

**MINUTES OF THE  
BOARD OF DIRECTORS MEETING OF THE  
OTAY WATER DISTRICT  
November 7, 2012**

1. The meeting was called to order by President Lopez at 3:36 p.m.

2. ROLL CALL

Directors Present: Gonzalez, Lopez, Croucher and Robak

Directors Absent: Thompson (out-of-town on prescheduled vacation)

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

to approve the agenda.

5. WATER CONSERVATION GARDEN UPDATE (JOHN BOLTHOUSE, EXECUTIVE DIRECTOR, AND RICHARD WRIGHT, PRESIDENT, BOARD OF DIRECTORS)

Mr. Richard Wright, President of the Water Conservation Garden (Garden) Board of Directors, thanked the Otay Water District's (OWD) Board for the invitation to provide an update on the Garden. He introduced the Garden's new Executive Director, Mr. John Bolthouse.

Executive Director Bolthouse expressed his appreciation for the value that the District, and its fellow member agencies, place in the Garden. Mr. Bolthouse reported that within the next 3-6 months, the Garden will be drafting a new Strategic

Plan and once it is approved by the Garden's governing board, it will be presented to the JPA. He indicated that the Garden's staff and co-owners of the property are developing a facilities expansion plan and ideas for new programs. Expansion of the building is needed for staff, volunteers and meeting space. There are additional plans to enhance and expand current programs and look into botanical science, which Mr. Bolthouse believes will widen the demographic and the geographic appeal of the Garden beyond East County.

Mr. Bolthouse thanked William Granger, OWD's Water Conservation Manager, for his involvement with the Garden. He also invited the OWD board and staff members to their Fall Garden Festival which is scheduled on November 10, 2012, from 10:00 a.m. to 4:00 p.m. He stated that there will be music and approximately 50-60 vendors.

President Lopez indicated that he attends the Garden's Board meetings as a member of the board and has witnessed President Wright's passion for the Garden. He thanked Mr. Bolthouse for providing an update and commended him on his leadership and knowledge of the Garden. He indicated that he felt that the Garden has a good team and invited Mr. Bolthouse back to the District in the future to provide another update on the Garden's progress.

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

Mr. Al Alvarado of National City addressed the Board on behalf of his grandson who owns a home within the District's service area and discussed the situation of the property. He indicated that the property is currently in foreclosing proceedings and that the tenant had moved out in June 2012. However, the water fees continued to accumulate though water was not being used, which he felt was unfair. He thanked the board for the opportunity to share his concerns.

President Lopez referred Mr. Alvarado's concerns to General Manager Watton. District staff will contact Mr. Alvarado to address his concerns.

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:

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

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

Absent: Director Thompson

to approve the following consent calendar items:

- a) ADOPT RESOLUTION NO. 4205 TO AUTHORIZE THE GENERAL MANAGER TO IMPLEMENT REQUIREMENTS OF THE CALIFORNIA PUBLIC EMPLOYEES' PENSION REFORM ACT OF 2013, WHICH WILL BECOME EFFECTIVE JANUARY 1, 2013; AND ADOPT RESOLUTION NO. 4206 TO AMEND RETIREE HEALTH BENEFITS FOR UNREPRESENTED EMPLOYEES HIRED ON OR AFTER JANUARY 1, 2013
- b) ADOPT ORDINANCE NO. 536 AMENDING THE DISTRICT'S CODE OF ORDINANCES, SECTION 2.01, AUTHORITY OF THE GENERAL MANAGER, TO FORMALIZE THE GENERAL MANAGER'S OR DESIGNEE'S AUTHORITY TO MANAGE COLLECTION ACTIVITIES
- c) APPROVE A 3-YEAR O&M AGREEMENT WITH SOFTCHOICE CORPORATION FOR MICROSOFT SOFTWARE LICENSE SUPPORT IN THE AMOUNT OF \$250,638.00, CONSISTING OF THREE (3) ANNUAL PAYMENTS OF APPROXIMATELY \$83,546.00
- d) APPROVE A PROFESSIONAL AS-NEEDED GEOTECHNICAL SERVICES CONTRACT WITH SOUTHERN CALIFORNIA SOIL & TESTING, INC. IN AN AMOUNT NOT-TO-EXCEED \$175,000 FOR A PERIOD OF THREE (3) FISCAL YEARS (FY 2013 TO FY 2015)
- e) APPROVE CREDIT CHANGE ORDER NO. 1 TO THE EXISTING CONTRACT WITH GARCIA JUAREZ CONSTRUCTION, INC. IN THE AMOUNT OF <\$22,040.00> FOR THE CALAVO GARDENS SEWER REHABILITATION PROJECT

## ACTION ITEMS

### 8. FINANCE, ADMINISTRATION AND INFORMATION TECHNOLOGY

- a) APPROVE THE DISTRICT'S AUDITED FINANCIAL STATEMENTS, INCLUDING THE INDEPENDENT AUDITORS' UNQUALIFIED OPINION FOR FISCAL YEAR ENDED JUNE 30, 2012

Finance Manager Kevin Koeppen indicated that White Nelson Diehl Evans & Company, LLP (WNDEC) completed the District's audit for fiscal year ended June 30, 2012. He stated that this is the company's third year performing the District's audit.

Overall District assets decreased by \$6.3 million due to decreases of:

- \$3.2 million for payments on long-term debt

- \$1 million due to a reduction in grant funds received
- \$1.4 million due to the write-off of CIP expenses that were not capitalized for various projects

Finance Manager Kevin Koeppen stated that the District's Capital contributions for FY 2012 was \$6.8 million, where \$2 million was from capital improvements from permits, \$3.5 million was contributed to fixed assets from developers, and \$1.4 million was from capacity fees.

Mr. Koeppen indicated that operating revenue increased \$5.2 million mainly due to the overall increase in water rates. He noted that the overall debt service ratio, a ratio used to analyze the District's ability to meet its debt and interest payments, was 132% for the fiscal year.

Mr. Nitin Patel, Auditor for White Nelson Diehl Evans & Company (WNDEC), presented the findings of the District's audit for FY 2012. He stated his organization's responsibility is to express an opinion on the financial statements of the District. WNDEC's audit of the District's FY 2012 resulted in an unqualified opinion. Mr. Patel indicated that the financial statement presents fairly, in all material respects, the financial position of the District in accordance with generally accepted accounting principles.

Mr. Patel indicated that his organization also issues a report on internal controls over financial reporting and compliance, known as the Management Letter. He stated that WNDEC did not identify any material weaknesses in internal controls.

Communication under Audit Standard No. 114, which discusses the Qualitative Aspects of Accounting Practices, indicates WNDEC found no new accounting policies that have been adopted and the application of existing policies were not changed during the fiscal year. There were also no noted transactions entered into by the District for which there is a lack of authoritative guidance or consensus.

Mr. Patel indicated that his firm did not have any difficulties in performing the audit.

The last report issued is the Independent Accountants' Report on Applying Agreed-Upon Procedures regarding the District's investments. Mr. Patel indicated that there were no findings to report and that the investments tested by WNDEC were in compliance with the District's Investment Policy.

Director Robak indicated that each year there is a special area of focus in the audit. He inquired what the special area of focus was for the FY 2012 audit. Mr. Patel indicated that WNDEC did not focus on a special area during the FY 2012 audit. The audit did include a follow-up on suggested adjustments/improvements with regard to credit card payments and capitalized assets that were identified in last year's audit and no issues were found.

Chief Financial Officer Joe Beachem indicated that he does not believe there is an inherent special area required in the audit. However, if the Board wished for the District's auditors to focus on a specific area, the auditors would be willing to do so.

Mr. Patel stated that the Board could provide a letter to the auditor indicating any concerns that they would like WNDEC to focus on.

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

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

to approve the District's audited financial statements, including the independent Auditors' unqualified opinion for fiscal year ended June 30, 2012.

9. BOARD

a) DISCUSSION OF 2012 BOARD MEETING CALENDAR

The board canceled the December 5, 2012 board meeting and scheduled a special board meeting on November 28, 2012 to discuss CWA's intent to vote on a Water Supply Agreement for desalinated water with Poseidon Resources.

INFORMATIONAL ITEMS

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

a) INFORMATIONAL REPORT ON THE EMERGENCY REPAIR COST FOR A MAIN BREAK AT THE 1400 BLOCK OF TELEGRAPH CANYON ROAD

Chief of Operations Pedro Porrás stated that in the early morning of October 24, 2012, a break occurred in a 24-inch asbestos cement water main (ACP) located within the westbound lane of the 1400 block of Telegraph Canyon Road between La Media Road and Paseo Rancho Road.

Mr. Porrás stated that in accordance with District Code of Ordinances Article I, Chapter 2, Section 2, Paragraph H, staff declared the break an emergency in order to expedite the repair and prevent loss or impairment of essential public services. It was indicated that if the District had not declared the repair an emergency, the repair of the pipe would have been delayed for 90+ days as, per the District's policy, bids would need to be solicited for the repair of the pipe due to the cost associated with the repair.

Mr. Porras indicated that there were three (3) main issues that necessitated that the pipeline break be declared an emergency: 1) Materials for the repair were not readily available; 2) A red flag warning was issued by the National Weather Service increasing the possibility of fires which would place a demand on the District's system; and 3) The excavation required to continue the repair safely was beyond the capabilities of the District's equipment.

He indicated that the 24-inch pipeline in Telegraph Canyon Road is the primary feed source to the southerly 624 pressure zone, and the entire 458 and 340 pressure zones. With the primary pipeline down, District staff constructed high lines to feed the meters located on Telegraph Canyon Road and activated the 711/624 pressure reducing valve located on Heritage Road and Olympic Parkway. However, if the temporary feed lines were to exceed their maximum capacity, leaks or breaks in the 624 pressure zone could occur which may leave customers with no water. He indicated that the District coordinated with the City of Chula Vista and kept the City informed of the repair status.

Mr. Porras stated that of the three (3) contractors who submitted bid proposals, Cass Construction was selected to complete the emergency repair. He indicated that the estimated cost is approximately \$150,000, which included the additional costs to immediately fabricate the custom repair couplings, expedite shipping from Arkansas since materials were not commercially available, and extended time duration to complete the repair. Mr. Porras noted that the emergency contract was less than \$250,000 and therefore was not subject to ratification by the Board. It was also noted that the General Manager, as required, reported the emergency repair to the Board within 48 hours following the emergency declaration.

General Manager Mark Watton commended District staff for their diligent efforts to expedite the repair and minimize the impact to the community. He also commended the City of Chula Vista's staff for their outstanding level of cooperation that assisted in expediting the emergency repair on Telegraph Canyon Road. The District's back-up systems for emergencies and the repair itself were successful.

Chief of Operations Pedro Porras commended Mr. Tadeo Vasquez, Utility Maintenance Supervisor, who monitored the situation and performed the repair throughout the night. It was also noted that Mr. Vasquez maintained communications with his supervisor, Utilities Service Manager Jose Martinez, at all times.

Director Croucher inquired about the history of the pipeline and the challenges of ordering materials for it. Mr. Pedro Porras stated that the 24-inch asbestos cement pipeline (ACP) was installed in 1999 and was commonly used at that time, but now is no longer used. He stated that it was a challenge to find the adaptors for the pipeline because they are no longer commercially available and indicated that staff had to special order them.

Director Croucher inquired if cement pipelines are identified in the District's as-built system and if the District was aware of other such pipelines in its service area. Chief of Operations Pedro Porras stated that they are not identified in the District's as-built system, but the District is aware of approximately 400 miles of cement pipeline in its jurisdiction.

Directors Croucher and Gonzalez inquired if there are current plans to inspect other cement pipelines in the area to avoid another emergency repair. General Manager Mark Watton stated that it would not be practical for the District to inspect other cement pipelines at this time unless it was necessary. Mr. Watton indicated that pipeline inspections involve excavation that takes up a significant amount of time and labor. To avoid another emergency repair in the future, it was noted that staff ordered two sets of materials for the cement pipelines to have them readily available.

In response to a question from Director Robak, Chief of Operations Pedro Porras indicated that staff had consulted with our sister-agencies to see if they had materials the District could utilize to repair the pipeline. Since the agencies did not have in materials in stock as well, District staff placed a special order.

b) INFORMATIONAL REPORT ON THE PROPOSED APPLICATION TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA (CPUC) BY SAN DIEGO GAS & ELECTRIC (SDG&E) FOR THE AUTHORITY TO UPDATE MARGINAL COSTS, COST ALLOCATION, AND ELECTRIC RATE DESIGN

Senior Civil Engineer Bob Kennedy stated that on October 3, 2012, SDG&E filed an amended application with the CPUC and if approved, there would be a direct impact on District electric rates. He provided a PowerPoint presentation to the Board.

Mr. Kennedy indicated that the impacts include higher basic service fees, an increase to the Power-Agriculture rate known as PA-T, shifting October from a winter rate schedule to the higher summer rate schedule, and changing the rate structure for solar, wind, and micro turbine projects.

He presented a 2012 calendar with the current summer/winter on-peak, semi-peak, and off-peak time of use periods that showed the rate for power will vary with time of use, peak periods have higher rates than off-peak periods, and summer rates are higher than winter rates.

It was noted that one of the changes proposed is to shift October from a winter rate schedule to a summer rate schedule, which will result in a higher October bill to the District.

Senior Civil Engineer Kennedy indicated that the County Water Authority offered to estimate the impact of the rate changes to the District. Mr. Greg Ortega from the Authority took the electricity data from the District and applied the new propose

rates. The Authority estimates that the cost of electricity could increase the District's rate by 37%.

Mr. Kennedy stated that the California Center for Sustainable Energy estimated the increase for Fallbrook and Valley Center and determined that their rate would increase 34% to 52%.

Senior Civil Engineer Bob Kennedy presented a slide showing some of the drivers for the rate increase:

- To cover the wildfire cost of \$1.1 billion
- The recent shutdown of San Onofre
- The deployment of Smart Grid technology (provides SDG&E the ability to monitor use which allows them to bill accordingly)
- To increase reliability
- Consumer advocates pressuring the CPUC to have large users pay more for the power they receive

Mr. Kennedy discussed Sustainable Energy and stated that over the last few years, the District has looked at ways to decrease its dependency on SDG&E and develop alternative sources for self-generated power. He indicated that in 2008, the District entered into an agreement with the County of San Diego to purchase electricity generated from methane gas produced from the landfill adjacent to the District's Ralph W. Chapman Water Reclamation Facility. The project was partially funded through the California Center for Sustainable Energy (CCSE) and from revenues from the sale of the electricity.

At the beginning of the project, SDG&E imposed a \$1,553 per month stand-by demand charge. By the end of the agreement the stand-by demand charge had increased to \$2,014 per month. As a result of the increase in the stand-by charge, it was no longer economical for the District to buy power generated from the County of San Diego facility so the agreement was not renewed.

Mr. Kennedy stated that the District had also looked at solar power as a source for self-generated power and contracted with the CCSE to perform an assessment on several District owned property. He indicated that on May 6, 2011, CCSE completed the "Otay Water District Self-Generation Assessment Report" and concluded it is unlikely that these projects would result in any savings and the financial performance of such systems would be poor at the current Power Purchase Agreement prices.

Mr. Kennedy stated some concerns such as the rate changes proposed by SDG&E that will target these systems and further lower their financial performance if SDG&E's rate structure is approved. It was noted that instability in the solar power industry is also a concern, as the City of San Diego School District recently found out. Faulty panels installed on 24 of their buildings in 2005 became corroded and posed a possible fire risk. They then found that the company who built the panels

had filed for bankruptcy which left the company that sold the power directly to the school district with no resources to service or maintain the solar panels.

Senior Civil Engineer Bob Kennedy noted that the District is always looking for ways to reduce power consumption through increased energy efficiency and also meet the requirements of AB32. He indicated that there are three (3) CIP projects in the FY 2013 budget which are expected to reduce the District's power consumption:

- CIP projects P2502 and P2503 will result in significant electrical energy savings due to increased available suction pressure (saving \$85,000/year).
- CIP project R2091 pump station 927/944 upgrade will install more efficient pumps resulting in energy savings.

Mr. Kennedy indicated that SDG&E and several stakeholders recently met and a settlement was being drafted with buy-in largely from the City of San Diego and the Farm Bureau. He stated that basically the settlement takes the PA-T rate out of the Large Commercial & Industrial class and puts it in the Agricultural class which composes a much smaller cost allocation than the Commercial & Industrial class. Unfortunately, SDGE has not produced any illustrative rates, only percent allocations. However, the settlement proposal was designed by Bill Monson (City of San Diego consultant) and all of the interveners accepted this as a large win on the PA-T rate. Mr. Kennedy noted that the so called 'Solar Rate' (DGR) will still need to be resolved.

Mr. Kennedy stated that staff is working with the District's customer service representative at SDG&E to look at ways to restructure existing rate tariffs on existing meters to get more economical rate structures applied to them. He indicated that this last year, Operations staff had looked at five different meters and the possibility of shifting the tariff rate from a PA-T1 rate schedule to a PA rate schedule is being discussed to get a more beneficial rate at those facilities. It was noted that this could result in an annual savings of \$40,000.

Director Robak commented on the drivers of the rate increase and inquired if a Joint Powers Agreement can be established to generate power. General Manager Mark Watton stated that there are provisions to generate power but SDG&E has been successful in making it unattractive, such as charging a wheeling rate which makes it uneconomical.

## REPORTS

### 11. GENERAL MANAGER'S REPORT

General Manager Mark Watton highlighted information from his report that included an update on the Conservation Program Activity, the increase in water sales, the North District-South District Interconnect Pipeline Project, the 12-Inch Potable Water Pipeline East Orange Avenue I-805 Crossing, and meter sales.

He stated that he and President Lopez attended a legislative session in Mexico, at the invitation of former Otay Water District board member Jaime Bonilla. Mr. Watton shared that Congressman Bonilla was elected to Mexico's Congress where 500 members represent various regions across the country, much like the United States. He indicated that Mexico's President of the Chamber of Deputies introduced Mr. Watton and President Lopez at the legislative session. Both were also introduced to the Northern Board Commission that handles water issues between the United States and Mexico. Mr. Watton indicated that the Governor of the State of Baja, Mr. Jose Guadalupe Osuna Millán, Mexico's State Senators and former governors also attended the legislative session. Mr. Watton also reported that he and President Lopez had the opportunity to speak with Mexico's National Water Committee President. He stated that it was a great opportunity to meet with key players from Mexico's government who are involved in water issues.

President Lopez expressed his appreciation for Congressman Bonilla's collaborative efforts. He stated that he is confident that the District will be working with the right officials from Mexico. President Lopez indicated that United States Senator Ben Hueso was also in attendance at the legislative session in Mexico and is also involved in the water issues between the United States and Mexico.

General Manager Watton also presented a photo of Senator of Baja, Mr. Marco Vasquez, and indicated that he also attended the committee meetings in Mexico. He indicated that he was a former governor of Mexico and is familiar and knowledgeable in water issues in the country.

#### SAN DIEGO COUNTY WATER AUTHORITY (CWA) UPDATE

General Manager Watton indicated that CWA scheduled a special board meeting on November 29, 2012 to take action on a proposed Water Supply Agreement with Poseidon Resources. He stated that CWA has not yet determined the rate structure for the water from the desalination project and they have not yet completed a cost-of-service study. He stated that District staff has forwarded letters to CWA, and plans to send more letters, to inform CWA of Otay WD's concerns with the Project. It was noted that staff plans to review CWA's proposed desalination agreement and will be formulating questions to submit to CWA.

General Manager Watton stated that the Otay WD's November 28, 2012 special board meeting is necessary to discuss CWA's action to vote on the Poseidon Desalination Project and to obtain the Board's input. He also recommended that a Closed Session be held to discuss Proposition 26 matters.

Director Croucher stated that he and General Manager Mark Watton both believe in desalination as it is a reliable water resource. However, they are concerned with the cost of the Poseidon Desalination Project and how its cost will be shared among the member agencies.

#### 12. DIRECTORS' REPORTS/REQUESTS

Director Robak requested that a County Water Authority (CWA) representative be present at the District's special board meeting on November 28 to present on the Poseidon Desalination Project and to answer any questions that the District may have. Director Robak also shared information about a program that helps build wells in third-world countries at a cost of \$3,000 and indicated that if anyone would like to participate in the program, he could be contacted for more information.

Director Gonzalez stated that he attended a Metro Commission meeting and a conservation group was in attendance to advocate for recycled water and voice their concerns regarding desalination. He indicated that the Commission decided that recycled water and desalination are equal and are needed as alternate resources. With regard to the Integrated Regional Water Management meetings, Director Gonzalez indicated that Senior Civil Engineer Bob Kennedy was appointed to represent the District at the meetings.

13. PRESIDENT'S REPORT

President Lopez reported on meetings he attended during the month of October 2012 (a list of meetings he attended is attached).

14. ADJOURNMENT

With no further business to come before the Board, President Lopez adjourned the meeting at 5:17 p.m.

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President

ATTEST:

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District Secretary

**President's Report**  
**November 7, 2012 Board Meeting**

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

- 1) **October 1:** Board Agenda Briefing. Met with General Manager Watton and General Counsel Daniel Shinoff to review items that will be presented at the October Board meeting.
- 2) **October 9:** Attended the District's Regular Board Meeting
- 3) **October 11:** Attended the Tijuana Innovadora 2012 Conference. Attendees: Rod Posada and Jose Martinez
- 4) **October 19:** Committee Agenda Briefing. Met with General Manager Watton to review items that will be presented at the October Committee meetings.
- 5) **October 23:** Attended a meeting of the Finance, Administration and Communications Committee.
  - a) Reviewed, discussed, and made recommendation on items that will be presented at the November board meeting.
- 6) **October 25:** Attended the South County Economic Development Council's elected Officials Reception. Attendees: Mark Watton, German Alvarez and Rod Posada
- 7) **October 29:** Board Agenda Briefing. Met with General Manager Watton and Attorney Richard Romero to review items that will be presented at the November Board meeting.
- 8) **October 30 to Nov 1:** Traveled to Mexico City, Mexico to meet with Mexico Government Officials to discuss the Rosarito Desalination Project.