

**MINUTES OF THE
BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT
August 1, 2012**

1. The meeting was called to order by President Lopez at 3:30 p.m.

2. ROLL CALL

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

Directors Absent: None

Staff Present: General Manager Mark Watton, Asst. General Manager German Alvarez, General Counsel Daniel Shinoff, Chief Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Chief of Information Technology Geoff Stevens, Chief of Administration Rom Sarno, Chief of Water Operations Pedro Porras 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 Gonzalez 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. APPROVE THE MINUTES OF THE REGULAR BOARD MEETING OF JULY 11, 2012

A motion was made by Director Robak, seconded by President Lopez 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 board meeting of July 11, 2012.

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.

General Counsel Dan Shinoff introduced an Intern from his law firm, Ms. Greta Wilson, who was in attendance of this afternoon's meeting. He stated that she is a student from Gonzaga University who was "shadowing" him for the summer.

CONSENT ITEMS

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

Director Robak inquired with regard to item 6b on the consent calendar if the change order amount was truly \$87. Director Croucher confirmed that the net total of the change order is \$87 and shared that the items are listed within staffs' report

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

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

to approve the following items on the consent calendar:

- a) ADOPT ORDINANCE NO. 534 AMENDING THE DISTRICT'S CODE OF ORDINANCES SECTION 28, CONNECTION FEES AND CHARGES FOR POTABLE OR RECLAIMED WATER SERVICE; APPENDIX A, SCHEDULE OF FEES AND CHARGES, SECTION 28.02; AND SECTION 27, REQUIREMENTS AND LIMITATIONS FOR OBTAINING WATER SERVICE, EFFECTIVE SEPTEMBER 1, 2012
- b) APPROVE CHANGE ORDER NO. 2 TO THE EXISTING CONTRACT WITH NEWest CONSTRUCTION, INC. FOR THE RALPH W. CHAPMAN WATER RECLAMATION FACILITY UPGRADE PROJECT, IN AN AMOUNT NOT-TO-EXCEED \$87
- c) APPROVE THE ISSUANCE OF A PURCHASE ORDER TO RDO EQUIPMENT COMPANY, INC. IN THE AMOUNT OF \$102,515.50 FOR THE PURCHASE OF ONE (1) JOHN DEERE BACKHOE

- d) ADOPT RESOLUTION NO. 4201 OF THE DISTRICT'S CODE OF ORDINANCE AMENDING POLICY NO. 25, THE RESERVE POLICY, WHICH INCLUDES UPDATED GLOSSARY DEFINITIONS
- e) RECEIVE THE DISTRICT'S INVESTMENT POLICY (POLICY NO. 27) FOR REVIEW AND TO RE-DELEGATE AUTHORITY FOR ALL INVESTMENT RELATED ACTIVITIES TO THE CHIEF FINANCIAL OFFICER IN ACCORDANCE WITH GOVERNMENT CODE SECTION 53607

ACTION ITEMS

8. BOARD

- a) DISCUSSION OF 2012 BOARD MEETING CALENDAR

Director Croucher reminded the members of the board that he would be out-of-town and will be unable to attend the September board meeting. Director Thompson indicated that he would be out-of-town during the October board meeting and will be unable to attend the meeting.

District Secretary Cruz indicated that dates for a joint agency board meeting with Helix WD, Padre Dam MWD and Sweetwater Authority are currently being considered in October. She also noted that the District's Special Board Meeting for a Board Workshop has been scheduled on Tuesday, September 11, 2012.

President Lopez indicated that if members of the board have any items they wished discussed at the joint agency board meeting, to please share them with him.

REPORTS

9. GENERAL MANAGER'S REPORT

General Manager Watton also highlighted information from his report that included an announcement that the District's employee picnic has been scheduled on September 22, 2012, an update on the rate study and the treatment plant upgrade project.

SAN DIEGO COUNTY WATER AUTHORITY (CWA) UPDATE

General Manager Watton indicated that CWA has held a series of workshops on the Carlsbad Desalination Project. Poseidon has been working on the project for about ten (10) years now. Poseidon had first planned on selling the water directly to the water agencies, but they have now approached CWA to purchase the water for the region. This has possibilities as it would allow for the use of CWA's water purchase agreement and its credit rating to finance the project on the public market. CWA may be making a decision on the desalination project in October. He indicated that

some believe that October would be too soon as the project has not yet been fully vetted.

Also being discussed is the cost of the desalination treatment system and how it would be incorporated into the rate structure. There are a number of treatment sources throughout the county which includes MWD's Skinner Filtration Plant, Twin Oaks Valley Water Treatment Plant, Helix WD Treatment Plant, etc. Treated water makes up 40% of CWA's water deliveries. If CWA starts taking 48,000 AF of treated desalinated water, it would impact CWA's ability to run their Twin Oaks Treatment Plant due to its take or pay contract with CH2M HILL to operate the plant. Also, the City of San Diego, Helix WD and Oceanside's cost to treat water is less expensive than CWA's rate, thus, these agencies would prefer to run their treatment plants to capacity due to the savings.

General Manager Watton presented a schematic showing the flow of desalinated water to CWA's distribution system and indicated that treated desalinated water would flow to the Twin Oaks Valley WTP where it would then be blended into the reservoir and distributed through the system. He noted that the distribution system depicted in the schematic would cost approximately \$300 million. This cost would be incorporated into the desalinated water rate. He shared that the 54-inch, 10.5 mile pipeline connecting the desalination plant to CWA's system would be owned and operated by CWA. The commitment to build this line is a concern because if the desalination plant, for whatever reason, stops processing water, the 54-inch line would basically be abandoned. It was indicated that there would need to be some guarantees included in the contract, such as, Poseidon backing the project through the issuance of bonds or other surety means.

It was indicated that the cost for desalinated water is estimated at approximately \$2,100 to \$2,350 per acre foot and the biggest issue is how to determine a rate structure for desalinated water that is equitable to all agencies. There are fixed costs that are unique to each agency which makes CWA's rate structure very complicated. Currently, CWA has five rates that are based on service function (supply, treatment, customer service, transportation and storage) and non-commodity charges (property tax, stand-by charges and capacity charges). The following example illustrates how difficult it is to determine equitable rates. Otay has the third most meters in the County behind the City of San Diego and Helix WD. When the cost of desalinated water is shifted from supply to the meter, this disadvantages the larger water agencies as they will pay a disproportionate share of the desalinated water cost because they serve more water customers (more meters). To simplify and avoid a complicated rate structure, it has been suggested that each agency sign a take or pay contract with CWA for a specific amount of desalinated water supply. This would assure that a minimum amount of desalinated water is sold and avoid developing a complicated rate structure. There will be more discussion on this matter at a special board meeting CWA has scheduled for next week and various other meetings in the upcoming several months. Public hearing meetings will also be held in September with the community.

General Manager Watton stated that, if needed, staff may ask for the board's support if the District is asked to make a decision on the Carlsbad Desalination Project in October. He indicated that he hoped that would not occur and that the District will have the time needed to fully vet the project.

Director Croucher further added that there was discussion regarding the agreement with Poseidon, that the risk factors should be shared between CWA and Poseidon. CWA's board had discussed that both CWA and Otay WD are seeking desalinated sources. The consensus of CWA's board is that they are not concerned as to which agency successfully acquires the desalinated sources, as long as it is being explored. He lastly added with regard to determining the cost of Poseidon's desalinated water, is CWA's discussion of the difficulty in pinning down transportation and electrical costs because of their variability.

Director Robak inquired if there was discussion at CWA concerning the need for desalination when there are other resources that are less expensive and the fact that many users are now conserving and, thus, reducing water sales region wide. General Manager Watton indicated that it is felt that it still needs to be vetted and the IRP (Integrated Resources Master Plan) needs to be reviewed to identify if all resources (Poseidon Desalination, Rosarito Desalination, member agency water development projects, etc.) have been fully incorporated into the regional plan. Otay WD's staff will be exploring this and reviewing the various water supply studies, the status of the Bay Delta issues, etc. Director Croucher added that we also need to ask the public/community if they want more reliable water supplies and if they do, if they would be willing to pay for that reliability.

Director Robak also inquired about the status of the Rancho del Rey Well Project. Chief of Engineering Rod Posada indicated that the design of the project has been completed. Currently, staff is working with the City of Chula Vista concerning the cost to dispose of the brine that is a byproduct of the demineralization process and with the United States Bureau of Reclamation for funding for the project (possibly up to 25% of the cost of the project). Staff anticipates that construction will commence in March 2013 and be completed by the end of the year. It was noted that if negotiations with the City of Chula Vista regarding the disposal of the brine gets drawn out, the timeline to complete the project may be extended. The cost of the project is estimated at \$8 million.

10. DIRECTORS' REPORTS/REQUESTS

Director Croucher indicated that he attended a SDG&E Stakeholders Meeting. The meeting provided an opportunity to discuss options to work with SDG&E and, should rolling blackouts be required this summer, to discuss any District facilities that should be exempt from the blackouts. He also shared that Cuyamaca College now hosts a Farmer's Market on the weekends which is bringing visitors to the Water Conservation Garden.

Director Robak indicated that he attended the film premier of *Watershed* which was held at the Water Conservation Garden. He stated that it was very well attended and was the first time that he had attended an event at the Water Conservation Garden amphitheatre that was close to a "sell out." The panel discussion following the film included tiered pricing from the water agencies' perspective to environmentalists' views. It was a very engaging dialogue.

President Lopez added that the *Watershed* film provided a nice history on the Bay Delta and Colorado River. He stated that it will likely be presented on KPBS nationally and he highly recommended seeing the film if the opportunity presented itself.

11. PRESIDENT'S REPORT

President Lopez reported on meetings he attended during the month of July 2012 (a list of meetings he attended is attached). He also noted that Jerry Munoz, the District's Safety Administrator, is retiring from the District after 28 years.

Director Croucher suggested that the District forward a letter of congratulations to former Director, Jaime Bonilla, for his appointment to Mexico's senate. He recommended that the letter be forwarded under President Lopez' signature.

President Lopez also distributed to the board copies of the General Manager Performance Evaluation form that is utilized each year. He asked members of the board to please review the form and provide him feedback/changes, if they should have any, by the end of the week. He stated that it is planned that the General Manager's review would be agendaized for closed session discussion at the September 2012 meeting.

12. ADJOURNMENT

With no further business to come before the Board, President Lopez adjourned the meeting at 4:38 p.m.

President

ATTEST:

District Secretary

President's Report
August 1, 2012 Board Meeting

A) Meetings attended during the Month of *July* 2012:

1) **July 11:**

- a) Attended the District's Regular Board Meeting
- b) Committee Agenda Briefing. Met with General Manager Watton to review items that will be presented at the July Committee meetings.

2) **July 18:** Attended the District's Employee Recognition Luncheon.

3) **July 19:** Attended a meeting of the Finance, Administration and Communications Committee.

- a) Reviewed, discussed, and made recommendation on items that will be presented at the July board meeting.

4) **July 25:** Board Agenda Briefing. Met with General Manager Watton and General Counsel Daniel Shinoff to review items that will be presented at the July Board meeting.