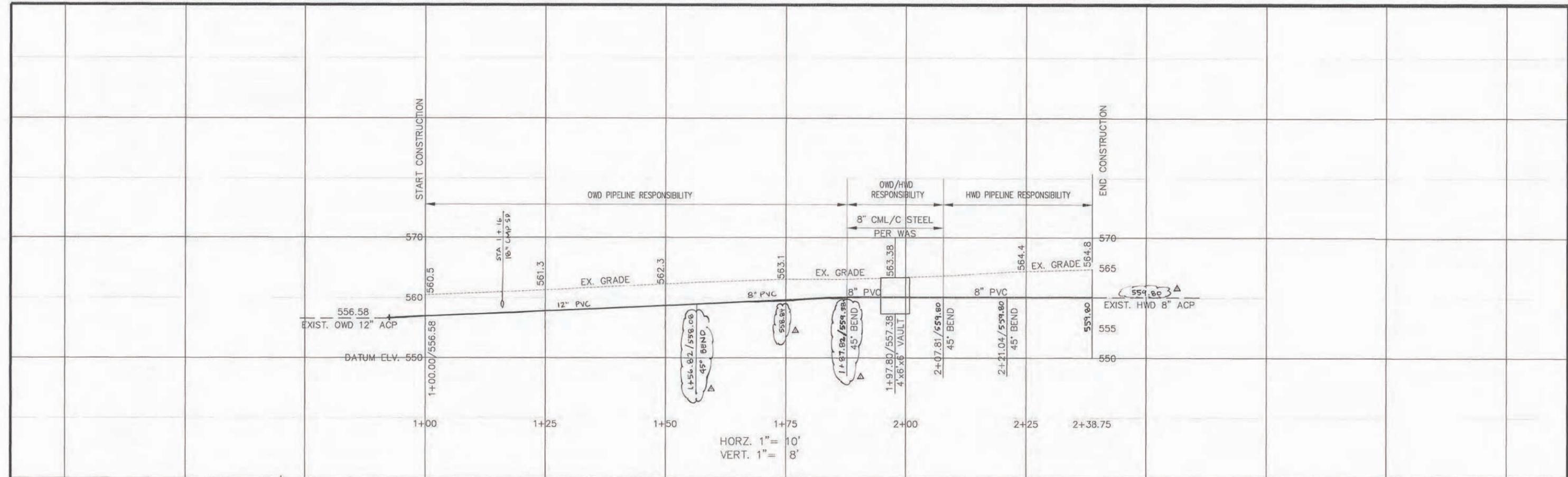
APPROVED AS TO FORM:

APPROVED AS TO FORM:

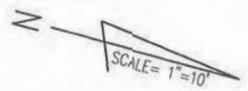
By: _____
General Counsel
Helix Water District

By: _____
General Counsel
Otay Water District

ATTACHMENT D-1
EXHIBIT B



NOTE:
FOR DEFLECTIONS OF PVC PIPE
USE DEFLECTION COUPLINGS PER
WAS.



| LINE TABLE | | |
|-------------------|--------|-------------|
| LINE | LENGTH | BEARING |
| L1- 12" PVC | 56.82 | N16°06'19"W |
| L2- 8" PVC | 31.00 | N28°53'31"E |
| L3- 8" CML/C STL. | 20.00 | N16°06'19"W |
| L4- 8" PVC | 13.21 | N61°07'11"W |
| L5- 8" PVC | 17.72 | N16°06'19"W |

RECORD DRAWING
DATE: 9-25-06
BY: B. SEPAPA
Randy Klaahsen 9/25/06



| REV | DATE | DESCRIPTION | BY | APPD |
|-----|---------|---------------------|----|------|
| Δ | 9-25-06 | AS-BUILT CONDITIONS | RS | |

| | |
|--|-----------------|
| DESIGN BY: MF | SCALE: AS SHOWN |
| DRAWN BY: MF | CHECKED BY: RK |
| PROJECT MANAGER <i>Randy Klaahsen</i> | C50955 1/6/06 |
| RANDY KLAAHSEN | RCE NO. DATE |

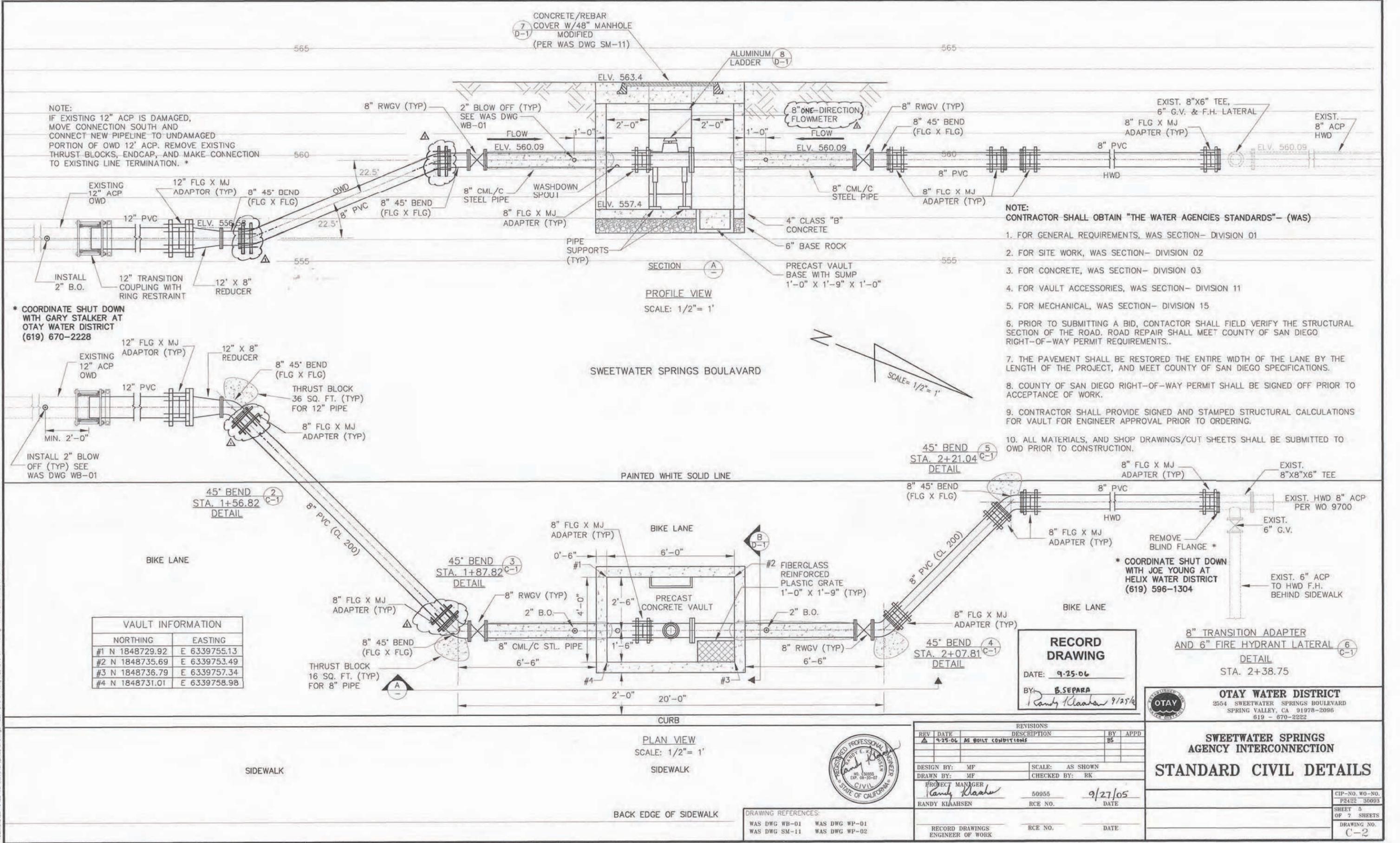
| | | |
|------------------|---------|------|
| RECORD DRAWINGS | RCE NO. | DATE |
| ENGINEER OF WORK | | |

OTAY WATER DISTRICT
2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CA 91978-2096
619 - 670-2222

**SWEETWATER SPRINGS
AGENCY INTERCONNECTION
PLAN & PROFILE**

CIP-NO. WO-NO.
P2422 30093
SHEET 4
OF 7 SHEETS
DRAWING NO.
C-1

ATTACHMENT D-1
EXHIBIT C



NOTE:
IF EXISTING 12" ACP IS DAMAGED,
MOVE CONNECTION SOUTH AND
CONNECT NEW PIPELINE TO UN-DAMAGED
PORTION OF OWD 12" ACP. REMOVE EXISTING
THRUST BLOCKS, ENDCAP, AND MAKE CONNECTION
TO EXISTING LINE TERMINATION. *

* COORDINATE SHUT DOWN
WITH GARY STALKER AT
OTAY WATER DISTRICT
(619) 670-2228

NOTE:
CONTRACTOR SHALL OBTAIN "THE WATER AGENCIES STANDARDS"- (WAS)

1. FOR GENERAL REQUIREMENTS, WAS SECTION- DIVISION 01
2. FOR SITE WORK, WAS SECTION- DIVISION 02
3. FOR CONCRETE, WAS SECTION- DIVISION 03
4. FOR VAULT ACCESSORIES, WAS SECTION- DIVISION 11
5. FOR MECHANICAL, WAS SECTION- DIVISION 15
6. PRIOR TO SUBMITTING A BID, CONTACTOR SHALL FIELD VERIFY THE STRUCTURAL SECTION OF THE ROAD. ROAD REPAIR SHALL MEET COUNTY OF SAN DIEGO RIGHT-OF-WAY PERMIT REQUIREMENTS..
7. THE PAVEMENT SHALL BE RESTORED THE ENTIRE WIDTH OF THE LANE BY THE LENGTH OF THE PROJECT, AND MEET COUNTY OF SAN DIEGO SPECIFICATIONS.
8. COUNTY OF SAN DIEGO RIGHT-OF-WAY PERMIT SHALL BE SIGNED OFF PRIOR TO ACCEPTANCE OF WORK.
9. CONTRACTOR SHALL PROVIDE SIGNED AND STAMPED STRUCTURAL CALCULATIONS FOR VAULT FOR ENGINEER APPROVAL PRIOR TO ORDERING.
10. ALL MATERIALS, AND SHOP DRAWINGS/CUT SHEETS SHALL BE SUBMITTED TO OWD PRIOR TO CONSTRUCTION.

| VAULT INFORMATION | |
|-------------------|--------------|
| NORTHING | EASTING |
| #1 N 1848729.92 | E 6339755.13 |
| #2 N 1848735.69 | E 6339753.49 |
| #3 N 1848736.79 | E 6339757.34 |
| #4 N 1848731.01 | E 6339758.98 |

RECORD DRAWING
DATE: 9-25-06
BY: B. SEPARA
Randy Klaahsen 9/25/06

OTAY WATER DISTRICT
2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CA 91978-2096
619 - 670-2222

**SWEETWATER SPRINGS
AGENCY INTERCONNECTION
STANDARD CIVIL DETAILS**

| REV | DATE | DESCRIPTION | BY | APPD |
|-----|---------|---------------------|----|------|
| Δ | 9-25-06 | AS BUILT CONDITIONS | BS | |

| | |
|-------------------------------------|------------------|
| DESIGN BY: MF | SCALE: AS SHOWN |
| DRAWN BY: MF | CHECKED BY: RK |
| PROJECT MANAGER Randy Klaahsen | 50955 RCE NO. |
| | 9/27/05 DATE |
| RECORD DRAWINGS ENGINEER OF WORK | RCE NO. DATE |

DRAWING REFERENCES:
WAS DWG WB-01 WAS DWG WP-01
WAS DWG SM-11 WAS DWG WP-02

HELIX WO 730
OWD CIPW422/WO 30093

AGREEMENT FOR EMERGENCY INTERCONNECTION
BETWEEN OTAY WATER DISTRICT
AND
HELIX WATER DISTRICT

This Agreement is made and entered into as of ~~December 7~~ ^{October 26} ^{msw}, 2005, by and between Otay Water District, a Municipal Water District organized and existing pursuant to Water Code Section 71000 et seq, (hereinafter "Otay") and Helix Water District, an Irrigation District organized and existing under the Irrigation District Law of the State of California, Water Code Section 20500 et seq, (hereinafter referred to as "Helix"). Otay and Helix are collectively referred to herein as the "Parties."

RECITALS

- A. Otay and Helix are member agencies of the San Diego County Water Authority (hereinafter referred to as "Authority"), and are retail water purveyors that receive water from the Authority.
- B. Authority is the regional wholesale water purveyor organized and existing under the County Water Authority Act of the State of California (Chapter 45, Water Code-Appendix).
- C. Otay and Helix desire by this Agreement to provide emergency water service connections to each other; such water service connections are not and shall not be used to provide a supplemental or additional water supply to meet the growth in demand not already addressed in the Water Resource Master Plans for either District.

AGREEMENT

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

- 1. Delivery. In emergency situations, as defined below in Section 1 (a), Helix and Otay shall supply treated water through their facilities to the interconnection located as shown in the following Exhibit A, attached hereto and incorporated herein, when requested by either party pursuant to the terms of this Agreement. Both Parties shall use their best efforts to provide 24 hours written advance notice of the need for such emergency interconnection and in all cases shall notify the supplying party prior to actual use. The supplying party shall operate the interconnection.
 - a. "Emergency", Defined. An "emergency" is defined as any sudden unexpected occurrence that significantly reduces available water so as to jeopardize the health and/or safety of the public.

- b. “Surplus Capacity”, Defined. “Surplus Capacity” is defined as the amount of water, as determined by Helix and Otay in excess of the amount necessary to the demand of the Helix and Otay systems.
2. Ability to Supply Water. Neither District guarantees that surplus capacity, as defined above in Section 1(b), will be available at the time an emergency situation occurs. To the extent that surplus capacity is available, in the sole discretion of the delivering party with no undue burden on its water consumers, the receiving party may utilize the interconnection(s) described in Exhibit A to the extent of such availability.
3. Design and Construction. Helix agrees that Otay shall initially fund all costs of the design and construction of the emergency interconnection, subject to reimbursement by Helix, in the proportion set forth below, upon completion of all work related to the interconnection as set forth herein. The design and specifications shall conform to the Water Agency Standards (WAS). Items that are not covered by the WAS, shall be subject to Otay’s and Helix’s mutual approval. Otay shall act as the lead agency for purposes of the California Environmental Quality Act. Otay shall furnish all materials and hire a contractor to perform all construction work necessary to make all connections, in accordance with approved plans and specifications. Upon completion, Otay shall provide Helix with “As-built” record drawings of the interconnection and provide any amendments to these drawings as they are developed. Upon 100% completion of the work, Otay shall bill Helix for 50% of all costs incurred. Payment shall be made by Helix within 30 days of receipt of invoice.
4. Estimation of Quantity of Water Delivered. If water is to be delivered under the terms of this Agreement, the estimated quantity of water to be delivered and duration shall be mutually agreed upon by the two parties prior to its delivery.
5. Payment for Water Delivered. If water is delivered under the terms of this Agreement, the supplying party will report the amount of water that has been supplied through a meter to the receiving party and to the Authority for credit within ten (10) calendar days of receipt of delivered water. The Authority will bill this amount to the receiving party and credit this amount to the supplying party. The cost of the water delivered through the emergency interconnection shall be the Authority’s treated water rate in effect at the time of delivery.
6. Maintenance. Otay and Helix shall be responsible for the maintenance and operation costs of the valve(s) connecting to their respective systems as shown in Exhibit A, attached hereto and incorporated herein. Maintenance, repair, or operation costs for the interconnection facility shall be the responsibility of the party identified in the Exhibits. Each District shall be solely responsible for any costs associated with its respective pipeline leading up to the interconnection, and responsible for 50% of all costs of any repair, relocation, abandonment, or modification of the connection itself (vault, meter, etc.).

7. Water Quality. Neither District warrants the quality of treated water delivered through any emergency interconnection established pursuant to this Agreement.
8. Access. During the term of this Agreement, authorized representatives of both Parties shall be granted access to the facilities and property of the other party for the purpose of establishing emergency interconnections pursuant to this Agreement.
9. Indemnification. Each party shall be responsible for the willful misconduct and negligent acts or omissions of its officers, directors, agents, employees, and subcontractors. Each party shall indemnify, hold harmless, and defend the other from and against all claims, demands, and liabilities for bodily injury, property damage, or other damages caused by the willful or negligent act or omission of the indemnifying party or its officer, directors, agents, employees, or subcontractors.
10. Term. The term of this Agreement shall be from the date of its execution for a period of ten (10) years ("Term"), unless terminated prior to that time pursuant to the terms of this Agreement. The Agreement may be extended for one (1) additional and successive ten (10) year period, or such term as may be mutually agreed upon by the Parties based upon Helix and Otay's needs. Either Helix or Otay may exercise this option by providing written notice to the other District, one hundred and eighty (180) days prior to the expiration of the term of this Agreement. The renewal of the Agreement shall require the approval of the Board of Directors of both the Otay Water District and Helix Water District, which approval shall not unreasonably be withheld. Following the renewal term, the Parties may negotiate an additional extension of this Agreement if such an extension meets the needs of the Parties and as may be mutually agreed upon in writing by the Parties.
11. Integration. This Agreement and any and all Exhibits to it, represents the entire understanding of the Parties as to those matters contained in it, and supersedes and cancels any prior oral or written understandings, promises or representations with respect to those matters covered in it. This Agreement may not be modified or altered except in writing signed by both Parties.
12. Laws, Venue, and Attorneys' Fees. This Agreement shall be interpreted in accordance with the laws of the State of California. If any action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California. In the event of any such litigation between the parties, the prevailing party shall be entitled to recover all reasonable costs incurred, including reasonable attorney's fees, as determined by the court.
13. Termination. Either party may terminate this Agreement upon thirty (30) days written notice to the other party. In the event of termination, Helix and Otay will be responsible for 50% each of the total costs of disconnecting or removing connections. Salvaged metering devices, valves, and hardware shall remain the property of the district that is responsible as shown on exhibit.

14. Notice. Any notice or instrument required to be given or delivered by this Agreement may be given or delivered by depositing the same in any United States Post Office, certified mail, return receipt requested, postage prepaid, addressed to:

General Manager, Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2096

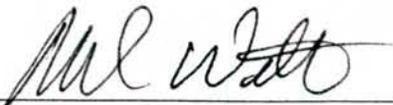
General Manager, Helix Water District
Helix Water District
7811 University Avenue
La Mesa, CA 91941-4927

and shall be effective upon receipt thereof.

15. Severability. In the event any one of the provisions of this Agreement shall for any reason be held invalid, illegal or unenforceable, the remaining provisions of this Agreement shall be unimpaired, and the invalid, illegal or unenforceable provision(s) shall be replaced by a mutually acceptable provision which being valid, legal and enforceable, comes closest to the intention of the parties underlying the invalid, illegal or unenforceable provision.
16. Assignment. In no event shall this Agreement be assigned by either party without first obtaining the prior written consent of the other party.
17. Waiver. No covenant, term or condition of this Agreement shall be deemed to be waived by any party hereto unless such waiver is in writing and executed by the party making the waiver. No waiver of any breach of any of the terms, covenants, or conditions of this Agreement shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition contained herein.
18. Execution of Agreement. This Agreement shall not be deemed to have been accepted and shall not be binding upon either District until duly authorized officers of both parties have executed it. This agreement may not be modified or altered except in writing, signed by both Parties.
19. Amendment of Agreement. Either Helix or Otay may give notice that they wish to amend this Agreement at any time with thirty (30) calendar days written notice. Any amendments will have to be mutually agreed upon by both Helix and Otay in writing.

[signatures continued on next page]

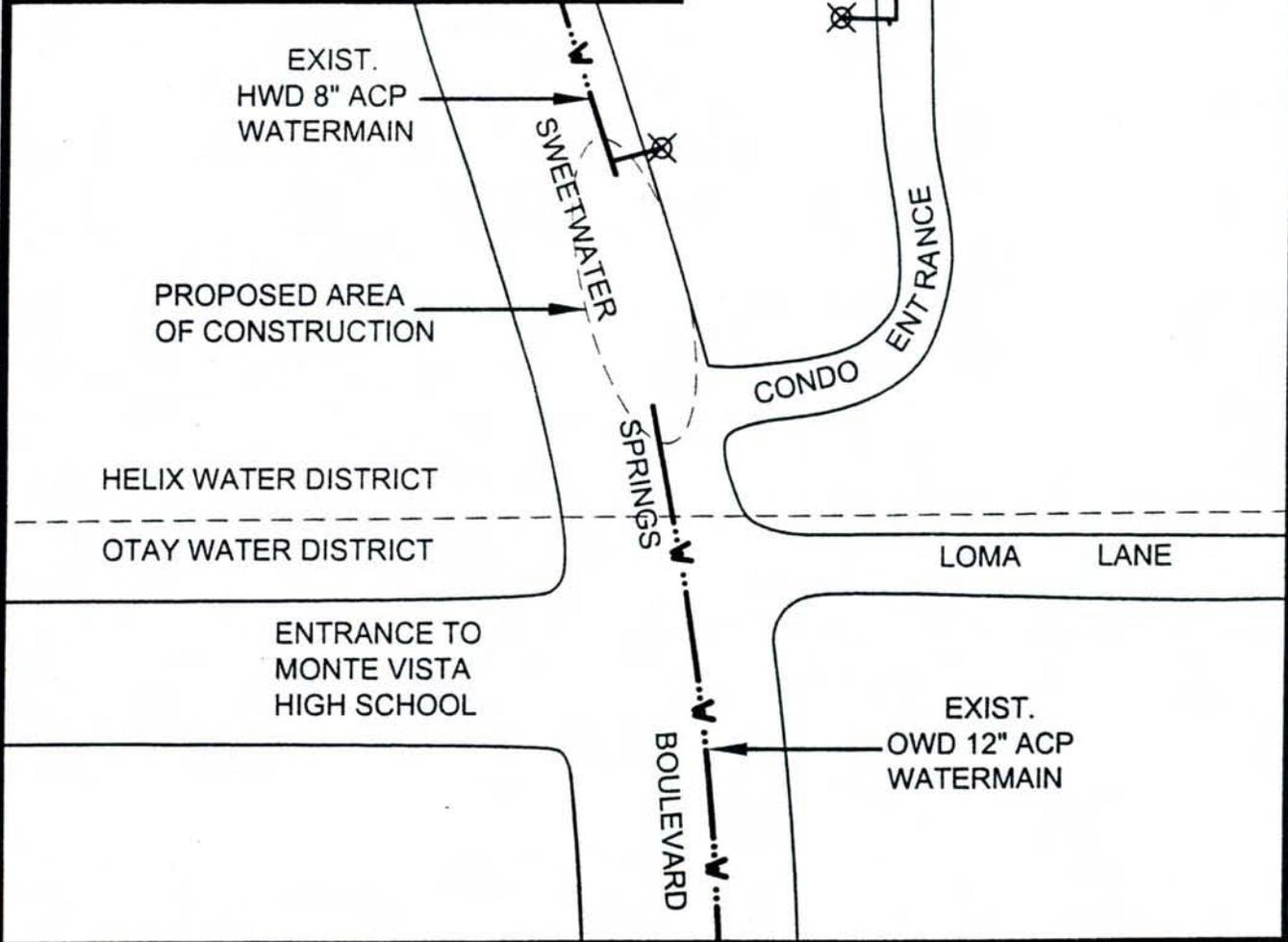
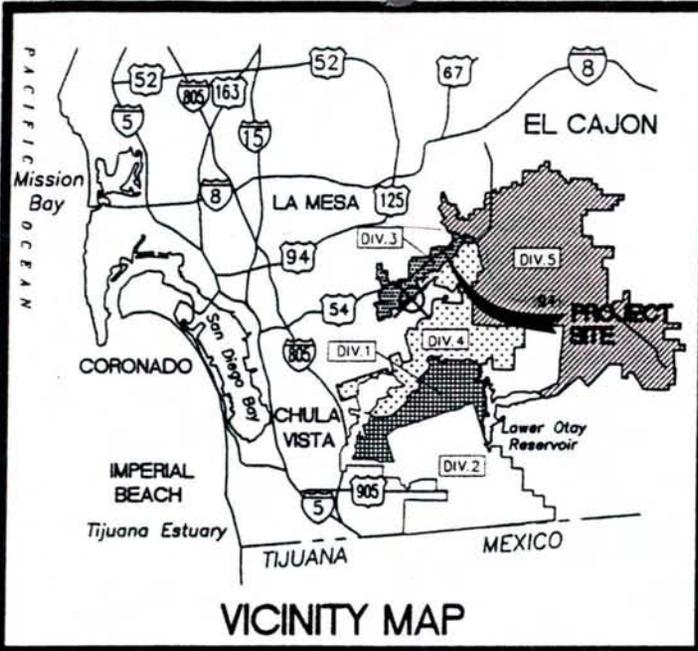
IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

By: 
Mark Watton, General Manager
Otay Water District

By: 
Mark Weston, General Manager
Helix Water District

Approved as to form:

By: 
General Counsel
Helix Water District



OTAY WATER DISTRICT

AGREEMENT FOR EMERGENCY INTERCONNECTION
BETWEEN HELIX WATER DISTRICT AND OTAY WATER DISTRICT
WO 30093 CIPW422

P:\WORKING\CIP W422\WD 30093\Graphics\Exhibits-Figures\Exhibit A.dwg 10/7/2004 1:59:09 PM PST

ATTACHMENT E-1

HELIX WO 2196 / OWD CIP P2488 and P2489 GILLISPIE DRIVE AND DEL RIO ROAD EMERGENCY INTERCONNECTIONS

AMENDMENT TO AGREEMENT FOR EMERGENCY INTERCONNECTION BETWEEN HELIX WATER DISTRICT AND OTAY WATER DISTRICT

This Amendment is made and entered into as of _____, 2013 by and between Otay Water District, a Municipal Water District organized and existing pursuant to Water Code Section 71000 *et seq.*, (hereinafter referred to as “Otay”) and Helix Water District, an irrigation district organized and existing under the Irrigation District Law of the State of California, Water Code section 20500 *et seq.*, (hereinafter referred to as “Helix”). Otay and Helix are collectively referred to herein as the “Parties.”

RECITALS

WHEREAS, the Parties entered into an Agreement (the “Agreement”) on June 22, 2012 for emergency interconnections for the **Emergency Interconnections at Gillispie Drive and Del Rio Road Project, Helix WO 2196 and Otay CIP P2488/P2489** (the “Project”); and

WHEREAS, Section 19 of the Agreement provides that either Helix or Otay may give notice that they wish to amend this Agreement at any time, an amendment to the Agreement will be mutually agreed upon by both Helix and Otay in writing; and

WHEREAS, Helix and Otay desire to amend the Agreement to incorporate the required revisions to the Agreement.

NOW THEREFORE, in consideration of the Recitals and mutual obligations of the parties as herein expressed, Helix and Otay agree as follows:

1. That Section 1(a), “Emergency”, Defined be deleted in its entirety and replaced with the following:

“a. “Emergency”, Defined. Emergency shall mean any sudden unexpected occurrence that significantly reduces available water so as to jeopardize the public health or safety, or scheduled maintenance where the interconnection is deemed the only source of potable water.”

2. That Section 1(b), “Surplus Capacity”, Defined be deleted in its entirety and replaced with the following:

“b. “Surplus Capacity”, Defined. Surplus Capacity is defined as the amount of water, as determined by Helix and/or Otay, in excess of the amount necessary to meet the demand of its respective system.”

ATTACHMENT E-1

3. That Section 4, Estimation of Quantity of Water Delivered be deleted in its entirety and replaced with the following:

“4. Estimation of Quantity of Water Delivered. The estimated quantity of water to be delivered under this Agreement shall be mutually agreed upon by the Parties prior to its delivery. Both Parties shall use their best efforts to not exceed ninety (90) days delivery of water through the agreed upon connection in the aggregate in any calendar year.”

4. That Section 6, Maintenance be deleted in its entirety and replaced with the following:

“6. Maintenance. Otay and Helix shall be responsible for the maintenance and operation costs of the valve(s) connecting to their respective systems as shown in Exhibit A, attached hereto and incorporated herein. Helix and Otay shall be responsible for any costs associated with their respective pipelines leading up to the interconnection, and responsible for 50% of all costs of any repair, required future relocation, or modification of the connection itself (vault, meter, etc.). Maintenance and maintenance costs related to the cleanup of graffiti on the facilities and meter testing and/or calibration (performed on October of each year) will alternate each calendar year between the Parties. Otay will be responsible for the even years, while Helix will be responsible for the odd years. Helix and Otay shall promptly share test results.”

5. That Section 7, Water Quality be amended to include the following:

“The receiving district shall flush the connection at their own cost prior to providing service to its customers.”

6. That Section 13, Termination be deleted in its entirety and replaced with the following:

“13. Termination. Either party may terminate this agreement upon ninety (90) days written notice to the other party. In the event of termination, Helix and Otay will be responsible for 50% each of the costs of disconnecting or removing connections. Salvaged metering devices, valves and hardware shall remain the property of the district that is responsible as shown in Exhibit A. The party that retains shared components owned 50% by each agency (e.g.; meter and vault) shall pay the other agency 50% of fair market salvage value of shared components.”

7. That Section 14, Notice be deleted in its entirety and replaced with the following:

“14. Notice. Proposed amendments to this Agreement will be delivered by United States Post Office, certified mail, and addressed to:

ATTACHMENT E-1

General Manager
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

General Manager
Helix Water District
7811 University Avenue
La Mesa, CA 91941-4927

Any notice or instrument required to be given or delivered by this Agreement (e.g.; flow reporting) may be given or delivered by regular or electronic mail addressed to the designated representative.”

- 8. That all of the terms and conditions of the original Agreement shall remain in full force and effect.
- 9. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
- 10. If any provision of this Amendment shall be held invalid or unenforceable by a court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Amendment unless elimination of such provision materially alters the rights and obligations set forth herein.

IN WITNESS WHEREOF, this First Amendment to Agreement is executed by Helix and Otay on the day and year first written above.

HELIX WATER DISTRICT

OTAY WATER DISTRICT

By: _____
Name: Carlos V. Lugo
Title: General Manager

By: _____
Name: Mark Watton
Title: General Manager

APPROVED AS TO FORM:

APPROVED AS TO FORM:

By: _____
General Counsel
Helix Water District

By: _____
General Counsel
Otay Water District

ATTACHMENT E-2

OWD CIP P2488 and P2489 / Helix WO 2196

AGREEMENT FOR EMERGENCY INTERCONNECTIONS BETWEEN OTAY WATER DISTRICT AND HELIX WATER DISTRICT

This Agreement is made and entered into as of June 22, 2012, by and between Otay Water District, a Municipal Water District organized and existing pursuant to Water Code Section 71000 *et seq*, (hereinafter referred to as "Otay") and Helix Water District, an Irrigation District organized and existing under the Irrigation District Law of the State of California, Water Code Section 20500 *et seq*, (hereinafter referred to as "Helix"). Otay and Helix are collectively referred to herein as the "Parties."

RECITALS

- A. Otay and Helix are member agencies of the San Diego County Water Authority (hereinafter referred to as the "Authority"), and are retail water purveyors that receive water from the Authority.
- B. The Authority is the regional wholesale water purveyor organized and existing under the County Water Authority Act of the State of California (Chapter 45, Water Code-Appendix).
- C. Otay and Helix desire by this Agreement, to provide emergency water service connections to each other; such water service connections are not and shall not be used to provide a supplemental or additional water supply to meet the growth in demand not already addressed in the Water Resource Master Plans for either Party.

AGREEMENT

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

- 1. Delivery. In emergency situations, as defined below in Section 1 (a), Helix and Otay shall supply treated water through their facilities to the interconnections located at Gillispie Drive and Del Rio Road, County of San Diego, as shown in Exhibit A, attached hereto and incorporated herein, when requested by either Party pursuant to the terms of this Agreement. Both Parties shall use their best efforts to provide 24 hours written advance notice of the need for such emergency interconnection, and in all cases shall notify the supplying Party prior to actual use. The supplying Party shall operate the interconnection.
 - a. "Emergency", Defined. An "emergency" is defined as any sudden unexpected occurrence that significantly reduces available water so as to jeopardize the health and/or safety of the public.
 - b. "Surplus Capacity", Defined. "Surplus Capacity" is defined as the amount of water, as determined by Helix and Otay, in excess of the amount necessary to satisfy the demand of the Helix and Otay systems.

ATTACHMENT E-2

2. Ability to Supply Water. Neither Party guarantees that Surplus Capacity, as defined above in Section 1(b), will be available at the time an emergency situation occurs. To the extent that Surplus Capacity is available, in the sole discretion of the supplying Party with no undue burden on its water consumers, the receiving Party may utilize the interconnection(s) described in Exhibit A to the extent of such availability.
3. Design and Construction. Helix agrees that Otay shall initially fund all costs of the design and construction of the emergency interconnections, subject to reimbursement by Helix, in the proportion set forth below, upon completion of all work related to the interconnections as set forth herein. The design and specifications shall conform to the Water Agency Standards (WAS). Items that are not covered by the WAS shall be subject to Otay's and Helix's mutual approval. Otay shall act as the lead agency for purposes of the California Environmental Quality Act. Otay shall furnish all materials and hire a contractor to perform all construction work necessary to make all connections, in accordance with approved plans and specifications. Upon completion, Otay shall provide Helix with "As-built" record drawings of the interconnection and provide any amendments to these drawings as they are developed. Upon 100% completion of the work, Otay shall bill Helix for 50% of all costs incurred. Payment shall be made by Helix within 30 days of receipt of invoice.
4. Estimation of Quantity of Water Delivered. If water is to be delivered under the terms of this Agreement, the estimated quantity of water to be delivered and duration of such delivery shall be mutually agreed upon by the two Parties prior to its delivery.
5. Payment for Water Delivered. If water is delivered under the terms of this Agreement, the supplying Party will report the amount of water that has been supplied through a meter to the receiving Party and to the Authority for credit within ten (10) calendar days of the receiving Party's receipt of delivered water. The Authority will bill this amount to the receiving Party and credit this amount to the supplying P. The cost of the water delivered through the emergency interconnection shall be the Authority's treated water rate in effect at the time of delivery.
6. Maintenance. Otay and Helix shall be responsible for the maintenance and operation costs of the valve(s) connecting to their respective systems as shown in Exhibit A, attached hereto and incorporated herein. Maintenance, repair, or operation costs for the interconnection facility shall be the responsibility of the Party identified in the Exhibits. Each Party shall be solely responsible for any costs associated with its respective pipeline leading up to the interconnection, and shall also be responsible for 50% of all costs of any repair, relocation, abandonment, or modification of the connection itself (vault, meter, etc.). Maintenance related to the cleanup of graffiti on the facilities will alternate each calendar year between the Parties. Otay will be responsible for the even years, while Helix will be responsible for the odd years. The costs associated with the maintenance or cleanup of graffiti will be absorbed by each Party.

ATTACHMENT E-2

7. Water Quality. Neither Party warrants the quality of treated water delivered through any emergency interconnection established pursuant to this Agreement.
8. Access. During the term of this Agreement, authorized representatives of both Parties shall be granted access to the facilities and property of the other Party for the purpose of establishing emergency interconnections pursuant to this Agreement, provided that the Party desiring access will provide at least 24 hour notice of such access. Such notice may be oral or written.
9. Indemnification. Each Party shall be responsible for the willful misconduct and negligent acts or omissions of its officers, directors, agents, employees, and subcontractors. Each Party shall indemnify, hold harmless, and defend the other from and against all claims, demands, and liabilities for bodily injury, property damage, or other damages caused by the willful or negligent act or omission of the indemnifying Party or its officer, directors, agents, employees, or subcontractors.
10. Term. The term of this Agreement shall be from the date of its execution until terminated pursuant to the terms of this Agreement. .
11. Integration. This Agreement and any and all Exhibits to it, represent the entire understanding of the Parties as to those matters contained in the Agreement, and supersede and cancel any prior oral or written understandings, promises or representations with respect to those matters covered in the Agreement. This Agreement may not be modified or altered except in writing signed by both Parties.
12. Laws, Venue, and Attorneys' Fees. This Agreement shall be interpreted in accordance with the laws of the State of California. The Parties agree that if any dispute shall arise in relation to this Agreement, they will attempt to resolve such dispute informally, in good faith. If such good faith informal resolution does not resolve the issue, the Parties agree that the matter will be directed to the General Managers of both Parties for another good faith attempt at resolution. If that attempt does not resolve the issue, the Parties agree to mediation under the rules of the American Arbitration Association or any other neutral organization agreed upon before having recourse in a court of law. Any agreements resulting from mediation shall be documented in writing by all Parties. All mediation results shall be "non-binding" and inadmissible for any purpose in any legal proceeding, unless all Parties otherwise agree in writing. If mediation is not successful, and an action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California. In the event of any such litigation between the parties, the prevailing Party shall be entitled to recover all reasonable costs incurred, including reasonable attorney's fees, as determined by the court.
13. Termination. Either Party may terminate this Agreement upon thirty (30) days written notice to the other Party. In the event of termination, each Party shall be responsible for 50% of the total costs of disconnecting or removing connections.

ATTACHMENT E-2

Salvaged metering devices, valves, and hardware shall remain the property of the Party that is responsible as shown in Exhibit A.

14. Notice. Any notice or instrument required to be given or delivered by this Agreement may be given or delivered by depositing the same in any United States Post Office, certified mail, and return receipt requested, postage prepaid, addressed to:

General Manager
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

General Manager
Helix Water District
7811 University Avenue
La Mesa, CA 91941-4927

and shall be effective upon receipt thereof.

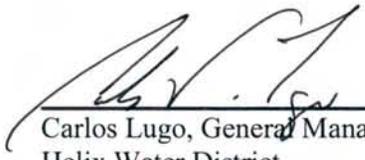
15. Severability. In the event any one of the provisions of this Agreement shall for any reason be held invalid, illegal or unenforceable, the remaining provisions of this Agreement shall be unimpaired, and the invalid, illegal or unenforceable provision(s) shall be replaced by a mutually acceptable provision which being valid, legal and enforceable, comes closest to the intention of the Parties underlying the invalid, illegal or unenforceable provision.
16. Assignment. In no event shall this Agreement be assigned by either Party without first obtaining the prior written consent of the other Party.
17. Waiver. No covenant, term or condition of this Agreement shall be deemed to be waived by any party hereto unless such waiver is in writing and executed by the party making the waiver. No waiver of any breach of any of the terms, covenants, or conditions of this Agreement shall be construed or held to be a waiver of any succeeding or preceding breach of the same or any other term, covenant or condition contained herein.
18. Execution of Agreement. This Agreement shall not be deemed to have been accepted and shall not be binding upon either Party until duly authorized officers of both parties have executed it. This agreement may not be modified or altered except in writing, signed by both Parties.
19. Amendment of Agreement. Either Party may give notice that they wish to amend this Agreement at any time with thirty (30) calendar days' written notice. Any amendments will have to be mutually agreed upon by both Parties in writing.

[signatures continued on next page]

ATTACHMENT E-2

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

By: 
Mark Watton, General Manager
Otay Water District

By: 
Carlos Lugo, General Manager
Helix Water District

Approved as to form:

By: See attached.
General Counsel
Otay Water District

By: 
General Counsel
Helix Water District

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

By: _____
Mark Watton, General Manager
Otay Water District

By: _____
Carlos Lugo, General Manager
Helix Water District

Approved as to form:
By:  _____
General Counsel
Otay Water District

By: _____
General Counsel
Helix Water District

Exhibit A (1 of 2)

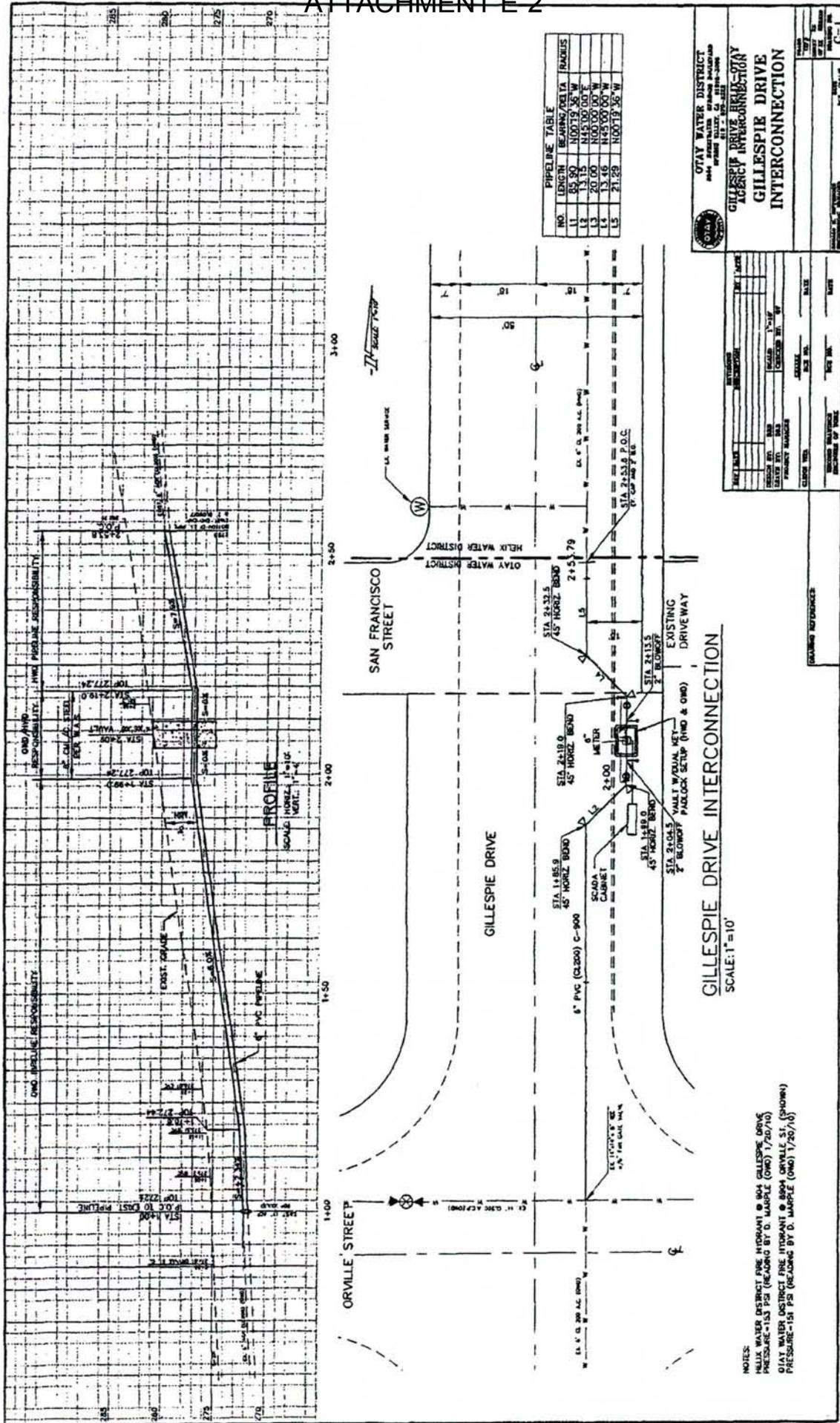
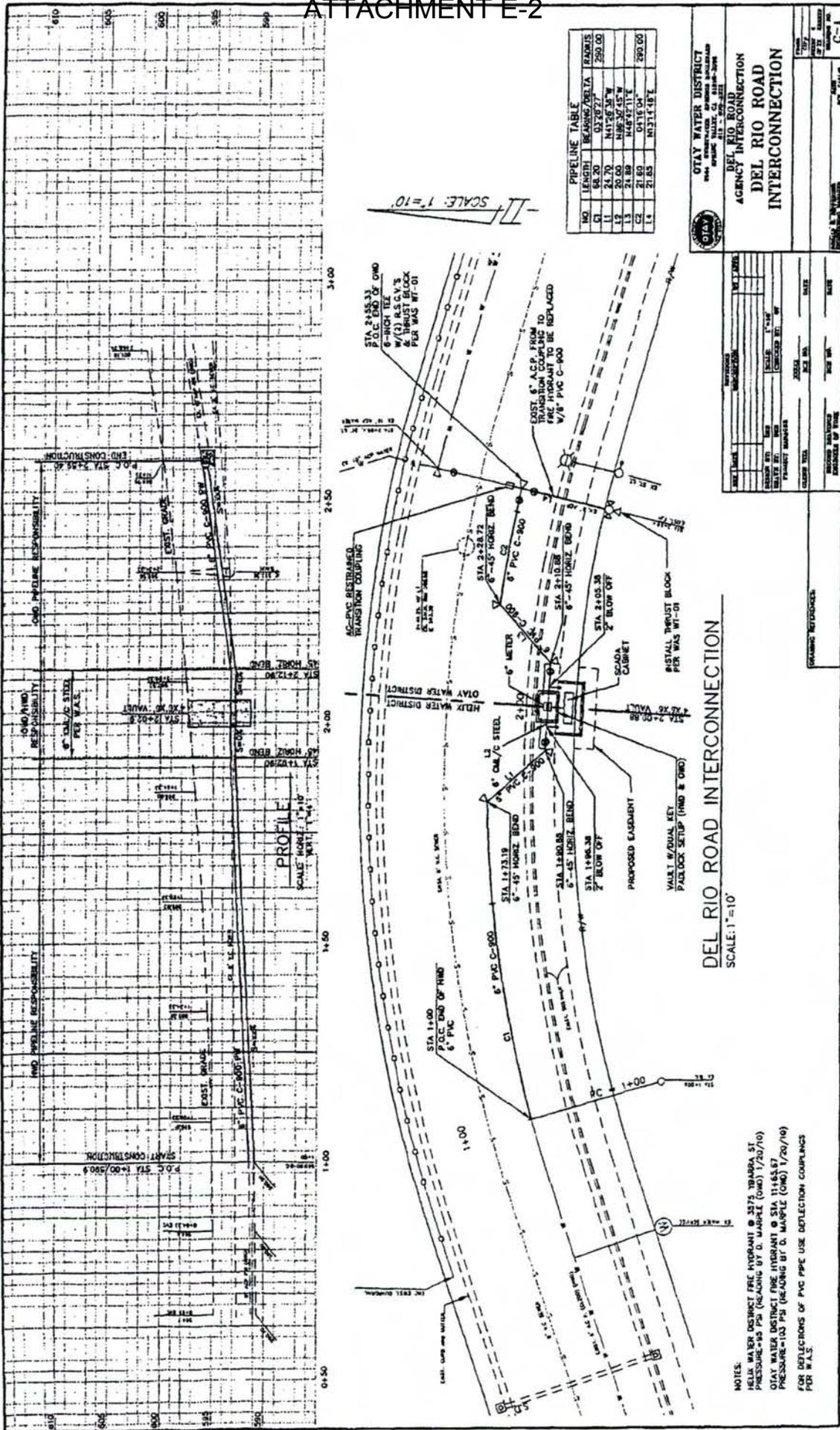


Exhibit A (2 of 2)



NOTES:
 HELIX WATER DISTRICT FIRE HYDRANT @ 3573 YARBARA ST
 PRESSURE=85 PSI (READING BY D. WAPPEL (OHM) 1/20/10)
 OTAY WATER DISTRICT FIRE HYDRANT @ STA 11+65.87
 PRESSURE=103 PSI (READING BY D. WAPPEL (OHM) 1/20/10)
 FOR DEFLECTIONS OF PVC PIPE USE DEFLECTION COUPLINGS
 PER W.A.S.

DEL RIO ROAD INTERCONNECTION
 SCALE: 1"=10'

OTAY WATER DISTRICT
 1000 W. DEL RIO ROAD
 SAN MARCO, CALIF. 92078-3000

**DEL RIO ROAD
 AGENCY INTERCONNECTION
 DEL RIO ROAD
 INTERCONNECTION**

PROJECT NO. _____
 SHEET NO. _____ OF _____
 DATE _____

DESIGNED BY _____
 CHECKED BY _____
 DRAWN BY _____
 PROJECT MANAGER _____

CLEARANCE _____
 DATE _____

APPROVED BY _____
 DATE _____

SCALE: 1"=10'

AGENDA ITEM 7i



STAFF REPORT

| | | | |
|---------------|--|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| | | PROJECT: | DIV. NO. ALL |
| SUBMITTED BY: | Kelli Williamson Human Resources Manager | | |
| APPROVED BY: | <input checked="" type="checkbox"/> Rom Sarno, Chief of Administrative Services <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | ADOPT RESOLUTION #4218 TO REVISE THE EMPLOYMENT OR TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL POLICY (BOARD POLICY #12) AND RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY (BOARD POLICY #24) | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board adopt Resolution #4218 to revise the following District policies:

- Employment or Termination of Employment of District Personnel Policy (Board Policy #12); and
- Recruitment, Selection, and Employment Policy (Board Policy #24)

PURPOSE:

To request that the Board adopt Resolution #4218 and approve revisions to the following two (2) District policies: Employment or Termination of Employment of District Personnel Policy (Board Policy #12) and Recruitment, Selection, and Employment Policy (Board Policy #24) (Attachment A).

ANALYSIS:

These policies were originally brought forward to the October 2, 2013 Board meeting. The General Manager requested that this agenda item be removed from the October Board meeting agenda and held until the November 6, 2013 Board meeting at the request of the Employee Association to allow

the Employee Association time to better understand the policies and how they impact the employees. The Board granted the request.

Management provided information to the Employee Association on October 14th, 2013 to address their questions and concerns. The District's position is that the implementation of these policies does not impact the employees because the District is merely adding language that refers to and recites state law. The District assured the Employee Association that the District will meet and confer in good faith, when required, on any future policies and/or Memorandum of Understanding provisions that may change.

At this time, it is recommended that the Board adopt Resolution #4218 to revise the Employment of Termination of Employment of District Personnel Policy (Board Policy #12) and Recruitment, Selection, and Employment Policy (Board Policy #24).

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

None.

STRATEGIC GOAL:

Optimize the District's Operating Efficiency.

LEGAL IMPACT:

None.

Attachments: Attachment A - Staff Report and Attachments from
October 2, 2013 Board Meeting



STAFF REPORT

| | | | |
|---------------|--|---------------|-----------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | October 2, 2013 |
| | | PROJECT: | DIV. NO. ALL |
| SUBMITTED BY: | Kelli Williamson Human Resources Manager | | |
| APPROVED BY: | <input checked="" type="checkbox"/> Rom Sarno, Chief of Administrative Services <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | ADOPT RESOLUTION #4218 TO REVISE THE EMPLOYMENT OR TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL POLICY (BOARD POLICY #12) AND RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY (BOARD POLICY #24) | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board adopt Resolution #4218 to revise the following District Policies:

- Employment or Termination of Employment of District Personnel Policy (Board Policy #12); and
- Recruitment, Selection, and Employment Policy (Board Policy #24)

COMMITTEE ACTION:

Please see "Attachment A".

PURPOSE:

To request that the Board adopt Resolution #4218 (Attachment B) and approve revisions to the following two (2) District Policies: Employment or Termination of Employment of District Personnel Policy (Board Policy #12) and Recruitment, Selection, and Employment Policy (Board Policy #24) (Attachments B1 and B2).

- Attachment B1 - Employment or Termination of Employment
of District Personnel Policy (Board
Policy #12)
- Attachment B2 - Recruitment, Selection, and Employment
Policy (Board Policy #24)



ATTACHMENT A

| | |
|-------------------------|---|
| SUBJECT/PROJECT: | ADOPT RESOLUTION #4218 TO REVISE THE EMPLOYMENT OR TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL POLICY (BOARD POLICY #12) AND RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY (BOARD POLICY #24) |
|-------------------------|---|

COMMITTEE ACTION:

The Finance, Administration and Communications Committee reviewed this item at a meeting held on September 17, 2013 and the following comments were made:

- Staff is requesting that the Board adopt Resolution No. 4218 revising Board Policy No. 12, Employment or Termination of Employment of District Personnel Policy, and Board Policy No. 24, Recruitment, Selection, and Employment Policy.
- Periodically, the District reviews and updates its policies and procedures to ensure they are streamlined, clear and consistent with applicable laws.
- Policy No. 12 is the General Manager's authority to employ or terminate District employees. Staff is recommending minor revisions to provide clarification to employees as to their appointment status. The revisions include references to at-will employment status which is consistent with State law. The proposed language is quoted directly from the State statute.
- Policy No. 14 provides the guidelines and process by which employees are hired by the District. The at-will language has been included in this policy as well.
- Since the at-will employment status has been set by the legislature, it cannot be changed by Board Policy or Memorandum of Understanding. It is proposed that the updates to the policies be forwarded to the Otay Water District Employee Association as an informational item following presentation to the Finance, Administration and Communications Committee and then to the full board for consideration.

- Staff indicated in response to an inquiry from the committee, that the District did inquire with other local water agencies and some had included specific language in their policies referencing the at-will status and some did not.
- In response to another inquiry from the committee regarding the process for revising District policies, the District's attorney indicated that staff generally drafts the revisions and he reviews and revises the language as needed. Revisions go back and forth between staff and attorney until a final draft is agreed upon.
- It was noted that all OWD employees have been "at-will" since the district was established as required by and pursuant to the Water Code. It was discussed that other water districts are also "at-will" and some have formal language in their policies and some do not; that most of the employees of other public agencies such as cities and counties are civil service (for cause) as required by State charter but also have much of their workforce as "at-will" or unclassified.
- It was clarified that city water and utility departments fall under city charters and are not subject to the at-will statute of the water code.
- Staff indicated that there have been court cases which have challenged the at-will statute and the courts have up-held the code.
- Staff noted that the District invests money to recruit, hire and train employees. The District's goal is to have success with employees as it is very expensive to recruit employees.

Following the discussion, the committee supported staffs' recommendation and presentation to the full board as a consent item.

RESOLUTION NO. 4218

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE OTAY WATER DISTRICT TO
REVISE DISTRICT POLICIES

WHEREAS, the Board of Directors of Otay Water District have established policies, procedures, ordinances, and resolutions for the efficient operation of the District; and

WHEREAS, it is the policy of the District to establish procedures to review policies, procedures, ordinances, and resolutions periodically to ensure they are current and relevant; and

WHEREAS, District staff has identified Board Policy #12, Employment or Termination of Employment of District Personnel Policy, and Board Policy #22, Recruitment, Selection, and Employment Policy, as requiring revisions as per the attached strike-through copies.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Otay Water District amends the Board Policies indicated above in the form presented to the Board at this meeting.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Otay Water District at a regular meeting held this 2nd of October, 2013.

President

ATTEST:

Secretary

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|-------------------------------------|
| EMPLOYMENT OR TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL | 12 | 8/21/91 | 7/2/03 <u>10/2/13</u> |

PURPOSE

To establish procedures for the employment or termination of executive, staff and other personnel.

BACKGROUND

Section 71340 of the California Water Code provides that the Board of Directors of Municipal Water Districts shall appoint the following personnel, who are designated as officers of the District: Secretary, Treasurer, Attorney, General Manager and Auditor. In addition, the Board may appoint a Deputy Secretary and a Deputy Treasurer. Each of such officers is to serve at the pleasure of the Board. Section 71341 of the California Water Code provides that the Board may appoint such additional assistants and employees, as it deems necessary to operate the District. The essence of these provisions ~~are~~is set forth in Section 1.02 of the District Ordinances.

Section 71362 of the California Water Code provides that, subject to the approval of the Board of Directors, the General Manager shall have the authority to employ and discharge all employees and assistants, other than those referred to in Section 71340, at pleasure, and to prescribe their duties and fix their compensation. These provisions are set forth in Section 2.01 of the District Ordinances. All employment at the District is thus "at-will," pursuant to Section 71362, and both employees and the District have the right to terminate employment at any time, with or without advance notice, and with or without cause.

POLICY

In accordance with the above provisions, the District shall employ or terminate employment or termination of employment of District personnel ~~shall be made~~ as follows:

1. The employment or termination of personnel for the District position of General Manager, Secretary, Deputy Secretary, Treasurer, Deputy Treasurer, Attorney, Controller or Auditor, or the assistant or deputy to any of such positions, shall be made only by action of the Board of Directors.
2. The General Manager shall employ or terminate employment or termination of personnel for the District position of ~~Assistant~~ General Manager ~~shall be made by the General Manager~~ provided that, prior to taking final action thereon, the General Manager shall notify the Board of Directors of his/her intention to ~~make such~~so employment or termination.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|-------------------------------------|
| EMPLOYMENT OR TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL | 12 | 8/21/91 | 7/2/03 <u>10/2/13</u> |

3. The General Manager shall employ or terminate~~employment or termination of~~ personnel for all other District positions ~~shall be made by the General Manager.~~

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|---|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 09/02/09 10/2/13 |

PURPOSE

It is the purpose of this policy to provide guidelines for the recruitment and selection of regular, student intern, temporary and/or contract employees.

POLICY

It is the policy of the Otay Water District (“District”) to recruit and select the best qualified Applicants on the basis of job-related standards of experience, education, training, ability, and merit; to encourage members of the communities which we serve to apply for employment opportunities with the District; to encourage District employees to apply for positions for which they believe they qualify, to assure that qualified internal Applicants are given fair and adequate consideration; and to advance regular District employees when it is determined that they are the best qualified.

EQUAL EMPLOYMENT OPPORTUNITY

The District is an equal opportunity employer. All employees and Applicants shall receive equal consideration and treatment. The District shall recruit, hire, and promote the best qualified individuals without regard to race, color, religion, sex [\(including gender, pregnancy, childbirth, or related medical condition\)](#), national origin, ancestry, age, physical or mental disability, medical condition, marital status, sexual orientation, or membership in any other “protected class” recognized by California or Federal law ~~or regulation~~.

AUTHORITY OF THE GENERAL MANAGER [AND EMPLOYMENT AT WILL](#)

Section 2.01, of the ~~Otay Water~~ District’s Code of Ordinance provides that, pursuant to [Sections §71362 and §71363 of the California Water Code](#), the General Manager has the authority to manage and operate the affairs of the District. This authority includes the employment, discharging and fixing of compensation for all employees and assistants, except those referred to in [California Water Code Section §71340, at pleasure](#), and to prescribe their duties and promulgate specific rules and regulations for such employees and assistants. [All employment at the District is thus “at-will,” pursuant to Section 71362, and both employees and the District have a right to terminate employment at any time, with or without advance notice, and with or without cause.](#)

The General Manager’s authority also includes making ~~Appointments~~ [appointments](#) of temporary or contract employees needed to perform District work resulting from such matters as interim vacancies, peak workload, and special projects so long as he/she operates within Board-approved budgeted appropriation levels. Contract or Temporary Appointments are not subject to amount limits for agreements, contracts, or other documents as defined in [Section §2.01\(CE\) of the District’s Code of Ordinance](#), or to formal competition, selection and advertisement requirements identified herein.

DEFINITIONS

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|---|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 09/02/09 10/2/13 |

- A. Applicant: A person applying for a position, including a District employee who seeks Appointment to a different position.
- B. Appointment: The employment of a person in a position, whether on a regular or temporary basis.
- C. Closed/Promotional Recruitment: A recruitment open only to qualified regular District employees, or open only to qualified regular District employees in a particular classification, unit or division.
- D. Conviction: Any sentence, suspended sentence, probation or other resolution followed by a verdict, plea (including a no contest plea) or other finding of guilt. [The term "Conviction," -as used herein, shall not include any conviction that has been otherwise exempted by law.](#)
- E. Eligible List: A list of qualified Applicants who remain eligible for consideration for a position.
- F. Employment Announcement: A formal notice by the District of an employment opportunity.
- G. Open/Competitive Recruitment: A recruitment open to all interested qualified Applicants.
- H. Promulgation: The date Human Resources certifies the list of eligible Applicants for consideration.
- I. Qualified Applicant: An Applicant who has passed all elements of the selection process, would be at least 18 years old at the time of Appointment and remains eligible for Appointment.
- J. Recruitment and Selection Plan: A planned process to establish an adequate pool of qualified Applicants which shall consist of an open/competitive or a Closed/Promotional Recruitment.
- K. Regular Appointment: An Appointment to a regular authorized position with benefits.
- L. Regular Vacancy: A vacancy in an authorized position.
- M. [Student Intern: An employee who is currently enrolled at or near full-time status as a student in an accredited community college, college, or university in an undergraduate or graduate program in good academic standing.](#)
- N. Temporary Appointment: An Appointment made for a specific duration, generally not to exceed one year. Temporary Appointments may be exempt from the formal Recruitment and Selection Plan.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|---|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 09/02/09 10/2/13 |

RECRUITMENT AND SELECTION [PLAN PROCESS](#)

All Regular Vacancies shall be filled through an Open/Competitive Recruitment and Selection Plan unless otherwise approved by the General Manager. This is consistent with best practice and expected to maximize community participation, competition, diversity, and the number of highly qualified Applicants available for consideration for employment. However, the General Manager may authorize a Closed/Promotional Recruitment and Selection Plan given the requirements of the position and the quality of the internal Applicant pool.

All Applicants for regular positions shall submit to the same Recruitment and Selection Plan for that position. The General Manager may approve revising the Recruitment and Selection Plan in order to better meet the needs of the District.

A. Notice of Employment Opportunities

Human Resources shall post employment opportunities for Regular Vacancies consistent with the approved Recruitment and Selection Plan.

The Employment Announcement shall include the following:

1. Classification Title
2. Salary Rate and/or Range
3. Essential Functions
4. [Minimum Required Qualifications](#)
5. [Selection/Examination Plan Skills Exam](#)
6. Application Filing Instructions
7. Equal Employment Opportunity Employer Statement

B. Disqualification of Applicants

Applicants may be disqualified at any time during the process for any of the following reasons:

1. The Applicant is found to lack any of the minimum job requirements established for the position.
2. The Applicant has made a false statement of material fact in the application or has committed fraud or deception in the selection process or in securing eligibility for Appointment.
3. The Applicant has a history of less than satisfactory employment.
4. The Applicant uses or attempts to use any personal or political influence to further eligibility.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|---|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 09/02/09 10/2/13 |

5. The Applicant has without authorization directly or indirectly obtained information regarding examinations.
6. The Applicant fails to submit his or her application ~~correctly~~ in compliance with articulated guidelines or within the prescribed time limits.
7. The Applicant has taken part in the compilation, administration, or correction of the examinations for the position for which he/she is an Applicant.
8. Any other reason deemed by the General Manager to protect the best interests of the District.

C. Examination Content

The Recruitment and Selection Plan shall be job-related in order to determine the ability of Applicants to perform the duties of the job classification. The plan may provide for one or more of the following types of examinations:

1. Review of Employment Application and/or Required Supplementary Material(s);
2. Written Examination;
3. Physical Agility and/or Performance Skill Examination; or
4. Oral Interview.

D. Eligible Lists

Eligible Lists may be maintained to fill current and future vacancies. The Eligible List ~~may~~ will be valid for up to twelve (12) months from Date of Promulgation. Human Resources may pull Applicants from any Eligible List in lieu of posting a position or to augment the Applicant pool for other similar classifications with related skills and abilities.

E. Conditions of Appointment

Once an Applicant is determined to be the best qualified, but prior to Appointment, the Applicant shall meet and agree to the terms and conditions of employment specified for a particular position. Failure of such pre-employment examinations may cause the Applicant to be disqualified for employment. Conditions of employment may include, but are not limited to the following:

1. Physical Fitness/Medical Examination;
2. Drug/Alcohol Screening;
3. Verification of lawful work status under Immigration rules; and
4. Verification of employment, education, certificates, licenses, driving, and criminal history including fingerprinting.

F. Evaluation of Criminal Conviction Information

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|---|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 09/02/09 10/2/13 |

Upon receipt of the [C](#)riminal Conviction information, the District shall determine if the information shall disqualify the Applicant. There shall be an automatic disqualification for employment for any of the following:

- a. Any felony Conviction;
- b. Any misdemeanor Conviction within one year preceding the date of application for any offense(s) considered to be crimes of moral turpitude by any court of the state, and/or crimes involving, firearms, explosives, violence, dishonesty and/or requiring registration under Penal Code §290; [or](#)
- c. [Intentionally failing to disclose a prior Conviction of any type, unless said Conviction has been otherwise exempted by law.](#)

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|--------------|
| EMPLOYMENT OR TERMINATION OF EMPLOYMENT OF DISTRICT PERSONNEL | 12 | 8/21/91 | 10/2/13 |

PURPOSE

To establish procedures for the employment or termination of executive, staff and other personnel.

BACKGROUND

Section 71340 of the California Water Code provides that the Board of Directors of Municipal Water Districts shall appoint the following personnel, who are designated as officers of the District: Secretary, Treasurer, Attorney, General Manager and Auditor. In addition, the Board may appoint a Deputy Secretary and a Deputy Treasurer. Each of such officers is to serve at the pleasure of the Board. Section 71341 of the California Water Code provides that the Board may appoint such additional assistants and employees as it deems necessary to operate the District. The essence of these provisions is set forth in Section 1.02 of the District Ordinances.

Section 71362 of the California Water Code provides that, subject to the approval of the Board of Directors, the General Manager shall have the authority to employ and discharge all employees and assistants, other than those referred to in Section 71340, at pleasure, and to prescribe their duties and fix their compensation. These provisions are set forth in Section 2.01 of the District Ordinances. All employment at the District is thus "at-will," pursuant to Section 71362, and both employees and the District have the right to terminate employment at any time, with or without advance notice, and with or without cause.

POLICY

In accordance with the above provisions, the District shall employ or terminate District personnel as follows:

1. The employment or termination of personnel for the District position of General Manager, Secretary, Deputy Secretary, Treasurer, Deputy Treasurer, Attorney, Controller or Auditor, or the assistant or deputy to any of such positions, shall be made only by action of the Board of Directors.
2. The General Manager shall employ or terminate personnel for the District position of Assistant General Manager provided that, prior to taking final action thereon, the General Manager shall notify the Board of Directors of his/her intention to so employ or terminate.
3. The General Manager shall employ or terminate personnel for all other District positions.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|--------------|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 10/2/13 |

PURPOSE

It is the purpose of this policy to provide guidelines for the recruitment and selection of regular, student intern, temporary and/or contract employees.

POLICY

It is the policy of the Otay Water District (“District”) to recruit and select the best qualified Applicants on the basis of job-related standards of experience, education, training, ability, and merit; to encourage members of the communities which we serve to apply for employment opportunities with the District; to encourage District employees to apply for positions for which they believe they qualify, to assure that qualified internal Applicants are given fair and adequate consideration; and to advance regular District employees when it is determined that they are the best qualified.

EQUAL EMPLOYMENT OPPORTUNITY

The District is an equal opportunity employer. All employees and Applicants shall receive equal consideration and treatment. The District shall recruit, hire, and promote the best qualified individuals without regard to race, color, religion, sex (including gender, pregnancy, childbirth, or related medical condition), national origin, ancestry, age, physical or mental disability, medical condition, marital status, sexual orientation, or membership in any other “protected class” recognized by California or Federal law.

AUTHORITY OF THE GENERAL MANAGER AND EMPLOYMENT AT WILL

Section 2.01 of the District’s Code of Ordinance provides that, pursuant to Sections 71362 and 71363 of the California Water Code, the General Manager has the authority to manage and operate the affairs of the District. This authority includes the employment, discharging and fixing of compensation for all employees and assistants, except those referred to in California Water Code Section 71340, at pleasure, and to prescribe their duties and promulgate specific rules and regulations for such employees and assistants. All employment at the District is thus “at-will,” pursuant to Section 71362, and both employees and the District have a right to terminate employment at any time, with or without advance notice, and with or without cause.

The General Manager’s authority also includes making appointments of temporary or contract employees needed to perform District work resulting from such matters as interim vacancies, peak workload, and special projects so long as he/she operates within Board-approved budgeted appropriation levels. Contract or Temporary Appointments are not subject to amount limits for agreements, contracts, or other documents as defined in Section 2.01(E) of the District’s Code of Ordinance, or to formal competition, selection and advertisement requirements identified herein.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|--------------|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 10/2/13 |

DEFINITIONS

- A. Applicant: A person applying for a position, including a District employee who seeks Appointment to a different position.
- B. Appointment: The employment of a person in a position, whether on a regular or temporary basis.
- C. Closed/Promotional Recruitment: A recruitment open only to qualified regular District employees, or open only to qualified regular District employees in a particular classification, unit or division.
- D. Conviction: Any sentence, suspended sentence, probation or other resolution followed by a verdict, plea (including a no contest plea) or other finding of guilt. The term "Conviction," as used herein, shall not include any conviction that has been otherwise exempted by law.
- E. Eligible List: A list of qualified Applicants who remain eligible for consideration for a position.
- F. Employment Announcement: A formal notice by the District of an employment opportunity.
- G. Open/Competitive Recruitment: A recruitment open to all interested qualified Applicants.
- H. Promulgation: The date Human Resources certifies the list of eligible Applicants for consideration.
- I. Qualified Applicant: An Applicant who has passed all elements of the selection process, would be at least 18 years old at the time of Appointment and remains eligible for Appointment.
- J. Recruitment and Selection Plan: A planned process to establish an adequate pool of qualified Applicants which shall consist of an open/competitive or a Closed/Promotional Recruitment.
- K. Regular Appointment: An Appointment to a regular authorized position with benefits.
- L. Regular Vacancy: A vacancy in an authorized position.
- M. Student Intern: An employee who is currently enrolled at or near full-time status as a student in an accredited community college, college, or university in an undergraduate or graduate program in good academic standing.
- N. Temporary Appointment: An Appointment made for a specific duration, generally not to exceed one year. Temporary Appointments may be exempt from the formal Recruitment and Selection Plan.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|--------------|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 10/2/13 |

RECRUITMENT AND SELECTION PLAN

All Regular Vacancies shall be filled through an Open/Competitive Recruitment and Selection Plan unless otherwise approved by the General Manager. This is consistent with best practice and expected to maximize community participation, competition, diversity, and the number of highly qualified Applicants available for consideration for employment. However, the General Manager may authorize a Closed/Promotional Recruitment and Selection Plan given the requirements of the position and the quality of the internal Applicant pool.

All Applicants for regular positions shall submit to the same Recruitment and Selection Plan for that position. The General Manager may approve revising the Recruitment and Selection Plan in order to better meet the needs of the District.

A. Notice of Employment Opportunities

Human Resources shall post-employment opportunities for Regular Vacancies consistent with the approved Recruitment and Selection Plan.

The Employment Announcement shall include the following:

1. Classification Title
2. Salary Rate and/or Range
3. Essential Functions
4. Required Qualifications
5. Skills Exam
6. Application Filing Instructions
7. Equal Employment Opportunity Employer Statement

B. Disqualification of Applicants

Applicants may be disqualified at any time during the process for any of the following reasons:

1. The Applicant is found to lack any of the minimum job requirements established for the position.
2. The Applicant has made a false statement of material fact in the application or has committed fraud or deception in the selection process or in securing eligibility for Appointment.
3. The Applicant has a history of less than satisfactory employment.
4. The Applicant uses or attempts to use any personal or political influence to further eligibility.
5. The Applicant has without authorization directly or indirectly obtained information regarding examinations.
6. The Applicant fails to submit his or her application in compliance with articulated guidelines or within the prescribed time limits.

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|--------------|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 10/2/13 |

7. The Applicant has taken part in the compilation, administration, or correction of the examinations for the position for which he/she is an Applicant.
8. Any other reason deemed by the General Manager to protect the best interests of the District.

C. Examination Content

The Recruitment and Selection Plan shall be job-related in order to determine the ability of Applicants to perform the duties of the job classification. The plan may provide for one or more of the following types of examinations:

1. Review of Employment Application and/or Required Supplementary Material(s);
2. Written Examination;
3. Physical Agility and/or Performance Skill Examination; or
4. Oral Interview.

D. Eligible Lists

Eligible Lists may be maintained to fill current and future vacancies. The Eligible List will be valid for up to twelve (12) months from Date of Promulgation. Human Resources may pull Applicants from any Eligible List in lieu of posting a position or to augment the Applicant pool for other similar classifications with related skills and abilities.

E. Conditions of Appointment

Once an Applicant is determined to be the best qualified, but prior to Appointment, the Applicant shall meet and agree to the terms and conditions of employment specified for a particular position. Failure of such pre-employment examinations may cause the Applicant to be disqualified for employment. Conditions of employment may include, but are not limited to the following:

1. Physical Fitness/Medical Examination;
2. Drug/Alcohol Screening;
3. Verification of lawful work status under Immigration rules; and
4. Verification of employment, education, certificates, licenses, driving, and criminal history including fingerprinting.

F. Evaluation of Criminal Conviction Information

Upon receipt of the Criminal Conviction information, the District shall determine if the information shall disqualify the Applicant. There shall be an automatic disqualification for employment for any of the following:

- a. Any felony Conviction;

OTAY WATER DISTRICT
BOARD OF DIRECTORS POLICY

| Subject | Policy Number | Date Adopted | Date Revised |
|---|---------------|--------------|--------------|
| RECRUITMENT, SELECTION, AND EMPLOYMENT POLICY | 24 | 11/04/98 | 10/2/13 |

- b. Any misdemeanor Conviction within one year preceding the date of application for any offense(s) considered to be crimes of moral turpitude by any court of the state, and/or crimes involving, firearms, explosives, violence, dishonesty and/or requiring registration under Penal Code §290; or
- c. Intentionally failing to disclose a prior Conviction of any type, unless said Conviction has been otherwise exempted by law.

AGENDA ITEM 8a



STAFF REPORT

| | | | |
|---------------|---|---------------|------------------|
| TYPE MEETING: | Regular Board | MEETING DATE: | November 6, 2013 |
| | | PROJECT: | DIV. NO. All |
| SUBMITTED BY: | Kevin Koeppen, Finance Manager | | |
| APPROVED BY: | <input checked="" type="checkbox"/> Joseph R. Beachem, Chief Financial Officer <input checked="" type="checkbox"/> German Alvarez, Assistant General Manager <input checked="" type="checkbox"/> Mark Watton, General Manager | | |
| SUBJECT: | Approve the District's Audited Financial Statements for the Fiscal Year Ended June 30, 2013 | | |

GENERAL MANAGER'S RECOMMENDATION:

That the Board approve the District's Audited Financial Statements (Attachment B), including the Independent Auditors' unqualified opinion, for the fiscal year ended June 30, 2013.

COMMITTEE ACTION:

See Attachment A.

PURPOSE:

To inform the Board of the significant financial events which occurred during the fiscal year ended June 30, 2013 as reflected in the audited financial statements.

ANALYSIS:

White Nelson Diehl Evans, LLP, performed the audit and found that, in all material respects, the financial statements correctly represent the financial position of the District. They found no material errors in the financial records or statements (Attachment D). They have two comments concerning internal controls, which are presented

in their "Management Letter" (Attachment C). One of the Management Letter comments is also reiterated in the "Agreed Upon Procedures" report (Attachment E).

Total Assets:

Total assets decreased by \$8.4 million or 1.42% during Fiscal Year 2013, to \$582.3 million, due primarily to depreciation and the write-off of CIP project expenditures that did not qualify as capital or improvements to infrastructure. Other significant factors were the annual payment of long-term debt and implementation of GASB 65.

Deferred Outflows:

In June 2013, the District issued \$7.7 million of 2013 Water Revenue Refunding Bonds for an advanced refunding of its 2004 Certificates of Participation, which will be called on September 1, 2014. Excluding costs of issuance, the District received \$8.5 million in proceeds, including a \$1.0 million premium to fund the \$8.1 million of outstanding principal and \$.4 million of remaining interest payments. In accordance with GASB Nos. 23 and 65, the remaining interest payments of \$.4 million are reflected as a deferred outflow of resources on the Statement of Net Position.

Total Liabilities & Net Positions:

Total liabilities decreased by approximately \$2.1 million or 1.51% from the previous fiscal year, to \$134.5 million. This is attributable to a decrease in long-term debt of \$3.0 million.

The decrease in total assets of \$8.4 million and increase in deferred outflow of resources of \$.4 million, along with the decrease in total liabilities of \$2.1 million, yields a decrease in net positions (equity) of \$5.9 million or 1.30%, to \$448.2 million.

Capital Contributions:

Capital contributions for the year totaled \$2.8 million during Fiscal Year 2013, a decrease of \$4.0 million or 59.34% from Fiscal Year 2012 contributions. This decrease is mainly due to the developers slowdown on many projects. The decrease is also due to the reduction in federal grant monies received.

Results of Operations:

Operating revenues increased \$8.4 million or 12.40%, mainly as a result of the overall increase in water rates from the prior fiscal

year and increases in units sold due to drier weather and higher temperatures.

Cost of water sales increased \$4.5 million or 9.80% due to the increase in CWA water costs. The additional increase of \$2.0 million is due to increases in depreciation and general and administrative expense.

Non-Operating Revenues & Expenses:

Non-operating revenues decreased \$0.5 million or 5.27%, to \$8.6 million for FY-2013. The decrease was primarily a result of decreased miscellaneous and investment income.

Additional Audit Correspondence:

As a part of completing the audit engagement, the audit firm also provides the following letters summarizing their observations and conclusions concerning the District's overall financial processes:

- Management Letter: The auditors did not identify any deficiencies in internal controls that they considered to be material weaknesses. The auditors did identify two significant deficiencies. A significant deficiency is not considered a material weakness, yet important enough to merit attention by those charged with governance. See Attachment C.
- Audit Committee Letter: This letter describes overall aspects of the audit, to include audit principles, performance, dealings with management, and significant findings or issues.

There were no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

There were no disagreements with management concerning financial accounting, reporting, or auditing matters, and there were no significant difficulties in dealing with management in performing the audit. See Attachment D.

- Report on Applying Agreed-Upon Procedures: A review of the District's investment portfolio at year-end, and a sample of specific investment transactions completed throughout the fiscal year, disclosed one exception to compliance with the District's Investment Policy. See Attachment E.

FISCAL IMPACT:

None.

STRATEGIC GOAL:

The District ensures its continued financial health through long-term financial planning, formalized financial policies, enhanced budget controls, fair pricing, debt planning, and improved financial reporting.

LEGAL IMPACT:

None.

Attachments:

- A) Committee Action Form
- B) Audited Annual Financial Statements
- C) Management Letter
- D) Audit Committee Letter
- E) Report on Applying Agreed-Upon Procedures



ATTACHMENT A

| | |
|-------------------------|---|
| SUBJECT/PROJECT: | Approve the District's Audited Financial Statements for the Fiscal Year Ended June 30, 2013 |
|-------------------------|---|

COMMITTEE ACTION:

The Finance, Administration and Communications Committee reviewed this item at a meeting held on October 22, 2013 and the following comments were made:

- Staff is recommending that the Board approve the District's audited financial statements, including the Independent Auditors' unqualified opinion for the fiscal year ended June 30, 2013.
- White, Nelson, Diehl, Evans, LLP (WNDE) performed the audit and found that, in all material respects, the financial statements correctly represent the District's financial position.
- Staff indicated that for the year ending June 30, 2013:
 - Total assets decreased \$8.4 million due to depreciation and the write-down of CIP project expenditures that did not qualify as capital under generally accepted accounting principles and the adoption of a new accounting pronouncement (GASB 65).
 - Total liabilities decreased by \$2.1 million, which is attributable to the reduction in long-term debt.
 - Capital contributions for the year totaled \$2.8 million, which is a decrease of \$4.0 million from FY12. The decrease is mainly due to developers slowing down projects and also a result of reductions in federal grant moneys.
 - The changes in assets, deferred outflows and liabilities resulted in a \$5.9 million reduction in net assets.
 - Operating revenues increased \$8.4 million while water costs increased \$4.5 million due to increases in water rates and volume, while depreciation and general and administrative expenses increased \$2.0 million.
 - The District's Net Assets as of June 30, 2013 were \$448.2 million.
 - Non-operating revenues decreased \$500,000 due to reductions in investment income.

- The auditors found no material errors in the financial records or statements and there were no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus.
- The auditors had two comments regarding internal controls, which are presented in the Management Letter and Agreed-Upon Procedures report.
 - The first comment was that the Board of Directors approved rate increases to take effect for bills mailed beginning January 1, 2013. As a result of a delay in the mailing of required 30 day notices, the increases were made effective for billing cycles closing after January 6, 2013.
 - The second comment is that the District held one investment in a government sponsored entity, Farmer Mac, that was not specifically listed in the investment policy. Staff agrees with the management comment. The investment should not have been purchased at that time. The investment is a safe investment in a GSE, allowable under state code, and is similar to other government sponsored entities in which the District invests. The investment was also made during a time period where staff was in the process of updating the investment policy to include this GSE.
- Messrs. Nitin Patel and David Foreman of WNDE were in attendance. Mr. Patel indicated that he would be reviewing his firm's opinion on the District's Financial Statements (Independent Auditors Report), the Auditor's Communication, and the Management Letter.
- The Independent Auditors Report:
 - The first section of the Independent Auditors Report indicates that WNDE has audited the District's financial statements for the years ended June 30, 2013 and 2012. Mr. Patel noted that 2012 is included because they present comparative financial statements.
 - The second paragraph discusses management's responsibility for the financial statements. Management is responsible for the fair presentation of the financial statements which also includes the design and implementation of internal control related to financial reporting.
 - The third paragraph indicates the auditors responsibilities which is to express an opinion on the financial statements based on their audits. Mr. Patel indicated that their audit was conducted in accordance with generally accepted auditing standards, government auditing standards, and the State

Controller's Minimum Audit Requirements for Special Districts. The standards require that the auditor plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

- In the opinion of WNDE, the financial statements present fairly, in all material respects, the respective financial position of the Otay WD as of June 30, 2013 and 2012.
- The District implemented GASB No. 63 which requires the reporting of two (2) new elements; deferred outflow of resources and deferred inflow of resources.
- In response to an inquiry from the committee, Mr. Patel indicated that deferred outflow and inflow of resources is the consumption of an asset that will benefit future customers. As an example, when bonds are defeased, there is an accounting loss on the transaction. The loss is not expensed right away, it is capitalized and referred to as a deferred loss because it does not impact equity today when the bond is refunded as there are savings that will accrue over the life of the new bond. So the loss is deferred (deferred outflow of resources) on the statement on that position. There are very few items that would qualify under this rule.
- GASB 65 was also implemented and as a result the District restated the beginning net position for both 2012 and 2011 by \$2.2 million and \$2.4 million respectively. The restatement is to effectively remove any bond issuance costs that was previously capitalized. Bond issuance costs should now be expensed as incurred.
- In the Auditor's Communication, the auditor must communicate the Qualitative Aspects of Accounting Practices which includes the reporting of significant accounting policies used by the District as described in Note 1 to the financial statements. WNDE also discusses the implementation of GASB 63 and 65, Management's estimate of the fair market value of the District's investments, Management's estimate of the useful lives of capital assets for depreciation purposes, the funded status and funding progress of the CalPERS benefit plan based on an actuarial valuation and the funded status and funding progress of the Other Post-Employment Benefits based on an actuarial valuation. WNDE finds that the key factors and assumptions used to develop the above estimates were reasonable in relation to the financial statements taken as a whole.

- WNDE did not have any difficulties in performing the audit and there were no corrections to the financial statements.
- Mr. Patel indicated the last report is the Management Letter which reviews the two comments regarding internal controls discussed earlier in staffs' presentation.
- The committee inquired with regard to the investment that was not specifically listed in the investment policy (Farmer-Mac), if the auditor could clarify, in terms of safety and soundness, if the investment was consistent with the District's standard for "safety." The committee noted that the investment would now be consistent with the District's policy, but there was a time gap from when the investment was made and the policy was updated. WNDE agreed that the investment in Farmer-Mac, from a qualitative standpoint, was solid. The investment was just was not consistent with the District's Investment Policy at the time.
- The committee inquired of staff if they felt the District's current Investment Policy was adequate in terms of available investments. Staff indicated that the limits have been tightened somewhat in the Investment Policy, but staff feels that they have good flexibility and that it has not inhibited the District from making investments.
- The committee indicated that they felt that the comment in the Management Letter regarding the delay of rate increases due to the delay in mailing notices to two billing cycles was not a substantial finding in their judgment and asked if this year's increase will be on target. Staff indicated that it would.
- The committee indicated that the District's finances are in great shape and that it is maintaining its financial soundness. The District did implement a rate increase, but mainly it was to pass along its wholesale suppliers rate increases to keep the District's debt and financial ratios at target levels.
- In response to another inquiry from the committee, it was indicated that the District's Financial Statements are available to the District's customers and the public on the District's website.

Following the discussion, the committee supported staffs' recommendation and presentation to the full board as an action item.

OTAY WATER DISTRICT
FINANCIAL STATEMENTS
WITH REPORT ON AUDIT BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2013 AND 2012

FINAL DRAFT



TABLE OF CONTENTS

JUNE 30, 2013 and 2012

| | <u>Page Number</u> |
|---|------------------------|
| Independent Auditors' Report | 1 - 3 |
| Management's Discussion and Analysis (Required Supplementary Information) | 4 - 11 |
| Basic Financial Statements: | |
| Statements of Net Position | 12 - 13 |
| Statements of Revenues, Expenses and Changes in Net Position | 14 |
| Statements of Cash Flows | 15 - 16 |
| Notes to Financial Statements | 17 - 43 |
| Required Supplementary Information: | |
| Schedule of Funding Progress for PERS | 44 |
| Schedule of Funding Progress for DPHP | 44 |

INDEPENDENT AUDITORS' REPORT

Board of Directors
Otay Water District
Spring Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Otay Water District as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Otay Water District as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

Emphasis of Matters

As discussed in Note 1 to the basic financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal years 2012 and 2013 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in a \$2,252,393 and \$2,406,704 reduction of previously reported net position as of July 1, 2012 and 2011, respectively. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, PERS Defined Benefit Pension Plan – schedule of funding progress, and Other Post-Employment Benefit Plan – schedule of funding progress on pages 4- 11 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October XX, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

October XX, 2013
Carlsbad, California

FINAL DRAFT

Management's Discussion and Analysis

As management of the Otay Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2013. Please read it in conjunction with the District's financial statements that follow Management's Discussion and Analysis. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$448.2 million (*net position*). Of this amount, \$67.1 million (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- Total assets decreased by \$8.4 million or 1.42% during Fiscal Year 2013, to \$582.3 million, due primarily to depreciation and the write-off of CIP projects that were no longer viable as a part of the District's long range plans for growth and improvements to infrastructure. Other significant factors were the annual payment of long-term debt, implementation of GASB 65 and a reduction in grant funds received.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net positions may serve as a useful indicator of whether the financial position of the District is improving or weakening.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The *Statement of Cash Flows* presents information on cash receipts and payments for the fiscal year.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above.

Management's Discussion and Analysis

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis

As noted, net position may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by \$448.2 million at the close of the most recent fiscal year.

By far the largest portion of the District's net position, \$376.5 million (84%), reflects its investment in capital assets, less any remaining outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported effectively as a resource, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statements of Net Position (In Millions of Dollars)

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---------------------------------------|-----------------|-----------------|-----------------|
| Assets | | | |
| Current and Other Assets | \$ 106.3 | \$ 109.9 | \$ 122.5 |
| Capital Assets | <u>476.0</u> | <u>480.8</u> | <u>474.4</u> |
| Total Assets | <u>582.3</u> | <u>590.7</u> | <u>596.9</u> |
| Deferred Outflows of Resources | | | |
| Deferred amount on refunding | <u>0.4</u> | <u>0.0</u> | <u>0.0</u> |
| Total Deferred Outflows of Resources | <u>0.4</u> | <u>0.0</u> | <u>0.0</u> |
| Liabilities | | | |
| Long-Term Debt Outstanding | 109.0 | 112.0 | 115.3 |
| Other Liabilities | <u>25.5</u> | <u>24.6</u> | <u>24.4</u> |
| Total Liabilities | <u>134.5</u> | <u>136.6</u> | <u>139.7</u> |
| Net Position | | | |
| Invested in Capital Assets | 376.5 | 381.7 | 377.7 |
| Restricted for Debt Service | 4.6 | 4.7 | 4.9 |
| Unrestricted | <u>67.1</u> | <u>67.7</u> | <u>74.6</u> |
| Total Net position | <u>\$ 448.2</u> | <u>\$ 454.1</u> | <u>\$ 457.2</u> |

Management's Discussion and Analysis

While the District's operations and population continue to grow, albeit at slower rates than in prior years, the pattern of reduced growth of the District's Net Position is indicative of the reduction in new development projects within the District. This reduction is a result of the ongoing national housing slump and financial crisis.

In FY-2013 the District continued its use of the \$51.2 million of proceeds from the issuance of its 2010 Water Revenue Bonds program (See Note 4 in the Notes to Financial Statements) for its CIP program (See Note 3 in the Notes to Financial Statements), as seen by the decrease in Current and Other Assets of \$3.6 million, which was partially offset by a corresponding increase in Capital Assets of \$11.6 million before accumulated depreciation. The District also saw a decrease in Long-Term Debt of \$3.0 million due to the annual payments of long-term debt and the advance refunding of its 2004 Certificates of Participation.

In response to the prolonged business slowdown, during FY-2011 the District performed a review of Fixed Assets throughout the system and wrote off \$2.9 million of fully depreciated Property, Plant & Equipment that was no longer serviceable or functioning efficiently. Additionally, an analysis of several Construction-in-Progress projects such as the Otay Mesa Desalination and Disinfection System, Rancho Del Rey Groundwater Well Development and San Miguel Habitat Management/Mitigation Area and determined that some charges do not qualify as capitalizable cost. This resulted in FY-2012 expenses of \$1.3 million and FY-2013 expenses of \$1.6 million.

For the entire financial reporting period, Fiscal Years 2013 and 2012, Total Net Position decreased approximately \$5.9 million for FY-2013, to \$448.2 million, as compared to FY-2012 when Net Position decreased by \$3.1 million. At the end of FY-2013 the District is able to report positive balances in all categories of net position. This situation also held true for the prior two fiscal years.

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Position (In Millions of Dollars)

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-----------------------------------|-----------------|-----------------|-----------------|
| Water Sales | \$ 72.2 | \$ 63.8 | \$ 58.3 |
| Wastewater Revenue | 2.6 | 2.4 | 2.4 |
| Connection and Other Fees | 2.1 | 2.2 | 2.5 |
| Non-operating Revenues | <u>8.6</u> | <u>9.1</u> | <u>8.8</u> |
| Total Revenues | <u>85.5</u> | <u>77.5</u> | <u>72.0</u> |
| Depreciation Expense | 16.5 | 15.2 | 13.9 |
| Other Operating Expense | 71.7 | 66.5 | 63.4 |
| Non-operating Expense | <u>6.0</u> | <u>5.7</u> | <u>4.1</u> |
| Total Expenses | <u>94.2</u> | <u>87.4</u> | <u>81.4</u> |
| Loss Before Capital Contributions | (8.7) | (9.9) | (9.4) |
| Capital Contributions | <u>2.8</u> | <u>6.8</u> | <u>7.9</u> |
| Change in Net Position | (5.9) | (3.1) | (1.5) |
| Prior Period Adjustment | | | (2.6) |
| Beginning Net Position | <u>454.1</u> | <u>457.2</u> | <u>461.3</u> |
| Ending Net Position | <u>\$ 448.2</u> | <u>\$ 454.1</u> | <u>\$ 457.2</u> |

Water Sales increased by \$5.5 million in FY-2012 and \$8.4 million in FY-2013, mainly due to rate increases in both years and increased in units sold in FY13 due to drier weather and higher temperatures. The slowdown in District growth, as a result of the economic crisis, appears to have leveled off as the annual decreases in Connection and Other Fees eased from \$0.3 million in FY-2012 to \$0.1 million in FY-2013.

Other Operating Expense increased predominantly due to the increase in Cost of Water Sales, from a combination of the increased price-per-acre-foot of water obtained from Los Angeles Metropolitan Water District of 7.5%, and 9.1% from San Diego County Water Authority, brought on by the high cost of supply programs as well as higher energy and operating costs.

The slowdown in the economy appears to have leveled off. However, due to the nationwide housing mortgage crisis throughout the last several years, developers have either slowed-down or totally stopped work on many projects until economic conditions improve and the demand for growth returns. This has resulted in Capital Contributions remaining low over the last 3-years, compared to the extended growth of the previous 10-years. While this slowdown now appears to have stabilized, the District was aided in its Capital Contributions through the receipt of additional federal grant monies of \$935,000 in FY-2012, and \$184,000 in FY-2013.

Management's Discussion and Analysis

Non-operating Revenues

Non-operating Revenues by Major Source (In Millions of Dollars)

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|------------------------------|-------------|-------------|-------------|
| Taxes and assessments | \$ 3.5 | \$ 3.5 | \$ 3.9 |
| Rents and leases | 1.3 | 1.2 | 1.2 |
| Other Non-operating Revenue | <u>3.8</u> | <u>4.4</u> | <u>3.7</u> |
| Total Non-operating Revenues | <u>8.6</u> | <u>9.1</u> | <u>8.8</u> |

The District's non-operating revenues increased by \$0.3 million in FY-2012 and decreased by \$0.5 million in FY-2013. The decrease in FY-2013 was primarily a result of decreased miscellaneous and investment income.

Prior Period Adjustment

In March 2012 the Governmental Accounting Standards Board (GASB) issued statement No. 65, "*Items Previously Reported as Assets and Liabilities*", effective for periods beginning after December 15, 2012. The District implemented this standard in fiscal year 2013. The result of the implementation of this standard was to decrease the net position at July 1, 2012 and July 1, 2011 by \$2.2 million and \$2.4 million, respectively, which is the amount of unamortized debt issuance costs at July 1, 2012 and July 1, 2011.

Management's Discussion and Analysis

Capital Assets and Debt Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2013, totaled \$476 million. Included in this amount is land. The District's capital assets decreased by 1.0% for FY-2013 and increased by 1.4% in FY-2012.

| | Capital Assets (In Millions of Dollars) | | |
|----------------------------------|---|-----------------|-----------------|
| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
| Land | \$ 13.7 | \$ 13.7 | \$ 13.6 |
| Construction in Progress | 17.1 | 17.5 | 17.9 |
| Water System | 458.8 | 452.1 | 441.9 |
| Recycled Water System | 108.9 | 108.0 | 98.3 |
| Sewer System | 41.2 | 37.8 | 37.7 |
| Field Equipment | 8.9 | 8.6 | 9.8 |
| Buildings | 18.8 | 18.6 | 18.5 |
| Transportation Equipment | 3.5 | 3.2 | 3.2 |
| Communication Equipment | 2.6 | 2.5 | 2.4 |
| Office Equipment | <u>17.3</u> | <u>17.2</u> | <u>17.3</u> |
| | 690.8 | 679.2 | 660.6 |
| Less Accumulated Depreciation | <u>(214.8)</u> | <u>(198.4)</u> | <u>(186.2)</u> |
| Net Capital Assets | <u>\$ 476.0</u> | <u>\$ 480.8</u> | <u>\$ 474.4</u> |

As indicated by figures in the table above, the majority of capital assets added during both fiscal years were related to the potable and recycled water systems. In addition, the majority of the cost of construction-in-progress is also related to these water systems. Additional information on the District's capital assets can be found in Note 3 of the Notes to Financial Statements.

At June 30, 2013, the District had \$109 million in outstanding long-term debt (net of \$3.5 million of maturities occurring in FY-2014), which consisted of the following:

| | |
|-------------------------------|-----------------|
| General Obligation Bonds | \$ 5.8 |
| Certificates of Participation | 46.5 |
| Revenue Bonds | <u>56.7</u> |
| Total Long-Term Debt | <u>\$ 109.0</u> |

Management's Discussion and Analysis

In June 2013, the District issued \$7.7 million of 2013 Water Revenue Refunding Bonds for an advance refunding of its 2004 Certificates of Participation, which will be called on September 1, 2014. Excluding costs of issuance the District received \$8.5 million in proceeds, including a \$1.0 million premium, to fund the \$8.1 million of outstanding principal and \$.4 million of remaining interest payments. In accordance with GASB Nos. 23 and 65, the remaining interest payments of \$.4 million are reflected as a deferred outflow of resources on the Statement of Net Position.

Additional information on the District's long-term debt can be found in Note 4 of the Notes to Financial Statements.

Fiscal Year 2013-2014 Budget

Economic Factors

Growth in the San Diego area has declined over the last 4 years, but is now slowly improving. This modest shift is also being reflected in the demand for housing. Although San Diego received less than normal rainfall in Fiscal Year 2013, the District is expecting that San Diego's rainfall will return to its average pattern and volume in the coming years. Water sales volumes are expected to increase slightly as the economy is slowly improving, but will be partially offset by customers' efforts to conserve water in a period of rising water costs. The coming years will continue to pose challenges for those in California's water community. It is uncertain if the challenges facing the Sacramento-San Joaquin Bay Delta, the source of 30% of Southern California's water supply, will be addressed. In addition, weather and rainfall always bring a level of uncertainty to the delivery of water to customers in the arid southwestern states. The combination of these factors add to the cost of providing a stable supply of water as water providers look to new and more costly sources of water.

The District currently provides water service to about 74% of its projected ultimate population, serving approximately 211,000 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow. Ultimately, the District is projected to serve approximately 285,000 people, with an average daily demand of 46 million gallons per day (MGD). Currently, the District services the needs of this growing population by purchasing water from CWA, who in turn purchases its water from MWD and the Imperial Irrigation District (IID). Otoy takes delivery of the water through several connections of large diameter pipelines owned and operated by CWA. The District currently receives treated water from CWA and the Helix Water District (HWD), by contract with CWA. In addition, the District has an emergency agreement with the City of San Diego to purchase water in the case of a shutdown of the main treated water source. The City of San Diego also has a long-term contract with the District to provide recycled water for landscape and irrigation usage. Through innovative agreements like this, benefits can be achieved by both parties by using excess capacity of another agency, and diversifying local supply, thereby increasing reliability.

Management's Discussion and Analysis

Financial

The District is projected to deliver approximately 28,985 acre-feet of potable water to 49,150 potable customer accounts during Fiscal Year 2013-2014. Management feels that these projections are realistic after accounting for low growth, supply changes, and a focus on conservation. Current economic conditions throughout America have created price elasticity uncertainty for business and economic projections in the current fiscal year. The nationwide housing mortgage crisis has leveled off, but continues to result in foreclosures within the District. Additionally, the crisis in the banking and financial industry has had a ripple effect resulting in continued levels of high unemployment. One of the subsequent results of these two broad events is the relocation of many homeowners and renters into new housing arrangements throughout San Diego County. Even with the various challenges, people's need for water remains an underlying constant. Staff continues working diligently on developing new water supplies as they work through the financial impacts of conservation and the modest economic turnaround.

Management is unaware of any other conditions that could have a significant impact on the District's current financial position, net position, or operating results.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the Otay Water District's finances for the Board of Directors, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978-2004.



STATEMENTS OF NET POSITION

JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> (As Restated) |
|---|---------------|------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents (Notes 1 and 2) | \$ 33,958,281 | \$ 31,075,455 |
| Restricted cash and cash equivalents (Notes 1 and 2) | 4,087,042 | 4,057,726 |
| Investments (Note 2) | 31,134,182 | 37,069,853 |
| Restricted investments (Notes 1 and 2) | 13,545,284 | 16,124,042 |
| Accounts receivable, net | 11,856,029 | 10,575,970 |
| Accrued interest receivable | 53,950 | 106,375 |
| Taxes and availability charges receivable, net | 431,159 | 481,955 |
| Restricted taxes and availability charges receivable, net | 41,657 | 57,313 |
| Inventories | 800,085 | 789,769 |
| Prepaid expenses and other current assets | 1,072,706 | 1,226,703 |
| | <hr/> | <hr/> |
| Total Current Assets | 96,980,375 | 101,565,161 |
| Noncurrent Assets: | | |
| Net OPEB asset (Note 7) | 9,345,437 | 8,321,902 |
| Capital Assets (Note 3): | | |
| Land | 13,714,963 | 13,703,463 |
| Construction in progress | 17,110,048 | 17,452,274 |
| Capital assets, net of depreciation | 445,203,648 | 449,674,352 |
| | <hr/> | <hr/> |
| Total capital assets, net of depreciaton | 476,028,659 | 480,830,089 |
| | <hr/> | <hr/> |
| Total Noncurrent Assets | 485,374,096 | 489,151,991 |
| | <hr/> | <hr/> |
| Total Assets | 582,354,471 | 590,717,152 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred amount on refunding | 390,591 | - |
| | <hr/> | <hr/> |
| Total Deferred Outflows of Resources | 390,591 | - |
| | <hr/> | <hr/> |

(Continued)

See accompanying independent auditors' report and notes to financial statements.



STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> (As Restated) |
|---|---------------------------|------------------------------|
| LIABILITIES | | |
| Current Liabilities: | | |
| Current maturities of long-term debt (Note 4) | 3,470,000 | 3,320,000 |
| Accounts payable | 11,733,543 | 10,478,366 |
| Accrued payroll liabilities | 2,755,421 | 2,591,272 |
| Other accrued liabilities | 3,487,430 | 3,932,442 |
| Customer deposits | 1,756,983 | 1,863,992 |
| Accrued interest | 1,518,651 | 1,639,681 |
| Liabilities Payable From Restricted Assets: | | |
| Restricted accrued interest | 76,154 | 81,354 |
| Total Current Liabilities | <u>24,798,182</u> | <u>23,907,107</u> |
| Noncurrent Liabilities: | | |
| Long-term debt (Note 4): | | |
| General obligation bonds | 5,849,918 | 6,401,271 |
| Certificates of participation | 46,465,525 | 56,023,740 |
| Revenue bonds | 56,678,987 | 49,521,421 |
| Other noncurrent liabilities | 718,543 | 721,626 |
| Total Noncurrent Liabilities | <u>109,712,973</u> | <u>112,668,058</u> |
| Total Liabilities | <u>134,511,155</u> | <u>136,575,165</u> |
| NET POSITION | | |
| Invested in capital assets | 376,549,168 | 381,725,015 |
| Restricted for debt service | 4,612,890 | 4,715,904 |
| Unrestricted | 67,071,849 | 67,701,068 |
| Total Net Position | <u>\$ 448,233,907</u> | <u>\$ 454,141,987</u> |

See accompanying independent auditors' report and notes to financial statements.



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 (As Restated) |
|--|-----------------------|-------------------------------------|
| OPERATING REVENUES | | |
| Water sales | \$ 72,187,081 | \$ 63,830,272 |
| Wastewater revenue | 2,625,087 | 2,400,313 |
| Connection and other fees | 2,069,220 | 2,169,764 |
| Total Operating Revenues | <u>76,881,388</u> | <u>68,400,349</u> |
| OPERATING EXPENSES | | |
| Cost of water sales | 50,600,551 | 46,106,403 |
| Wastewater | 1,638,354 | 2,547,929 |
| Administrative and general | 19,428,008 | 17,926,430 |
| Depreciation | 16,545,622 | 15,214,704 |
| Total Operating Expenses | <u>88,212,535</u> | <u>81,795,466</u> |
| Operating Income (Loss) | (11,331,147) | (13,395,117) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 22,155 | 436,596 |
| Taxes and assessments | 3,545,595 | 3,502,155 |
| Availability charges | 707,881 | 696,863 |
| Gain (loss) on sale of capital assets | (546,799) | (278,540) |
| Miscellaneous revenues | 4,934,714 | 4,788,711 |
| Donations | (120,684) | (121,617) |
| Interest expense | (3,977,538) | (3,899,927) |
| Miscellaneous expenses | (1,917,389) | (1,612,914) |
| Total Nonoperating Revenues (Expenses) | <u>2,647,935</u> | <u>3,511,327</u> |
| Income (Loss) Before Capital Contributions | (8,683,212) | (9,883,790) |
| Capital Contributions | <u>2,775,132</u> | <u>6,825,897</u> |
| Changes in Net Position | <u>(5,908,080)</u> | <u>(3,057,893)</u> |
| Total Net Position, Beginning, As Originally Stated | 454,141,987 | 459,606,584 |
| Prior Period Adjustment (Note 12) | <u>-</u> | <u>(2,406,704)</u> |
| Total Net Position, Beginning, As Restated (Note 12) | <u>454,141,987</u> | <u>457,199,880</u> |
| Total Net Position, Ending | <u>\$ 448,233,907</u> | <u>\$ 454,141,987</u> |

See accompanying independent auditors' report and notes to financial statements.



STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 73,425,100 | \$ 64,648,558 |
| Receipts from connections and other fees | 2,069,220 | 2,169,764 |
| Other receipts | 3,657,800 | 3,566,651 |
| Payments to suppliers | (51,083,778) | (46,620,831) |
| Payments to employees | (20,491,758) | (20,521,468) |
| Other payments | (2,038,073) | (1,724,744) |
| Net Cash Provided (Used) by Operating Activities | <u>5,538,511</u> | <u>1,517,930</u> |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Receipts from taxes and assessments | 3,612,045 | 3,493,423 |
| Receipts from property rents and leases | 1,276,914 | 1,222,060 |
| Net Cash Provided (Used) by Noncapital and Related Financing Activities | <u>4,888,959</u> | <u>4,715,483</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from capital contributions | 1,515,238 | 3,363,090 |
| Proceeds from sale of capital assets | - | 28,128 |
| Proceeds from debt related taxes and assessments | 707,881 | 696,863 |
| Net proceeds from issuance of long-term debt | 8,329,385 | - |
| Retirements of long-term debt | (8,100,000) | - |
| Principal payments on long-term debt | (3,320,000) | (3,146,010) |
| Interest payments and fees | (5,201,467) | (5,199,488) |
| Acquisition and construction of capital assets | (10,035,376) | (17,276,246) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(16,104,339)</u> | <u>(21,533,663)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received on investments | 395,773 | 580,872 |
| Proceeds from sale and maturities of investments | 68,832,000 | 108,410,000 |
| Purchase of investments | (60,638,762) | (112,360,000) |
| Net Cash Provided (Used) by Investing Activities | <u>8,589,011</u> | <u>(3,369,128)</u> |
| Net Increase (Decrease) in Cash and cash equivalents | 2,912,142 | (18,669,378) |
| Cash and cash equivalents, Beginning | <u>35,133,181</u> | <u>53,802,559</u> |
| Cash and cash equivalents, Ending | <u>\$ 38,045,323</u> | <u>\$ 35,133,181</u> |

(Continued)

See accompanying independent auditors' report and notes to financial statements.



STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities: | | |
| Operating income (loss) | \$ (11,331,147) | \$ (13,395,117) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation | 16,545,622 | 15,214,704 |
| Miscellaneous revenues | 3,657,800 | 3,566,651 |
| Miscellaneous expenses | (2,038,073) | (1,724,744) |
| (Increase) decrease in accounts receivable | (1,280,059) | (1,340,832) |
| (Increase) decrease in inventory | (10,316) | 45,552 |
| (Increase) decrease in net OPEB asset | (1,023,535) | (905,556) |
| (Increase) decrease in prepaid expenses and other current assets | 153,997 | (37,497) |
| Increase (decrease) in accounts payable | 1,255,177 | (2,522,194) |
| Increase (decrease) in accrued payroll and related expenses | 164,149 | (341,005) |
| Increase (decrease) in other accrued liabilities | (445,012) | 3,192,574 |
| Increase (decrease) in customer deposits | (107,009) | (241,195) |
| Increase (decrease) in prepaid capacity fees | (3,083) | 6,589 |
| Net Cash Provided (Used) By Operating Activities | <u>\$ 5,538,511</u> | <u>\$ 1,517,930</u> |
| Schedule of Cash and Cash Equivalents: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 33,958,281 | \$ 31,075,455 |
| Restricted cash and cash equivalents | 4,087,042 | 4,057,726 |
| Total Cash and Cash Equivalents | <u>\$ 38,045,323</u> | <u>\$ 35,133,181</u> |
| Supplemental Disclosures: | | |
| Non-cash Investing and Financing Activities Consisted of the Following: | | |
| Contributed Capital for Water and Sewer System | \$ 1,259,894 | \$ 3,462,807 |
| Change in Fair Value of Investments and Recognized Gains/Losses | (353,950) | (127,662) |
| Amortization Related to Long-Term Debt | 154,246 | 164,101 |

See accompanying independent auditors' report and notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

| <u>NOTE</u> | <u>DESCRIPTION</u> | <u>PAGE</u> |
|--|--|--------------------|
| 1 | Reporting Entity and Summary of Significant Accounting Policies..... | 17 – 21 |
| 2 | Cash and Investments..... | 22 – 26 |
| 3 | Capital Assets..... | 27 – 28 |
| 4 | Long-Term Debt..... | 29 – 32 |
| 5 | Net Position..... | 33 |
| 6 | Defined Benefit Pension Plan..... | 33 – 34 |
| 7 | Other Post Employment Benefits..... | 35 – 37 |
| 8 | Water Conservation Authority..... | 37 |
| 9 | Commitments and Contingencies..... | 38 |
| 10 | Risk Management..... | 38 – 39 |
| 11 | Interest Expense..... | 39 |
| 12 | Prior Period Adjustment..... | 40 |
| 13 | Segment information..... | 41 – 43 |
| <u>Required Supplementary Information:</u> | | |
| 1 | Schedule of Funding Progress for PERS..... | 44 |
| 2 | Schedule of Funding Progress for DPHP..... | 44 |



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The reporting entity Otay Water District (the District) includes the accounts of the District and the Otay Water District Financing Authority (the Authority).

The Otay Water District is a public entity established in 1956 pursuant to the Municipal Water District Law of 1911 (Section 711 et. Seq. of the California Water Code) for the purpose of providing water and sewer services to the properties in the District. The District is governed by a Board of Directors consisting of five directors elected by geographical divisions based on District population for a four-year alternating term.

The District formed the Financing Authority on March 3, 2010 under the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code. The Financing Authority was formed to assist the District in the financing of public capital improvements.

The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Financing Authority as a "blended" component unit. Despite being legally separate, the Financing Authority is so intertwined with the District that it is in substance, part of the District's operations. Accordingly, the balances and transactions of this component unit are reported within the funds of the District. Separate financial statements are not issued for the Financing Authority.

B) Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements of the Otay Water District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

Net position of the District is classified into three components: (1) invested in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Invested in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Restricted Net Position

This component of net position consists of net position with constrained use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

This component of net position consists of net assets that do not meet the definition of “invested in capital assets” or “restricted net position”.

The District distinguishes operating revenues and expenses from those revenues and expenses that are nonoperating. Operating revenues are those revenues that are generated by water sales and wastewater services while operating expenses pertain directly to the furnishing of those services. Nonoperating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services.

The District recognizes revenues from water sales, wastewater revenues, and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of \$52,535 and \$57,465 at June 30, 2013 and 2012, respectively.

Additionally, capacity fee contributions received which are related to specific operating expenses are offset against those expenses and included in Cost of Water Sales in the Statement of Revenues and Expenses and Changes in Net Position.

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District’s practice to consider restricted - net position to have been depleted before unrestricted - net position is applied, however it is at the Board’s discretion.

C) New Accounting Pronouncements

Implemented

In fiscal year 2012-2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*”. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, “*Elements of Financial Statements*” into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the District early implemented GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”. This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, the calculation of deferred amount on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2012 and July 1, 2011 by \$2,252,393 and \$2,406,704, respectively, which is the amount of unamortized debt issuance costs at July 1, 2012 and July 1, 2011, respectively.



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) New Accounting Pronouncements - Continued

Pending Accounting Standards

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.

D) Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category, *deferred amount on refunding*, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items as of June 30, 2013 or June 30, 2012.

E) Statement of Cash Flows

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity period, at purchase, of three months or less to be cash equivalents.

F) Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool. All investments are stated at their fair value, the District has not elected to report certain investments at amortized cost.

G) Inventory and Prepaids

Inventory consists primarily of materials used in the construction and maintenance of the water and sewer system and is valued at weighted average cost. Both inventory and prepaids use the consumption method whereby they are reported as an asset and expensed as they are consumed.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Capital Assets

Capital assets are recorded at cost, where historical records are available, and at an estimated historical cost where no historical records exist. Infrastructure assets in excess of \$20,000 and other capital assets in excess of \$10,000 are capitalized if they have an expected useful life of two years or more. The District will also capitalize individual purchases under the capitalization threshold if they are part of a new capital program. The cost of purchased and self-constructed additions to utility plant and major replacements of property are capitalized. Costs include materials, direct labor, transportation, and such indirect items as engineering, supervision, employee fringe benefits, overhead, and interest incurred during the construction period. Repairs, maintenance, and minor replacements of property are charged to expense. Donated assets are capitalized at their approximate fair market value on the date contributed.

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest for fiscal year ending June 30, 2013 of \$995,721 is included in the cost of water system assets and is depreciated on the straight-line basis over the estimated useful lives of such assets.

Depreciation is calculated using the straight-line method over the following estimated useful lives:

| | |
|--------------------------|-------------|
| Water System | 15-70 Years |
| Field Equipment | 2-50 Years |
| Buildings | 30-50 Years |
| Communication Equipment | 2-10 Years |
| Transportation Equipment | 2-4 Years |
| Office Equipment | 2-10 Years |
| Recycled Water System | 50-75 Years |
| Sewer System | 25-50 Years |

I) Compensated Absences

It is the District’s policy to record vested or accumulated vacation and sick leave as an expense and liability as benefits accrue to employees. As of June 30, 2013 and 2012, total accrued paid time off was \$2,120,399 and \$1,991,841, respectively.

J) Classification of Liabilities

Certain current liabilities have been classified as current liabilities payable from restricted assets as they will be funded from restricted assets.

K) Allowance for Doubtful Accounts

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management’s assessment of the collectability of existing specific accounts. The allowance for doubtful accounts was \$150,000 and \$14,461 for 2013 and 2012, respectively.



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M) Property Taxes

Tax levies are limited to 1% of full market value (at time of purchase) which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

The County of San Diego (the "County") bills and collects property taxes on behalf of the District. The County's tax calendar year is July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

N) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

2) CASH AND INVESTMENTS

The primary goals of the District's Investment Policy are to assure compliance with all Federal, State, and Local laws governing the investment of funds under the control of the organization, protect the principal of investments entrusted, and generate income under the parameters of such policies.

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

| Current Assets | 2013 | 2012 |
|--------------------------------------|---------------|---------------|
| Cash and Cash Equivalents | \$ 33,958,281 | \$ 31,075,455 |
| Restricted Cash and Cash Equivalents | 4,087,042 | 4,057,726 |
| Investments | 31,134,182 | 37,069,853 |
| Restricted Investments | 13,545,284 | 16,124,042 |
| Total Cash and Investments | \$ 82,724,789 | \$ 88,327,076 |

Cash and Investments consist of the following:

| | 2013 | 2012 |
|--------------------------------------|---------------|---------------|
| Cash on Hand | \$ 2,950 | \$ 2,950 |
| Deposits with Financial Institutions | 1,107,051 | 1,519,979 |
| Investments | 81,614,788 | 86,804,147 |
| Total Cash and Investments | \$ 82,724,789 | \$ 88,327,076 |

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's Investment Policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's Investment Policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's Investment Policy.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Of Portfolio ⁽¹⁾ | Maximum Investment In One Issuer |
|--|---------------------|--|--|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Government Sponsored Entities | 5 years | None | None |
| Certificates of Deposit | 5 years | 15% | None |
| Corporate Medium-Term Notes | 5 years | 15% | None |
| Commercial Paper | 270 days | 15% | 10% |
| Money Market Mutual Funds | N/A | 15% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

⁽¹⁾ Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

2) CASH AND INVESTMENTS - Continued

Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's Investment Policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following tables that show the distribution of the District's investments by maturity as of June 30, 2013 and 2012.

June 30, 2013

| Investment Type | | Remaining Maturity (in Months) | | | |
|--|----------------------|--------------------------------|---------------------|---------------------|------------------------|
| | | 12 Months Or Less | 13 to 24 Months | 25 to 60 Months | More Than 60 Months |
| U.S. Government Sponsored Entities | \$ 44,599,731 | \$ 3,002,850 | \$17,974,890 | \$23,621,991 | \$ - |
| Local Agency Investment Fund (LAIF) | 17,032,057 | 17,032,057 | - | - | - |
| San Diego County Pool | 19,983,000 | 19,983,000 | - | - | - |
| Total | \$ 81,614,788 | \$40,017,907 | \$17,974,890 | \$23,621,991 | \$ - |

June 30, 2012

| Investment Type | | Remaining Maturity (in Months) | | | |
|--|----------------------|--------------------------------|---------------------|---------------------|------------------------|
| | | 12 Months Or Less | 13 to 24 Months | 25 to 60 Months | More Than 60 Months |
| U.S. Government Sponsored Entities | \$ 53,100,166 | \$ 5,744,244 | \$24,995,670 | \$22,360,252 | \$ - |
| Local Agency Investment Fund (LAIF) | 11,614,981 | 11,614,981 | - | - | - |
| San Diego County Pool | 22,089,000 | 22,089,000 | - | - | - |
| Total | \$ 86,804,147 | \$39,448,225 | \$24,995,670 | \$22,360,252 | \$ - |



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the Moody's ratings as of June 30, 2013 and 2012 for each investment type.

June 30, 2013

| Investment Type | | Minimum Legal Rating | Rating as of Year End | | |
|--|----------------------|----------------------------|-----------------------|-------------|---------------------|
| | | | AAA | AA | Not Rated |
| U.S. Government Sponsored Entities | \$ 44,599,731 | N/A | \$44,599,731 | \$ - | \$ - |
| Local Agency Investment Fund (LAIF) | 17,032,057 | N/A | - | - | 17,032,057 |
| San Diego County Pool | 19,983,000 | N/A | - | - | 19,983,000 |
| Total | \$ 81,614,788 | | \$44,599,731 | \$ - | \$37,015,057 |

June 30, 2012

| Investment Type | | Minimum Legal Rating | Rating as of Year End | | |
|--|----------------------|----------------------------|-----------------------|-------------|---------------------|
| | | | AAA | AA | Not Rated |
| U.S. Government Sponsored Entities | \$ 53,100,166 | N/A | \$53,100,166 | \$ - | \$ - |
| Local Agency Investment Fund (LAIF) | 11,614,981 | N/A | - | - | 11,614,981 |
| San Diego County Pool | 22,089,000 | N/A | - | - | 22,089,000 |
| Total | \$ 86,804,147 | | \$53,100,166 | \$ - | \$33,703,981 |



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

2) CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

The investment policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2013 and 2012 are as follows:

June 30, 2013

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> |
|---------------------------------------|------------------------------------|------------------------|
| Federal Home Loan Bank | U.S. Government Sponsored Entities | \$ 12,961,010 |
| Federal Home Loan Mortgage Corp | U.S. Government Sponsored Entities | 9,720,091 |
| Federal National Mortgage Association | U.S. Government Sponsored Entities | 4,976,820 |
| Federal Farm Credit Banks | U.S. Government Sponsored Entities | 14,955,390 |

June 30, 2012

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> |
|---------------------------------------|------------------------------------|------------------------|
| Federal Home Loan Bank | U.S. Government Sponsored Entities | \$ 17,991,270 |
| Federal Home Loan Mortgage Corp | U.S. Government Sponsored Entities | 15,753,834 |
| Federal National Mortgage Association | U.S. Government Sponsored Entities | 14,993,400 |
| Federal Farm Credit Banks | U.S. Government Sponsored Entities | 4,361,662 |

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2013, \$1,063,279 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2012, \$1,720,135 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

2) CASH AND INVESTMENTS - Continued

Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost-basis.

San Diego County Pooled Fund

The San Diego County Pooled Investment Fund (SDCPIF) is a pooled investment fund program governed by the County of San Diego Board of Supervisors, and administered by the County of San Diego Treasurer and Tax Collector. Investments in SDCPIF are highly liquid as deposits and withdrawals can be made at anytime without penalty.

The County of San Diego's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the County of San Diego Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the County of San Diego Auditor-Controller's Office – 1600 Pacific Coast Highway – San Diego, CA 92101.

Collateral for Deposits

All cash is entirely insured or collateralized.

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits.

The District may waive the 110% collateral requirement for deposits which are insured up to \$250,000 by the FDIC.



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2013:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|--------------------------|---------------------|------------------------|-----------------------|
| Capital Assets, Not Depreciated | | | | |
| Land | \$ 13,703,463 | \$ 11,500 | \$ - | \$ 13,714,963 |
| Construction in Progress | <u>17,452,274</u> | <u>11,751,086</u> | <u>(12,093,312)</u> | <u>17,110,048</u> |
| Total Capital Assets Not Depreciated | 31,155,737 | 11,762,586 | (12,093,312) | 30,825,011 |
| Capital Assets, Being Depreciated | | | | |
| Infrastructure | 597,894,929 | 11,620,876 | (881,331) | 608,634,474 |
| Field Equipment | 8,602,060 | 331,974 | - | 8,934,034 |
| Buildings | 18,649,209 | 200,300 | - | 18,849,509 |
| Transportation Equipment | 3,221,249 | 277,860 | (1,320) | 3,497,789 |
| Communication Equipment | 2,514,151 | 81,670 | (33,341) | 2,562,480 |
| Office Equipment | <u>17,201,420</u> | <u>209,037</u> | <u>(112,115)</u> | <u>17,298,342</u> |
| Total Capital Assets Being Depreciated | 648,083,018 | 12,721,717 | (1,028,107) | 659,776,628 |
| Less Accumulated Depreciation: | | | | |
| Infrastructure | 169,258,402 | 12,993,086 | (254,187) | 181,997,301 |
| Field Equipment | 7,373,481 | 206,182 | - | 7,579,663 |
| Buildings | 7,347,820 | 484,727 | - | 7,832,547 |
| Transportation Equipment | 2,306,300 | 310,796 | (1,321) | 2,615,775 |
| Communication Equipment | 1,035,846 | 445,648 | (33,342) | 1,448,152 |
| Office Equipment | <u>11,086,817</u> | <u>2,105,183</u> | <u>(92,458)</u> | <u>13,099,542</u> |
| Total Accumulated Depreciation | 198,408,666 | 16,545,622 | (381,308) | 214,572,980 |
| Total Capital Assets Being Depreciated, Net | <u>449,674,352</u> | <u>(3,823,905)</u> | <u>(646,799)</u> | <u>445,203,648</u> |
| Total Capital Assets, Net | <u>\$ 480,830,089</u> | <u>\$ 7,938,681</u> | <u>\$ (12,740,111)</u> | <u>\$ 476,028,659</u> |

Depreciation expense for the years ended June 30, 2013 and 2012 was \$16,545,622 and \$15,214,704, respectively.



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

3) CAPITAL ASSETS (Continued)

The following is a summary of changes in Capital Assets for the year ended June 30, 2012:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|--------------------------|----------------------|------------------------|-----------------------|
| Capital Assets, Not Depreciated | | | | |
| Land | \$ 13,636,663 | \$ 66,800 | \$ - | \$ 13,703,463 |
| Construction in Progress | <u>17,909,282</u> | <u>19,086,698</u> | <u>(19,543,706)</u> | <u>17,452,274</u> |
| Total Capital Assets Not Depreciated | 31,545,945 | 19,153,498 | (19,543,706) | 31,155,737 |
| Capital Assets, Being Depreciated | | | | |
| Infrastructure | 577,926,518 | 20,908,862 | (940,451) | 597,894,929 |
| Field Equipment | 9,847,809 | 149,661 | (1,395,410) | 8,602,060 |
| Buildings | 18,451,132 | 198,077 | - | 18,649,209 |
| Transportation Equipment | 3,177,687 | 221,872 | (178,310) | 3,221,249 |
| Communication Equipment | 2,359,043 | 155,108 | - | 2,514,151 |
| Office Equipment | <u>17,332,966</u> | <u>681,123</u> | <u>(812,669)</u> | <u>17,201,420</u> |
| Total Capital Assets Being Depreciated | 629,095,155 | 22,314,703 | (3,326,840) | 648,083,018 |
| Less Accumulated Depreciation: | | | | |
| Infrastructure | 157,565,903 | 12,330,306 | (637,807) | 169,258,402 |
| Field Equipment | 8,619,183 | 149,708 | (1,395,410) | 7,373,481 |
| Buildings | 6,911,291 | 436,529 | - | 7,347,820 |
| Transportation Equipment | 2,250,422 | 234,188 | (178,310) | 2,306,300 |
| Communication Equipment | 644,017 | 391,829 | - | 1,035,846 |
| Office Equipment | <u>10,223,319</u> | <u>1,672,144</u> | <u>(808,646)</u> | <u>11,086,817</u> |
| Total Accumulated Depreciation | 186,214,135 | 15,214,704 | (3,020,173) | 198,408,666 |
| Total Capital Assets Being Depreciated, Net | <u>442,881,020</u> | <u>7,099,999</u> | <u>(306,667)</u> | <u>449,674,352</u> |
| Total Capital Assets, Net | <u>\$ 474,426,965</u> | <u>\$ 26,253,497</u> | <u>\$ (19,850,373)</u> | <u>\$ 480,830,089</u> |

Depreciation expense for the years ended June 30, 2012 and 2011 was \$15,214,704 and \$13,880,206, respectively.



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

4) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2013 are as follows:

| | Beginning Balance (As Restated) | Additions | Deletions | Ending Balance | Due Within One Year |
|------------------------------------|---------------------------------------|--------------------|---------------------|----------------------|------------------------|
| General Obligation Bonds: | | | | | |
| Improvement District No. 27 - 2009 | \$ 6,755,000 | \$ - | \$ 520,000 | \$ 6,235,000 | \$ 535,000 |
| Unamortized Bond Premium | 166,271 | - | 16,353 | 149,918 | - |
| Net General Obligation Bonds | <u>6,921,271</u> | <u>-</u> | <u>536,353</u> | <u>6,384,918</u> | <u>535,000</u> |
| Certificates of Participation: | | | | | |
| 1996 Certificates of Participation | 10,900,000 | - | 500,000 | 10,400,000 | 500,000 |
| 2004 Certificates of Participation | 8,680,000 | - | 8,680,000 | - | - |
| 2007 Certificates of Participation | 38,665,000 | - | 920,000 | 37,745,000 | 955,000 |
| 1996 COPS Unamortized Discount | (11,178) | - | (746) | (10,432) | - |
| 2007 COPS Unamortized Discount | (223,087) | - | (9,044) | (214,043) | - |
| 2004 COPS Unamortized Premium | 13,005 | - | 13,005 | - | - |
| Net Certificates of Participation | <u>58,023,740</u> | <u>-</u> | <u>10,103,215</u> | <u>47,920,525</u> | <u>1,455,000</u> |
| Revenue Bonds: | | | | | |
| 2010 Water Revenue Bonds Series A | 13,055,000 | - | 800,000 | 12,255,000 | 820,000 |
| 2010 Water Revenue Bonds Series B | 36,355,000 | - | - | 36,355,000 | - |
| 2010 Series A Unamortized Premium | 911,421 | - | 74,402 | 837,019 | - |
| 2013 Water Revenue Refunding Bonds | - | 7,735,000 | - | 7,735,000 | 660,000 |
| 2013 Bonds Unamortized Premium | - | 984,976 | 8,008 | 976,968 | - |
| Net Revenue Bonds | <u>50,321,421</u> | <u>8,719,976</u> | <u>882,410</u> | <u>58,158,987</u> | <u>1,480,000</u> |
| Total Long-Term Liabilities | <u>\$115,266,432</u> | <u>\$8,719,976</u> | <u>\$11,521,978</u> | <u>\$112,464,430</u> | <u>\$3,470,000</u> |



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

4) LONG-TERM DEBT – Continued

General Obligation Bonds

In June 1998, the District issued \$11,835,000 of General Obligation Refunding Bonds. The proceeds of this issue, together with other lawfully available monies, were to be used to establish an irrevocable escrow to advance refund and defease in their entirety the District’s previous outstanding General Obligation Bond issue. In November 2009, the District issued \$7,780,000 of General Obligation Refunding Bonds Improvement District No. 27-2009 General Obligation Refunding Bonds to refund the 1998 issue. The proceeds from the bond issue were \$7,989,884, which included an original issue premium of \$209,884. An amount of \$7,824,647, which consisted of unpaid principal and accrued interest, was deposited into an escrow fund. Pursuant to an optional redemption clause in the 1998 bonds, the District was able to redeem the 1998 bonds, without premium at any time after September 1, 2009. On December 15, 2009 the 1998 bonds were refunded.

These bonds are general obligations of Improvement District No. 27 (ID 27) of the District. The Board of Directors has the power and is obligated to levy annual ad valorem taxes without limitation, as to rate or amount for payment of the bonds and the interest upon all property which is within ID 27 and subject to taxation. The General Obligation Bonds are payable from District-wide tax revenues. The Board may utilize other sources for servicing the bond debt and interest.

The Improvement District No. 27-2009 General Obligation Refunding Bonds have interest rates from 3.00% to 4.00% with maturities through Fiscal Year 2023.

Future debt service requirements for the bonds are as follows:

| For the Year Ended June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|---------------------|---------------------|
| 2014 | \$ 535,000 | \$ 220,437 | \$ 755,437 |
| 2015 | 550,000 | 204,162 | 754,162 |
| 2016 | 570,000 | 187,362 | 757,362 |
| 2017 | 585,000 | 169,306 | 754,306 |
| 2018 | 605,000 | 147,700 | 752,700 |
| 2019-2023 | 3,390,000 | 348,003 | 3,738,003 |
| | <u>\$ 6,235,000</u> | <u>\$ 1,276,970</u> | <u>\$ 7,511,970</u> |



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

4) LONG-TERM DEBT - Continued

Certificates of Participation (COPS)

In June 1996, COPS with face value of \$15,400,000 were sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and “net revenues,” as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The variable interest rate is tied to the 30-day LIBOR index and the Securities Industry and Financial Markets Association (SIFMA) index. An irrevocable letter of credit facility is necessary to market the District’s variable rate debt. This facility is with Union Bank and covers the outstanding principal and interest. The facility expires on June 29, 2014. The interest rate at June 30, 2013 was 0.05%. The installment payments are to be paid annually at \$350,000 to \$900,000 from September 1, 1996 through September 1, 2026.

In July 2004, Refunding Certificates of Participation (COPS) with a face value of \$12,270,000 were sold by the Otay Service Corporation to advance refund \$11,680,000 of outstanding 1993 COPS. An installment agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS.

In June 2013, the July 2004 COPS were refunded with the issuance of the 2013 Water Revenue Refunding Bonds (see Revenue Bonds on page 32). Proceeds of \$8,575,519, which consisted of unpaid principal and accrued interest, were used to establish an irrevocable escrow to advance refund and defease in their entirety the District’s 2004 COPS. Pursuant to an optional redemption clause in the 2004 COPS, the District will be able to redeem the 2004 bonds, without premium at any time after September 1, 2014. The savings between the cash flow required to service the old debt and the cash flow required to service the new debt is \$763,318 and represents an economic gain on refunding of \$707,071.

In March 2007, Revenue Certificates of Participation (COPS) with face value of \$42,000,000 were sold by the Otay Service Corporation to improve the District’s water storage system and distribution facilities. An installment purchase agreement between the District, as a Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and “net revenues,” as described in the installment agreement. The certificates are due in annual installments of \$785,000 to \$2,445,000 from September 1, 2007 through September 1, 2036; bearing interest at 3.7% to 4.47%.

There is no aggregate reserve requirement for the COPS. Future debt service requirements for the certificates are as follows:

| For the Year Ended June 30, | 1996 COPS | | 2007 COPS | |
|--------------------------------|---------------------|------------------|----------------------|---------------------|
| | Principal | Interest* | Principal | Interest |
| 2014 | \$ 500,000 | \$ 4,992 | \$ 955,000 | \$ 1,553,864 |
| 2015 | 500,000 | 4,742 | 995,000 | 1,517,301 |
| 2016 | 600,000 | 4,450 | 1,035,000 | 1,479,239 |
| 2017 | 600,000 | 4,150 | 1,075,000 | 1,439,408 |
| 2018 | 600,000 | 3,850 | 1,115,000 | 1,397,798 |
| 2019-2023 | 3,700,000 | 13,908 | 6,260,000 | 6,287,081 |
| 2024-2028 | 3,900,000 | 3,425 | 7,670,000 | 4,867,417 |
| 2029-2033 | - | - | 9,460,000 | 3,058,810 |
| 2034-2038 | - | - | 9,180,000 | 824,687 |
| | <u>\$10,400,000</u> | <u>\$ 39,517</u> | <u>\$ 37,745,000</u> | <u>\$22,425,605</u> |

* Variable Rate - Interest reflected at June 30, 2013 at a rate of 0.05%.

The two COP debt issues contain various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will be at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2013.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

4) LONG-TERM DEBT - Continued

Water Revenue Bonds

In April 2010, Water Revenue Bonds with a face value of \$50,195,000 were sold by the Otay Water District Financing Authority to provide funds for the construction of water storage and transmission facilities. The bond issue consisted of two series; Water Revenue Bonds, Series 2010A (Non-AMT Tax Exempt) with a face value of \$13,840,000 plus a \$1,078,824 original issue premium, and Water Revenue Bonds Series 2010B (Taxable Build America Bonds) with a face value of \$36,255,000. The Series 2010A bonds are due in annual installments of \$785,000 to \$1,295,000 from September 1, 2012 through September 1, 2025; bearing interest at 2% to 5.25%. The Series 2010B bonds are due in annual installments of \$1,365,000 to \$3,505,000 from September 1, 2026 through September 1, 2040; bearing interest at 6.377% to 6.577%. Interest on both Series is payable on September 1, 2010 and semiannually thereafter on March 1st and September 1st of each year until maturity or earlier redemption. The installment payments are to be made from Taxes and Net Revenues of the Water System as described in the installment purchase agreement, on parity with the payments required to be made by the District for the 1996, and 2007 Certificates of Participation described above and the 2013 Water Revenue Refunding Bonds described below.

The proceeds of the bonds will be used to fund the project described above as well as to fund reserve funds of \$1,030,688 (Series 2010A) and \$2,707,418 (Series 2010B). \$542,666 was used to fund various costs of issuance.

The original issue premium is being amortized over the 14 year life of the Series 2010A bonds. Amortization for the year ending June 30, 2013 was \$74,402 and is included in interest expense. The unamortized premium at June 30, 2013 is \$837,019.

The 2010 Water Revenue Bonds contains various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water System which will be at least sufficient to yield, during each fiscal year, taxes and net revenues equal to one hundred twenty-five percent (125%) of the debt service for such fiscal year. The District was in compliance with these rate covenants for the fiscal year ended June 30, 2013.

In June 2013, the 2013 Water Revenue Refunding Bonds were issued to defease the 2004 Refunding Certificates of Participation. The bonds were issued with a face value of \$7,735,000 plus a \$984,975 original issue premium. The bonds are due in annual installments of \$660,000 to \$835,000 from September 1, 2013 through September 1, 2023; bearing interest at 1% to 4%. The installment payments are to be made from Taxes and Net Revenues of the Water System, on parity with the payments required to be made by the District for the 1996, and 2007 Certificates of Participation and the 2010A and 2010B described above.

The original issue premium is being amortized over the 11 year life of the Series 2013 bonds. Amortization for the year ending June 30, 2013 was \$8,008 and is included in interest expense. The unamortized premium at June 30, 2013 is \$976,968.

The total amount outstanding at June 30, 2013 and aggregate maturities of the revenue bonds for the fiscal years subsequent to June 30, 2013, are as follows:

| For the Year Ended June 30, | 2010 Water Revenue Bond Series A | | 2010 Water Revenue Bond Series B | | 2013 Water Revenue Refunding Bonds | |
|--------------------------------|----------------------------------|---------------------|----------------------------------|----------------------|------------------------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 820,000 | \$ 533,538 | \$ - | \$ 2,371,868 | \$ 660,000 | \$ 197,198 |
| 2015 | 845,000 | 508,563 | - | 2,371,868 | 605,000 | 258,700 |
| 2016 | 870,000 | 478,488 | - | 2,371,868 | 615,000 | 243,425 |
| 2017 | 900,000 | 443,088 | - | 2,371,868 | 635,000 | 221,500 |
| 2018 | 940,000 | 406,288 | - | 2,371,868 | 660,000 | 195,600 |
| 2019-2023 | 5,350,000 | 1,337,813 | - | 11,859,342 | 3,725,000 | 551,500 |
| 2024-2028 | 2,530,000 | 132,856 | 2,815,000 | 11,453,765 | 835,000 | 16,700 |
| 2029-2033 | - | - | 8,760,000 | 9,049,258 | - | - |
| 2034-2038 | - | - | 12,005,000 | 5,459,732 | - | - |
| 2039-2042 | - | - | 12,775,000 | 1,002,335 | - | - |
| | <u>\$ 12,255,000</u> | <u>\$ 3,840,632</u> | <u>\$ 36,355,000</u> | <u>\$ 50,683,772</u> | <u>\$ 7,735,000</u> | <u>\$ 1,684,623</u> |



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

5) NET POSITION

Designations of Net Position

In addition to restricted net positions, a portion of unrestricted net position have been designated by the Board of Directors for the following purposes as of June 30, 2013 and 2012:

| | 2013 | 2012 |
|----------------------------|----------------------|----------------------|
| Designated Betterment | \$ 3,629,786 | \$ - |
| Expansion Reserve | 623,834 | 17,943,825 |
| Replacement Reserve | 24,182,442 | 15,911,850 |
| Designated New Supply Fund | 24,000 | 1,593,571 |
| Employee Benefits Reserve | 149,705 | 1,660,369 |
| Total | <u>\$ 28,609,767</u> | <u>\$ 37,109,615</u> |

6) DEFINED BENEFIT PENSION PLAN

Plan Description

The District's defined plan, (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active classic members in the Plan are required to contribute 8% of their annual covered salary. By agreement between the Employee Association and the District, the represented employees paid 5.25% of covered salaries beginning August 15, 2011. Also by agreement, the unrepresented employees began paying 4.5% of covered salaries as of July 15, 2011. Prior to these agreements all employees paid 1% of covered salaries. In these same agreements, all employees, after June 30, 2012 contributed an additional 3.5% of covered salaries. Effective January 1, 2013, classic employees contributed an additional 2.75% of covered salaries. For new members (employees hired on or after January 1, 2013 and are new entrants to the PERS System), employees pay a 6.25% contribution. The District is required to contribute the actuarially determined remaining amounts necessary to fund the 2.7% at age 55 retirement plan benefits for its classic members and 2.0% at age 62 for its new members under the California Employees' Pension Reform Act (PEPRA) provisions. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013 was 24.318%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by the CalPERS.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

6) DEFINED BENEFIT PENSION PLAN - Continued

Annual Pension Costs

For the fiscal year ended June 30, 2013, the District’s annual pension cost and actual contribution was \$3,130,754. The required contribution for the fiscal year ended June 30, 2013 was determined as part of the June 30, 2010 actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

| | |
|---------------------------|---|
| Valuation Date | June 30, 2010 |
| Actuarial Cost Method | Entry Age Actuarial Cost Method |
| Amortization Method | Level Percent of Payroll |
| Average Remaining Period | 20 Years as of the Valuation Date |
| Asset Valuation Method | 15 Year Smoothed Market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.75% (Net of Administrative Expenses) |
| Projected Salary Increase | 3.55% to 14.45% Depending on Age, Service, and Type of Employment |
| Inflation | 3.00% |
| Payroll Growth | 3.25% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%. |

Initial unfunded liabilities are amortized over a closed period that depends on the Plan’s date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan’s accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

THREE-YEAR TREND INFORMATION FOR PERS

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------|---------------------------|-------------------------------|------------------------|
| 6/30/13 | \$ 3,130,754 | 100% | \$ 0 |
| 6/30/12 | \$ 2,951,409 | 100% | \$ 0 |
| 6/30/11 | \$ 2,427,744 | 100% | \$ 0 |

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 70.6% funded. The actuarial accrued liability (AAL) for benefits was \$88,411,019, and the actuarial value of assets was \$62,435,349, resulting in an unfunded actuarial accrued liability (UAAL) of \$25,975,670. The covered payroll (annual payroll of active employees covered by the plan) was \$12,289,529, and the ratio of the UAAL to the covered payroll was 211.4%.

The schedule of funding progress, presented as *required supplementary information* following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for benefits.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

7) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's defined benefit postemployment healthcare plan, (DHP), provides medical benefits to eligible retired District employees and beneficiaries. DHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Prior to the plan agreements signed in 2011 the eligibility in the plan was broken into 3 tiers, employees hired before January 1, 1981, employees hired between January 1, 1981 and July 1, 1993 and employees hired on or after July 1, 1993. Board Members elected before January 1, 1995 are also eligible for the plan. Eligibility also includes age and years of service requirements which vary by tier. Benefits include 100% medical and dental premiums for life for the retiree for Tier I, II or III employees, and up to 100% spouse premium for life and dependent premium up to age 19 depending on the tier. The plan also includes survivor benefits to Medicare.

Subsequent to the agreements in 2011 and 2012 all employees are eligible for the plan after 20 years of consecutive service and unrepresented employees hired before January 1, 2013 are eligible after 15 years. Survivor benefits are covered beyond Medicare.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. Effective January 1, 2013, represented employees hired prior to January 1, 2013 or hired on or after January 1, 2013 from another public agency that has reciprocity without having a break in service of more than six months, contribute .75% of covered salaries. In addition, unrepresented and represented employees hired on or after January 1, 2013, and do not have reciprocity from another public agency, contribute 1.75% and 2.5% of covered salaries, respectively. DHP members receiving benefits contribute based on their selected plan options of EPO, HMO or Gold, and whether they are located outside the State of California. Contributions by plan members range from \$0 to \$149 per month for coverage to age 65, and from \$0 to \$148 per month, respectively, thereafter.

Annual OPEB Cost and Net OPEB Obligation/Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 10.0% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

| | <u>2013</u> | <u>2012</u> |
|--|-----------------------|-----------------------|
| Annual Required Contribution (ARC) | \$ 1,287,000 | \$ 1,304,000 |
| Interest on net OPEB asset | (603,338) | (537,685) |
| Adjustment to Annual Required Contribution (ARC) | 543,000 | 473,000 |
| Annual OPEB cost (expense) | 1,226,662 | 1,239,315 |
| Contributions made | 2,250,198 | 2,144,871 |
| Increase in net OPEB asset | (1,023,535) | (905,556) |
| Net OPEB asset - beginning of year | (8,321,902) | (7,416,346) |
| Net OPEB asset - end of year | <u>\$ (9,345,437)</u> | <u>\$ (8,321,902)</u> |



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

7) OTHER POST EMPLOYMENT BENEFITS - Continued

For 2013, in addition to the ARC, the District contributed cash benefit payments outside the trust (healthcare premium payments for retirees to Special District Risk Management Authority (SDRMA) in the amount of \$877,196, which is included in the \$2,250,198 of contributions shown on the previous page. For 2012 this amount was \$749,871, which is included in the \$2,144,871 of contributions shown on the previous page.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2013, 2012 and 2011 were as follows:

| THREE-YEAR TREND INFORMATION FOR CERBT | | | |
|--|------------------------|-------------------------------------|----------------|
| Fiscal Year | Annual OPEB Cost (AOC) | Percentage of OPEB Cost Contributed | Net OPEB Asset |
| 6/30/2013 | \$ 1,226,662 | 183% | \$ (9,345,437) |
| 6/30/2012 | \$ 1,239,315 | 173% | \$ (8,321,902) |
| 6/30/2011 | \$ 409,288 | 255% | \$ (7,416,346) |

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the most recent actuarial valuation date, was as follows:

| | |
|---|---------------|
| Actuarial Accrued Liability (AAL) | \$ 22,891,000 |
| Actuarial Value of Plan Assets | \$ 11,831,000 |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ 11,060,000 |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 51.68% |
| Covered Payroll (Active Plan Members) | \$ 12,833,000 |
| UAAL as a Percentage of Covered Payroll | 86.18% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

7) OTHER POST EMPLOYMENT BENEFITS - Continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

| | |
|-------------------------------|---|
| Valuation Date | June 30, 2013 |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percent of Payroll |
| Remaining Amortization Period | 24 Year fixed (closed) period as of the Valuation Date |
| Asset Valuation Method | 5 Year Smoothed Market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.25% (Net of Administrative Expenses) |
| Projected Salary Increase | 3.25% |
| Inflation | 3.00% |
| Individual Salary Growth | CalPERS 1997-2007 Experience Study |
| Healthcare Cost Trend Rate | Medical: 10% per annum graded down in approximately one-half percent increments to an ultimate rate of 5%. Dental: 4% per annum. |

8) WATER CONSERVATION AUTHORITY

In 1999 the District formed the Water Conservation Authority (the "Authority"), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the years ended June 30, 2013 and 2012, the District contributed \$120,684 and \$121,617, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority's June 30, 2012 audited financial statement is as follows (latest report available):

| | |
|-----------------------------------|--------------|
| Assets | \$ 1,655,591 |
| Liabilities | - |
| Net Assets | \$ 1,655,591 |
| Revenues, Gains and Other Support | \$ 187 |
| Expenses | (160,398) |
| Changes in Net Assets | \$ (160,211) |



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

9) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of \$6,879,357 at June 30, 2013.

Litigation

Certain claims, suits and complaints arising in the ordinary course of operation have been filed or are pending against the District. In the opinion of the staff and counsel, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involved such amounts, as would not have a significant effect on the financial position or results of operations of the District if disposed of unfavorably.

Refundable Terminal Storage Fees

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer \$746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2012, 1,751 EDUs had been relinquished and refunded, 15,026 EDUs had been connected, and 1,090 EDUs have neither been relinquished nor connected. At June 30, 2013, 1,751 EDUs had been relinquished and refunded, 15,031 EDUs had been connected, and 1,085 EDUs have neither been relinquished nor connected.

Developer Agreements

The District has entered into various Developer Agreements with developers towards the expansion of District facilities. The developers agree to make certain improvements and after the completion of the projects the District agrees to reimburse such improvements with a maximum reimbursement amount for each developer. Contractually, the District does not incur a liability for the work until the work is accepted by the District. As of June 30, 2013, none of the outstanding developer agreements had been accepted, however it is anticipated that the District will be liable for an amount not to exceed \$341,046 at the point of acceptance. Accordingly, the District has accrued a liability as of year end.

10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2003, the District began participation in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

General and Auto Liability, Public Officials' and Employees' Errors and Omissions and Employment Practices Liability: Total risk financing limits of \$10 Million combined single limit at \$10 Million per occurrence, subject to the following deductibles:

\$500 per occurrence for third party general liability property damage;

\$1,000 per occurrence for third party auto liability property damage;

50% co-insurance of cost expended by SDRMA, in excess of \$10,000 up to \$50,000, per occurrence, for employment related claims. However, 100% of the obligation will be waived if certain criteria are met, as provided in the Memorandum of Coverage.



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

10) RISK MANAGEMENT (Continued)

Employee Dishonesty Coverage: Total of \$400,000 per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, Disappearance and Destruction coverage's effective July 1, 2012.

Property Loss: Replacement cost, for property on file, if replaced, and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 Billion per occurrence, subject to a \$2,000 deductible per occurrence, effective July 1, 2012.

Boiler and Machinery: Replacement cost up to \$100 Million per occurrence, subject to a \$1,000 deductible, effective July 1, 2012.

Public Officials Personal Liability: \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage's, deductible of \$500 per claim, effective July 1, 2012.

Comprehensive and Collision: on selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000, as elected; ACV limits; fully self-funded by SDRMA; Policy No. LCA - SDRMA - 201111, effective July 1, 2012.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and \$5.0 Million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverage, effective July 1, 2012.

Health Insurance

Beginning in January 2008, the District began providing health insurance through SDRMA covering all of its employees, retirees, and other dependents. SDRMA is a self-funded, pooled medical program, administered in conjunction with the California State Association of Counties (CSAC).

Adequacy of Protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

11) INTEREST EXPENSE

Interest expense for the years ended June 30, 2013 and 2012, is as follows:

| | 2013 | 2012 |
|--|--------------|--------------|
| Amount Expensed | \$ 3,977,538 | \$ 3,899,927 |
| Amount Capitalized as a Cost of Construction Projects | 995,721 | 1,185,443 |
| Total Interest | \$ 4,973,259 | \$ 5,085,370 |



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

12) PRIOR PERIOD ADJUSTMENT and RESTATEMENT OF 2012 BALANCES

During fiscal year ended June 30, 2013, the District early implemented GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*”. Due to the early implementation of this statement, bond issuance costs and certain amounts classified as deferred amounts on refunding, which had previously been capitalized on the statement of net position and written off over the life of the corresponding debt issuance, have been restated as expenses in the periods incurred. The amount previously capitalized as of July 1, 2011, \$2,406,704, is reflected as a prior period adjustment. On the statement of net position, fiscal year 2012 balances have been restated for the removal of debt issuance costs and certain deferred amounts of refunding (previously shown as a component of long-term debt). On the statement of revenues, expenses and changes in net position, 2012 columns have been restated to remove \$154,312 previously shown as amortization expense (a component of miscellaneous expenses).

FINAL DRAFT



NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

13) SEGMENT INFORMATION

During the June 30, 2011 fiscal year, the District issued Revenue Bonds to finance certain capital improvements. While water and wastewater services are accounted for jointly in these financial statements, the investors in the Revenue Bonds rely solely on the revenues of the water services for repayment.

Summary financial information for the water services is presented for June 30, 2013.

Condensed Statement of Net Position June 30, 2013

| | <u>Water Services</u> |
|---------------------------------------|------------------------------|
| ASSETS | |
| Current Assets | \$ 98,171,085 |
| Capital Assets | 458,689,482 |
| Other Assets | <u>9,345,437</u> |
| Total Assets | <u>566,206,004</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred amount on refunding | <u>390,591</u> |
| Total Deferred Outflows of Resources | <u>390,591</u> |
| LIABILITIES | |
| Current Liabilities | 24,364,563 |
| Long-Term Liabilities | <u>109,705,473</u> |
| Total Liabilities | <u>134,070,036</u> |
| NET POSITION | |
| Invested in capital assets | 359,209,991 |
| Restricted for debt service | 4,612,890 |
| Unrestricted | <u>68,703,678</u> |
| Total Net Position | <u><u>\$ 432,526,559</u></u> |



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

13) SEGMENT INFORMATION - Continued

Condensed Statement of Revenues, Expenses and Changes in Net Position For The Year Ended June 30, 2013

| | <u>Water Services</u> |
|---|-----------------------|
| Operating Revenues | |
| Water sales | \$ 72,157,781 |
| Connection and other fees | 1,915,679 |
| Total Operating Revenues | <u>74,073,460</u> |
| Operating Expenses | |
| Cost of Water Sales | 50,600,551 |
| Administrative and General | 19,428,008 |
| Depreciation | 15,613,824 |
| Total Operating Expenses | <u>85,642,383</u> |
| Operating Income (Loss) | (11,568,923) |
| Nonoperating Revenues (Expenses) | |
| Investment income | 19,851 |
| Taxes and assessments | 3,542,969 |
| Availability charges | 655,115 |
| Gain (loss) on sale of capital assets | (546,799) |
| Miscellaneous revenues | 4,934,714 |
| Donations | (120,684) |
| Interest expense | (3,977,538) |
| Miscellaneous expenses | (1,917,390) |
| Total Nonoperating Revenues (Expenses) | <u>2,590,239</u> |
| Income (Loss) Before Capital Contributions | (8,978,684) |
| Capital Contributions | <u>1,251,399</u> |
| Changes in Net Position | (7,727,285) |
| Total Net Position, Begin As Restated (Note 12) | <u>440,253,844</u> |
| Total Net Position, Ending | <u>\$ 432,526,559</u> |



NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2013 AND 2012

13) SEGMENT INFORMATION - Continued

Condensed Statement of Cash Flows

For The Year Ended June 30, 2013

| | <u>Water Services</u> |
|--|-----------------------|
| Net Cash Provided by Operating Activities | \$ 4,963,208 |
| Net Cash Provided by Noncapital and Related Financing Activities | 2,954,725 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (13,592,496) |
| Net Cash Used by Investing Activities | <u>8,586,705</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 2,912,142 |
| Cash and cash equivalents, Beginning | <u>35,133,181</u> |
| Cash and cash equivalents, Ending | <u>\$ 38,045,323</u> |

REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2013 AND 2012

FINAL DRAFT



REQUIRED SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2013 AND 2012

Schedule of Funding Progress for PERS

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B - A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll [(B-A)/C] |
|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|---|
| 6/30/11 Miscellaneous | \$ 62,435,349 | \$ 88,411,019 | \$ 25,975,670 | 70.6% | \$ 12,289,529 | 211.4% |
| 6/30/10 Miscellaneous | \$ 57,613,987 | \$ 81,306,934 | \$ 23,692,947 | 70.9% | \$ 12,140,989 | 195.1% |
| 6/30/09 Miscellaneous | \$ 53,736,612 | \$ 75,300,790 | \$ 21,564,178 | 71.4% | \$ 11,880,481 | 181.5% |

Schedule of Funding Progress for DPHP

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B - A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll [(B-A)/C] |
|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|---|
| 6/30/13 Miscellaneous | \$ 11,831,000 | \$ 22,891,000 | \$ 11,060,000 | 51.68% | \$ 12,833,000 | 86.18% |
| 6/30/11 Miscellaneous | \$ 7,893,000 | \$ 18,289,000 | \$ 10,396,000 | 43.16% | \$ 12,429,000 | 83.64% |
| 6/30/09 Miscellaneous | \$ 6,273,000 | \$ 10,070,000 | \$ 3,797,000 | 62.29% | \$ 11,878,000 | 31.97% |

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors and Management
of Otay Water District
Spring Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Otay Water District as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Otay Water District's basic financial statements and have issued our report thereon dated October XX, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Otay Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Otay Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Otay Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

Billing Customers Authorized Rates

In the course of our audit of the District's internal control over utility billing, we noted that a rate increase was not applied in the time frame directed by the Board of Directors. A rate increase was voted to take effect for all bills mailed after January 1, 2013. District policy required that a 30 day notice be sent to customers before the new rates could take effect. This notice was not mailed in time for certain billing cycles to be billed the new rates. As a result, certain customers were billed during January 2013, at the old rates, and not billed under the new rates until February 2013.

Management Response:

Staff does not disagree with any of the facts in the above statement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Otay Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters, described below, that are required to be reported under *Government Auditing Standards*.

Compliance with Investment Policy

In the course of our audit of the District's compliance with their investment policy, we noted that the District held one investment, a Farmer Mac Note that was not in compliance with their investment policy at June 30, 2013.

Management Response:

Staff agrees with the management comment. The investment should not have been purchased at that time. The investment is a safe investment in a government sponsored entity (GSE), allowable under state code, and is similar to other government sponsored entities in which the District invests. The investment was made during a time period where staff was in the process of updating the investment policy, which included updating the listing of allowable GSE's, including the GSE references in the management comment.

Otay Water District's Responses to Findings

Otay Water District's responses to the findings identified in our audit are shown above. Otay Water District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing in internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October XX, 2013
Carlsbad, CA

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

Board of Directors
Audit Committee
Otay Water District
Spring Valley, California

We have audited the basic financial statements of the Otay Water District (the District) for the year ended June 30, 2013 and have issued our report thereon dated October XX, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated January 15, 2013 and well as in a meeting with Board President Jose Lopez on July 11, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As discussed in Note 1c to the basic financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Also discussed in Note 1c to the basic financial statements, the District has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in a \$2,252,393 reduction of previously reported net position as of the beginning of the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the District's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.
- b. Management's estimate of useful lives of capital assets for depreciation purposes is based on industry standards.
- c. The funded status and funding progress of the public defined benefit plan with CalPERS is based on an actuarial valuation.
- d. The funded status and funding progress of the Other Post-Employment Benefits is based on an actuarial valuation.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was reported in Note 6 regarding the defined benefit pension plan and Note 7 regarding Other Post-Employment Benefits.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Significant Audit Findings (Continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As a result of our audit related test work, we proposed no corrections to the financial statements that, in our judgment, had a significant effect on the District's financial reporting process.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October XX, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

October XX, 2013
Carlsbad, CA



INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Mr. Joseph Beachem
Chief Financial Officer
Otay Water District
Spring Valley, CA

We have performed the procedures enumerated below, which were agreed to by the Otay Water District (the "District") solely to assist the District's senior management in evaluating the investments of the District for the fiscal year ended June 30, 2013. The District's management is responsible for the evaluation of the investments of the District. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Obtain a copy of the District's investment policy and determine that it is in effect for the fiscal year ended June 30, 2013.
 - a. Findings: At June 30, 2013, the current investment policy (Policy #27) is dated August 10, 2011. This policy was reviewed and approved for the 2012/2013 fiscal year as Consent Item #7e at the August 1, 2012 Regular Board Meeting. Therefore the investment policy is in effect for the time period under review.
2. Select 4 investments held at year end and determine if they are allowable investments under the District's Investment Policy.
 - a. Findings: Four investments chosen were FHLB – Maturity 11/27/2013, FHLMC – Maturity 12/10/2014, FFCB – Maturity 3/12/2015, Farmer Mac Note – Maturity 1/25/2016. The Farmer Mac Note was not an authorized investment at June 30, 2013. The other three investments are allowable and within maturity limits as stated in the District's Investment Policy at June 30, 2013.

3. For the four investments selected in #2 above, determine if they are held by a third party custodian designated by the District.
 - a. Findings: Per discussion with District management and evidenced by Union Bank of California statement, Union Bank does not act as a broker dealer for the District but acts as a custodial agent of the District holding the investment in a trust department. The four investments examined are held by a third party custodian designated by the District in compliance with District Policy.
4. Confirm the par or original investment amount and market value for the four investments selected above with the custodian or issuer of the investments.
 - a. Findings: Investment values confirmed with Union Bank of California at June 30, 2013 with no exceptions.
5. Select two investment earnings transactions that took place during the year and recompute the earnings to determine if the proper amount was received.
 - a. Findings: Investment earnings recalculated with no exceptions for two transactions selected.
6. Trace amounts received for transactions selected at #5 above into the District's bank accounts.
 - a. Transactions traced into District's Union Bank of California Money Market account with no exceptions for the two transactions selected.
7. Select five investment transactions (buy, sell, trade or maturity) occurring during the year under review and determine that the transactions are permissible under the District's investment policy.
 - a. Findings: Reviewed five investment transactions. All transactions were permissible under the District's Investment Policy.
8. Review the supporting documents for the five investments selected at #7 above to determine if the transactions were appropriately recorded in the District's general ledger.
 - a. Findings: Five investments selected at #7 above were appropriately recorded in the District's General Ledger without exception.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the investments of the District for the fiscal year ending June 30, 2013. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is limited solely for the information and use of the Board and senior management of the Otay Water District and is not intended to be and should not be used by anyone other than those specified parties.

October XX, 2013
Carlsbad, California

November 6, 2013
Board of Director's Regular Board Meeting

AGENDA ITEMS 9a TO 12

**These agenda items have been posted as a separate attachment (Part 2)
on the Otay Water District Website.**