MINUTES OF THE
SPECIAL MEETING OF THE
BOARD OF DIRECTORS
OTAY WATER DISTRICT
May 15, 2012

1. The meeting was called to order by President Lopez at 4:07 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, Chief of Information Technology Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Chief of Operations Pedro Porras, Chief of Administration Rom Sarno, District Secretary Susan Cruz and others per attached list.

3. PLEDGE OF ALLEGIANCE

Director Croucher reported that Chief Augie Ghio of the San Miguel Consolidated Fire Protection District, who has been working with Otay Water District on the shared training facility, was in a motor cycle accident this past Saturday. It was a significant accident and he is currently listed in serious condition at the Intensive Care Unit at Palomar Hospital. It is expected that his recovery will take in excess of six (6) weeks and Director Croucher indicated that he has been named, Interim Fire Chief, while Chief Ghio recuperates from his injuries.

4. APPROVAL OF AGENDA

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

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

to approve the agenda.

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

No one wished to be heard.

WORKSHOP

6. ADOPT RESOLUTION NO. 4195, APPROVING THE FISCAL YEAR 2012-2013 OPERATING AND CAPITAL BUDGET; APPROVE FUND TRANSFERS FOR POTABLE, RECYCLED, AND SEWER; APPROVE WATER AND SEWER RATE CHANGES ON ALL BILLING CYCLES THAT BEGIN IN CALENDAR YEAR 2013; ADOPT ORDINANCE NO. 533 AMENDING APPENDIX A OF THE CODE OF ORDINANCES WITH THE PROPOSED WATER AND SEWER RATE CHANGES; AND OBTAIN APPROVAL OF THE RATE INCREASE NOTICES

Chief Financial Officer Joe Beachem reviewed the objective of the workshop. He stated that staff is presenting for approval an $82 million operating budget and $18 million Capital Improvement Project (CIP) budget and is requesting an average rate increase of 7.4% for water and 7.9% for sewer to be effective on bills beginning January 2013.

He reviewed the rate model and budget process and indicated that the foundational document for the budget build process is the District's Strategic Plan. Based on the Strategic Plan, staff develops the Operating Budget, utilizing zero based budgeting, and the six-year CIP Budget. This information is input into the District's Rate Model along with the projected year-end cash balances, Metropolitan Water District (MWD) and San Diego County Water Authority (CWA) rate increases, San Diego Metropolitan Wastewater rate increase, and in creating the six-year projection, growth, projected water sales, interests costs and various inflators. When developing the budgets, staff also looks at meeting key targets for the debt coverage ratio and reserve levels.

By keeping the debt coverage ratio at target levels, it reduces the District's borrowing cost for infrastructure. The District also must fund the operating and CIP budget items and maintain all reserves at target levels in all years. He presented a slide that showed a complete list of reserve transfers over the past year and noted that all transfers were done in accordance with the District's Reserve Policy. He stated that all 28 reserve funds are at target levels.

He presented a slide (see attached copy of presentation) that showed the District's debt coverage ratio which represents how much debt payment the District's net water revenues can cover. The minimum target is 125%, which is represented by the blue line on the slide. He stated the red line represents the debt coverage ratio with growth revenues included. The projection for 2011 is a debt coverage ratio of 147%, which is fairly low. Rating agencies are more comfortable with a ratio of approximately 200%. As the District's growth returns, the District quickly exceeds 200%.

Chief Financial Officer Beachem indicated that the green line represents the District's operational debt ratio. The ratio excludes capacity fees and annexation fees (fees association with growth). This is important because, as the District transitions from a growth agency to a maintenance agency, it must maintain the minimum required debt ratio of 150% (the District's target level). Staff is projecting the District will meet the 150% target in three (3) years (by 2015). He indicated that, in discussions with the District's Financial Advisor, Ms. Suzanne Harrell, she stated that a three (3) year recovery to the target level is a reasonable approach and she did not feel the rating agencies would take issue with this.

He presented another slide that represented various options for rate increases to get the District to its debt ratio target level of 150%. The various scenarios included rate increases of:

- 9.8% in 2013 and 2014 which would allow the District to meet the 150% target level in 2 years.
- 7.4% in 2013, 7.3% in 2014 and 7.2% in 2015 which would allow the District to meet the 150 target level in 3 years.
- 7.3% in 2013, 7.3% in 2014, 5.3% in 2015 and 5.2% in 2016 which would allow the District to meet the 150 target level in 4 years.

Staff is recommending rate increases that allow the District to meet its target debt coverage ratio in three (3) years. This would avoid a rate spike and the District's Financial Advisor believes that the rating agencies would support the three (3) year plan. It was indicated that this is designed to protect the District's "AA-" status with Fitch Ratings and "AA" status with Standards & Poors.

Chief Financial Officer Beachem indicated that this is the second year in a row where 100% of the District's rate increase is attributable to the District's water supplier rate increase. The District has been able hold its internal costs down to mitigate increases due to internal expenses.

He noted items that are keeping rates down which included:

- Reductions in staffing levels (8 positions) in FY 2013, lowering salary and benefit costs by $938,000
- A decrease of $164,400 in the materials and maintenance costs
- Reduction in the six-year CIP of $38.2 million
- No new debt issuances in the next six-year timeframe

He also shared items that are putting an upward pressure on rates which included:

- Water cost increase of $2.2 million from the District's water supplier

- Salary & Benefits increase of $736,000 as per the MOU
- Administrative costs increase of $244,200
- Water sales revenue decrease of $574,100 due to less water sales in the higher priced tiers and more water sales in lower priced tiers

Chief Financial Officer Beachem indicated that there are new handouts for members of the board regarding the member water rates survey results for customers who utilize 14 units of water per month (see attached copy). The new survey shows the City of Poway moving down to the third least expensive water provider in the county as they indicate that they will not be increasing their rates this year. Due to this change, the District is moving from seventh lowest provider to the eighth lowest provider, but still below the 50% level among the county agencies. It was noted that the District is the lowest cost agency among those that do not have any other supplies, but imported water. The seven agencies that are lower in cost all have a local supply to draw from (lakes, wells, etc.).

He reviewed the sewer budget wherein staff is recommending:

- 7.9% increase in FY 2013 to 2018 which will increase a typical sewer customer's bill $2.83 per month
- Significant Sewer CIP Funding of $3.2 million due to aging sewer infrastructure
- Borrowing from the State Revolving funds in 2016 and 2017 which provides for very low interest rates
- Repayment of $10 million in 2013 and 2014 of funds loaned to Potable, with future borrowing from Potable in 2015
- Reserves on target

He presented a slide showing the results of a survey among the agencies providing sewer services that indicated that the District is the fifth lowest cost sewer provider in the County (see attached copy of presentation).

Chief of Engineering Rod Posada reviewed the CIP budget. He indicated that staff develops the growth projections based on developer information, plans the District receives for plan checking, the District's own planning documents and, for the last couple of years, the projections of the economist, Mr. Alan Nevin of the London Group. Mr. Nevin indicated that nothing has changed since the economic information he presented at the District's Special Board Meeting held in March 2012. He stated that, in terms of new future developments that are planned, they are still moving forward. The larger developments (Otay Ranch Village 8 and 9) are not plan for another three (3) years. He stated that the economy continues to move forward and real estate resales are moving very nicely in the South County which indicates that more water will be sold. Director Thompson inquired if the presented growth projections indicate the number of actual meters projected to be sold. Chief of Engineering Posada indicated that that was correct. The numbers presented indicate the projected number of meters sold for single family dwelling units, condominium units, apartments and non-residential units. These sales are then converted to EDU sales based on the type of development. Staff is projecting in FY 2013 that the District will sell 440 EDUs for both potable and recycled water sales, similar to last year's sales. He stated that Mr. Nevin has indicated that beginning in FY 2014, the District will start to experience accelerated growth, with approximately 1,200 meters projected to be sold in 2018.

He reviewed the CIP budget guidelines utilized to develop the FY 2013 budget which included:

- Projections for growth will remain relatively flat for FY 2013
- Six-year CIP expenditures is planned to be as level/flat as possible
- In preparing the budgets for the individual CIP projects, the Engineering Department used current construction and bidding data to adjust costs for each project
- Each year, projects are reprioritized based on recent requests for water availability letters, Water Supply Assessment Reports, and the District's Water Resources Master Plan (projects are built one to one and a half years before it is needed)

He indicated that this year's analysis of the six-year CIP budget indicates a reduction in the six-year budget needs from the projection of $154.6 million in FY 2012 to $116.4 million in FY 2013 due to the reprioritization of projects. The FY 2013 CIP budget has been reduced from $21.3 million to $18 million. He indicated that the large projects planned during the next six years include:

• Otay Mesa Desalination Conveyance and Disinfection System	$28.8 million
• 870-2 Pump Station Replacement	$12.6 million
• Rancho Del Rey Groundwater Well Development	$ 5.1 million
• AMR Meter Replacement	$ 1.9 million
TOTAL	$48.4 million

Accounting Manager Rita Bell reviewed the budget process and the details within the budget. She indicated the each department submits their budget needs which are reviewed with the Chiefs, Assistant General Manager and General Manager. Their input is incorporated along with reasonable assumptions on sales, growth, interest rates and price inflators. Staff then evaluates cost saving measures, for example, centralizing telecom costs under Information Technology so it can be better managed and pricing could be negotiated as a whole. Staff then recommends the rates that support the District's Strategic Plan initiatives, CIP and Operations.

She stated that the primary budget objectives is to:

- Minimize rate impacts from:

    - CWA & City of San Diego water cost increases
    - Water sales projections
    - Sewer cost increases from City of San Diego and County of San Diego
- Maintain target reserve levels and build debt coverage levels to target
- Maintain water and sewer rate position relative to other agencies in the region

She indicated that the District also incorporates the projection for meter sales based on historical sales, conservation efforts, economic factors presented by economist Mr. Nevin, how price elasticity affects water use as presented by Mr. Steve Piper, Bureau of Reclamation, and weather as presented by Mr. Alexander Tardy, National Oceanic and Atmospheric Administration. She stated, staff realized in discussions with the meteorologist, that weather is hard to predict in the long term. To predict weather for 12 or 15 months is very difficult. She stated that the NOAA predicts a weak El Niño next year with warm summer inland and a normal rainfall year.

Accounting Manager Bell indicated that growth has been trending downward from FY 2008 through present. She stated that potable water sales has also slowed and the average monthly consumption for residential customers has been reduced to 14 units from well over 15 units. She noted that the largest drop in sales occurred in FY 2010 when the District implemented its highest price increase. She stated that price elasticity is definitely impacting water sales.

She reviewed the potable water sales revenue which had an overall increase of $3,845,600 which is made up of the increase that was implement this current fiscal year ($2,000,900) and the increase recommended for FY 2013 ($1,844,700). The recycled sales revenue had a little more of a decrease as compared with potable revenues with a 1.3% volume decrease. She stated that, despite this decrease, the District still had an increase in sales volume because of the two price increases (7.9% increase this FY and the 7.4% proposed increase for FY 2013). She stated with regard to sewer revenues, the 7.9% rate increase in FY 2013 translates to a $219,200 increase in sewer sales revenues. She also reviewed other revenues which included, capacity fees, betterment fees, grant revenues, property tax revenues and other miscellaneous revenues.

She reviewed the costs associated with water sales which total $3,518,700 or a 9.2% increase; sewer costs which is decreasing $497,000 or 15.5%; and a decrease in power costs of $72,900 or 3%. She noted with regard to the reduction in sewer costs, that it is was associated with the shutdown of the Ralph Chapman Reclamation Plant in FY 2012 due to the need for major maintenance and decreases in the Metro’s O&M costs.

Chief of Administration Rom Sarno presented the review process for staffing requirements based on workload and existing vacancies. This year’s review resulted in the elimination of eight (8) positions which reduced the FTE from 156 to

148. It was noted that from FY 2007 to FY 2013, staffing has been reduced by 15.3% or approximately 26.5 positions with a cumulative savings of $9,967,500 (from FY 2008 to FY 2013). The District has been able to reduce the number of employees due to increased efficiency which has translated into an increase in the number of customers to employee ratio from 1 employee per 294 customers to 1 employee per 366 customers or a 24.5% increase. It was inquired what the industry standard was and Chief of Information Technology stated that the District does follow the AWWA Qualserve Standards. The District has been meeting its benchmark. He stated that staff will get back to the board with this information.

Chief of Administration Sarno indicated that salary and benefits increased $736,600 or 4.1%. He reviewed the reasons for the increases which included merit/COLA increases per the Memorandum of Understanding of $583,100, health insurance of $125,500, etc. and various off-sets through staff reductions and reduced overtime costs due to efficiencies (see attached copy of presentation).

Operations Chief Pedro Porras reviewed the materials and maintenance budget and indicated that overall the District decreased this budget by $164,400 or 6.2% due to a cost decrease in fleet parts and equipment of $18,900, decrease in meter and materials $25,100, etc. (see attached copy of presentation). He noted that the decrease in fleet parts and equipment is attributable to the change in the fleet maintenance plan where the older fleet vehicles were going to be changed gradually with new vehicles and these new vehicles would be replaced before their warranty expires. When doing this, the District gets a better sales value for its vehicles and has little to no maintenance expense as the vehicles are still under warrantee. This new business process has provided savings to the District. He also noted that the AMR Program, which was initiated in 2005, is about 95% complete. Because the District's customer meters are all new, stocking replacement parts for the meters are no longer required which has reduced the budget by $25,100. He shared additional savings that included decreases in chemical costs, contracted services and building grounds and materials. He noted that these saving will be off-set by a $14, 900 increase in fuel and oil costs due to anticipated price increases.

Accounting Manager Bell indicated that administrative costs increased $244,200 or 5.4%. Some of the increases included regulatory agency fees of $39,600, property liability insurance of $37,000, outside services of $257,000, and transfer of temp employment services for outreach from CIP to the Operating Budget of $46,600. These increases were offset by decreases in conservation budget of $52,400 as a portion of the program has been taken over by CWA and a cut in grant revenue; telecommunications costs of $42,300; and in travel, conferences and business meetings of $23,800.

Accounting Manager Bell summarized and indicated that the overall proposed operating budget is $82,318,200 which includes the recommended transfers to reserves (operating budget to reserves).

Chief Financial Officer Beachem concluded that staff is presenting a balance budget which meets the needs of the District's customers and supports the Strategic Plan. The FY 2013 Budget is supported by a 7.4% potable and recycled average water rate increase, and a 7.9% increase in sewer charges.

He also reviewed the Proposition 218 five-year rate increase notice approved by the Board in August 2009 following a public hearing. The notice sets guidelines and parameters of how rate increases would occur over the next five years. He stated that there are two parts to the rate increase: 1) 100% pass-thru of rate increases from the District's wholesale water providers; and 2) increases for internal costs at a maximum of 10%. He noted that the District is in its fourth year of the five year notice and would need to have a Proposition 218 hearing before any FY2015 increases could be approved. He presented a slide showing the increases approved from FY 2010 thru the proposed increase for FY 2013.

Chief Financial Officer Beachem summarized staff recommendation and asked that the board:

1. Adopt Resolution No. 4195 to approve the FY 2013 Operating and CIP Budget
2. Approve the recommended fund transfers
3. Approve Ordinance No. 533 to amend Appendix A of the code of Ordinances with the proposed water and sewer rate increases effective January 1, 2013
4. Direct staff to send notices of rate increases to the District's customers

Director Thompson indicated that the District must have on hand 5 times the total of its debt after operating costs are paid. He inquired where this money is held. Chief Financial Officer indicated that a portion of the monies are held in reserves (operating, betterment, replacement, etc.) and a portion is utilized to fund projects to replace old and build new facilities. It was indicated that the District's Reserve Policy also details what the reserve funds are used for and how the monies are moved from fund to fund.

Director Thompson inquired with regard to the increase in labor costs, which is in part driven by the MOU, how the District compares with other agencies with regard to labor costs. He indicated that the District had the public focused on its labor costs with the recent retirement benefits and he felt that the District should present information to the public that reassures them that the District is a well run agency. He stated that he suspects that the District is in line with other agencies, but does not know that for a fact. It was discussed that the District could look at other agencies budgets and see how personnel costs compare. The District may even find that its expenditures are low with regard to personnel costs, which could impact personnel retention as opposed to the District spending is much higher than average. It was further discussed that the MOU is set to expire at the end of FY

2013 and, as part of negotiations, a classification and compensation study would be conducted that would provide a comparison with the region.

Chief Financial Officer Beachem noted that on page 36 of the budget, labor and benefits, footnote number one (1) indicates a savings of $82,000 in FY 2013 as a result of employees agreeing to increase their pension contribution from 1% to 8% of pensionable wages for enhanced retiree medical benefits. The board's action on the retiree medical benefits has provided for this savings.

Director Croucher inquired with regard to the COLA agreed to in the MOU of 3.5%, if this increase was rolled into OPEB. Chief Financial Officer Beachem indicated that the 3.5% COLA offsets PERS costs which then offsets the OPEB costs. In FY 2012 the offset provides a savings of $82,000, which is a little lower than projected, but is still on the positive side. He stated that there is a reason it the savings is lower than projections and it will resolve itself later. He state that he would be happy to explain the reason if the board wishes. Director Croucher indicated that it was not necessary, but requested that staff continue to track this savings to assure that the District stays on target and provide an update to the board in a staff report.

Director Croucher also noted that adjustment of $119,000 with the City of San Diego connected to the recycled agreement with the City for "take or pay." He indicated that he knows that staff will continue to work with the City on this issue and hopefully the issue will be rectified.

Director Croucher inquired about the $63,000 decrease in the Water Conservation budget. Water Conservation Manager William Granger indicated that the District has been handling the residential water surveys and these surveys will now be handled by CWA, which will allow the District to go from 3 FTE to 2 FTE employees. Director Croucher further inquired if the District made adjustments to the budget as it is sending more to MWD, than is provided back and wanted to be sure that the District is not paying twice for the program. General Manager Watton indicated that, as it pertains to the CWA, it is felt that the District is maximizing the program, however, it is an ongoing issue with the MWD.

Director Croucher lastly inquired if the District has a comparison of the savings realized through outsourcing (ie., savings from staff reductions versus the cost to outsource). General Manager Watton indicated that there are two things that are occurring: 1) outsourcing; and 2) consolidation due to efficiencies realized from changed business practices. Director Croucher indicated that there are also savings due to the need for less vehicles, etc., and requested that staff also include such items in the savings calculation. He commended staff for their thorough report and work on the budget.

Director Thompson inquired why the cost of Worker's Compensation Insurance has increased this year. Chief Financial Officer Beachem indicated that there were write-offs in prior years for a claim that is closing (an accrued liability has been closed out). Because the District will no longer accrue the write-off, it makes it seem that costs have gone up. However, the District will now just pay the full expense for Worker's Compensation Insurance.

In response to an inquiry from Director Robak, Chief Financial Officer Beachem indicated that the District's budget has been utilizing "zero" based budgeting for approximately the past ten (10) years. Finance Manager Bell explained the "zero" based budgeting process at Director Robak's request. She indicated that the process starts in January of each year with each section manager entering their budget requests into the District's budgeting system. She stated that each item to be included in the department budget must be input individually. The proposed budgets are then reviewed by the Chiefs of each division, the Assistant General Manager and the General Manager. The numbers are questioned during this process and items/numbers can change up to a couple weeks prior to the budget workshop for the board.

Director Robak inquired what the strategic goal is for the budget. Chief of Information Technology indicated that the goal is to increase the District's overall efficiency. He noted that if the business process portion of the Strategic Plan is referenced, the objectives are almost all tied to improvements in business processes and efficiencies that drive down per unit costs for a particular operation or allows the District to consolidate for more efficiency. He noted in Information Technology, its hardware budget request has dropped from $320,000 from last fiscal year to $120,000 this fiscal year as his division is outsourcing rather than buying new hardware during the upcoming fiscal year. He stated that all areas of the District are reviewing their budget through this same process.

Director Robak also inquired about the debt coverage ratio and its preferred level being set at 200%. He noted that in staffs' presentation, at some points, it is almost as high as 300% and wondered if the goal ideally is 200% why is it even higher. Chief Financial Officer Beachem indicated that it is not that the District is pushing it higher, it is just that growth is increasing and as growth increases it pushes the number upward. He stated that the District's goal is actually 150% without growth. He noted that 150% is a common target utilized by agencies and that is the same target utilized by CWA. General Manager Watton also added that the rating agencies keep an eye on this measure, because if growth goes away, the ratio determines the District's underlying financial strength.

Chief Financial Officer explained that if an agency is debt adverse, the agency must fund all its capital projects by cash. This requires that they have higher rates and their debt coverage ratio will be much higher. There are a couple of agencies in the region who follow this model. He further shared that if a capital project is cash funded and its life expectancy is 40 years, this means that current ratepayers are funding a project that future customers will use. This is called *generational equity*, current customers fund/pay for something that they will likely not utilize because they move, etc., while future homeowners have the benefit of the infrastructure that they did not pay to build. For this reason, there is a strong rational to have a portion of facilities funded by debt.

Director Thompson stated that when your debt is very small compared to your operating costs, it is almost better to look at your operating coverage ratio. He inquired what the District's operating coverage ratio is, which is equal to the equation below:

$$\frac{\text{Surplus Money}}{\text{Operating Expenses}} \div \text{Operating Costs} = \text{Operating Coverage Ratio}$$

The debt coverage ratio is:

$$\frac{\text{Surplus Money}}{\text{Operating Expenses}} \div \text{Debt Costs} = \text{Debt Coverage Ratio}$$

When you have small debt and large operations, then the organization should look at its operating coverage ratio. He stated that if an organization's operating coverage ratio is 1.01%, then it does not have much of a cushion to assure that it can cover its operating expenses. It was noted that the District has concentrated on the recommendations of its Financial Advisor and what the rating agencies are focused on. The operating coverage ratio is not something the District looks at specifically, however, staff will run the numbers for this measure and provide the information to the board.

In response to an inquiry from Director Robak, Accounting Manager Bell indicated that the District's Metro Commission costs (sewer) have decreased for Fiscal Year 2013. She indicated that the Metro Commission stated that they have been working on reducing their operating costs and are passing the savings along to their customers. It was noted that the Metro Commission in the past had to refund $50 million to its customers, so they are trying to be much more accurate with their rates/budgeting. It was noted that the District's sewer cost rate increase is driven by the cost for sewer maintenance and the upgrade needs of the District's sewer treatment plant.

Director Robak also inquired how staff projects how much water will be sold versus the amount of water that customers will conserve and how does staff correlate the two. Accounting Manager Bell indicated that Mr. Piper, Bureau of Reclamation, is building a price elasticity tool for the District which will be utilized to help the District project how the price of water impacts conservation. Staff is also working on a conservation tool that determines savings from customers replacing appliances, fixtures, etc. with water efficient versions. These tools were not ready for use during this fiscal year, but it is planned that they will be utilized for next year's budget forecast. To determine this year's water sales, staff utilized the last twelve months water sales and, based on their best determination, the forecast includes some price elasticity, conservation and growth. It was discussed that Mr. Piper had indicated during his presentation that price elasticity is still an unknown science. At this time, the District's practical experience is probably the best indicator. The new tools will be tested next year and compared to our past experience. General Manager Watton indicated that the water sales forecast also included input from the District's Water Conservation Manager, William Granger, and Sr. Civil Engineer for Water Resources, Bob Kennedy. The City of Chula Vista's mandates/upgrades for new home developments to reduce water use are also included in the forecast. Director Robak commended staff for their good work in forecasting water sales.

Director Robak inquired, in comparison to other agencies, what the District's fixed fee recovery is on water sales. General Manager Watton indicated that the District's rate consists of about 30% fixed fees and most of the local agencies fixed fees are set at 28 to 30% as per Best Management Practices (BMP) 1.4. He stated that the Conservation Council suggests that water rates consists less of fixed fees and more of variable to impact conservation through water rates. Sweetwater Authority collects approximately 2% fixed fees and will likely be reversing that trend. On the other end is Fallbrook whose fixed fees are at about 50%.

Director Robak noted the $132,000 requested for administrative costs related to an employee survey, negotiations and salary survey. He noted that he places a lot of value on customer surveys and the value of what we pay and what is received is very good. He wondered of the value the District would get related to employee surveys. General Manager Watton indicated that it has been five (5) years since the District negotiated with the Employee Association. He stated that the District would like to hire a professional negotiator and would like to have updated salary information which indicates how the District compares with other local agencies. He indicated that this does not preordain a result, but will provide as much information as possible to base negotiations on. The salary information has not been fully updated for five or six years and it is time to do so. It is expected that negotiations will commence around the end of this year and it is hoped that it will be completed before the current MOU expires on June 30, 2013.

Director Robak lastly inquired with regard to water sales. It was indicated that the District is selling proportionally more water in the lower rates versus the higher rates and he was wondering if the District has adjusted its tiers. Chief Financial Officer Beachem indicated that the District is planning to do a study next year and it may propose adjustment to the tiers at that time. No changes are planned for Fiscal Year 2013 as it would require a Proposition 218 hearing to adjust the tiers.

Director Croucher indicated with regard to the negotiations process, that once the District has the employee surveys completed, he thought it might be good to have the committee meet to discuss the current economic conditions, concerns, public climate, etc., prior to hiring the professional negotiator.

President Lopez indicated with regard to the Special Board Meeting held on March 19, 2012 to discuss water sales forecasting, that he supported retaining such consultants as those who attended the meeting to present on weather forecasting, price elasticity and the economy as it provides additional guidance to assist staff in preparing the budget. President Lopez inquired with regard to the District's credit rating, what is the timeline to try to improve the rating. Chief Financial Officer Beachem indicated that in the current proposed budget for Fiscal Year 2013, it is expected that the District would improve its debt coverage ratio in approximately three (3) years. At the third year mark and beyond, the rating agencies would review the District's finances and likely upgrade the District's rating back to an "AA." He noted that Standards & Poors did not downgrade the District, but it is possible that they could, but if they did, the District would expect them to reverse the rating back to an "AA" in three years. The District is not planning to issue debt for another six (6) years which gives the District plenty of time to improve its rating. He also stated that the District does not have debt that is impacted by its credit rating at this time.

President Lopez inquired with regard to the CIP budget that last year staff had projected that the Fiscal Year 2013 CIP to be $21.3 million. This year staff is projecting the budget to be $18 million. He wished to clarify the reason for the difference. Chief of Engineering Posada indicated that each year staff reviews the CIP projects and reprioritizes the projects that will be required to be built in the next six (6) years. This reprioritizing moved projects further out as they will not be required until then. Director Croucher indicated that this was an issue that was discussed in the Engineering Operations and Water Resources Committee to reevaluate the CIP on a regular basis to assure the District is moving forward with the appropriate projects as conditions change. Director Thompson inquired if projects were pushed out due to the debt coverage ratio. Director Croucher indicated that the goal at the committee level was to ensure that the District move forward with the projects that are required and that staff take advantage of any opportunities for cost savings and that the District is being is as efficient as possible.

President Lopez thanked staff for the work they have done on the budget and the presentations presented today.

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

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

to accept staffs' recommendation and adopt Resolution No. 4195, approving the Fiscal Year 2012-2013 Operating and Capital Budget; approve the fund transfers for potable, recycled, and sewer; approve water and sewer rate changes on all billing cycles that begin in calendar year 2013; adopt Ordinance No. 533 amending appendix A of the Code of Ordinances with the proposed water and sewer rate changes; and approve the rate increase notices.

General Manager Watton indicated that staff will provide the board responses to the questions they had asked during today's meeting and thanked them for their support of the budget.

7. ADJOURNMENT

With no further business to come before the Board, President Lopez adjourned the meeting at 6:19 p.m.

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President

ATTEST:

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District Secretary