

**MINUTES OF THE
BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT and OTAY SERVICE CORPORATION
January 8, 2013**

1. The meeting was called to order by President Lopez at 2:35 p.m.

2. ROLL CALL

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

Staff Present: General Manager Mark Watton, Asst. General Manager German Alvarez, General Counsel Jeff Morris, 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. OATH OF OFFICE CEREMONY

Mexico Congressman and former Otay WD Director, Jaime Bonilla, administered the Oath of Office to Director Jose Lopez. Mr. Isaiah Diamond administered the Oath of Office to Director Mitchell Thompson. District Secretary Susan Cruz administered the Oath of Office to Director Mark Robak. The three directors were elected in the November 2012 elections to the District's Divisions 4, 2 and 5 seats respectively.

5. PRESENTATION OF RECOGNITION PLAQUE TO BOARD PRESIDENT

Vice President Gonzalez presented a recognition plaque from the Board of Directors to Board President Lopez and thanked him for his leadership and service during the past year. President Lopez thanked Vice President Gonzalez and the Board for their support and stated that he is honored to be part of the Board of Directors.

6. RECESS FOR RECEPTION AND RECONVENE OTAY WATER DISTRICT BOARD MEETING

The board recessed for a reception at 2:38 p.m. and reconvened the board meeting at 3:05 p.m.

7. ELECTION OF BOARD PRESIDENT

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 re-elect Director Lopez as President.

8. ELECTION OF VICE PRESIDENT

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 elect Director Thompson as Vice President.

9. ELECTION OF BOARD TREASURER

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 elect Director Gonzalez as Treasurer.

10. APPROVAL OF AGENDA

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 approve the agenda.

11. 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.

12. RECESS OTAY WATER DISTRICT BOARD MEETING AND CONVENE A MEETING OF THE OTAY SERVICE CORPORATION

The Otay Water District board meeting was recessed at 3:10 p.m. and a meeting of the Otay Service Corporation board was convened.

13. ROLL CALL

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

14. ELECTION OF OFFICERS: PRESIDENT, VICE-PRESIDENT AND TREASURER

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 elect Director Lopez as President, Director Thompson as Vice President and Director Gonzalez as Treasurer.

15. APPOINTMENT OF OFFICERS: EXECUTIVE DIRECTOR, CHIEF FINANCIAL OFFICER AND SECRETARY

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 elect General Manager Watton as Executive Director, Joe Beachem as Chief Financial Officer and District Secretary Susan Cruz as Secretary.

16. ADJOURN OTAY SERVICE CORPORATION BOARD MEETING AND CONVENE THE OTAY WATER DISTRICT FINANCING AUTHORITY BOARD MEETING

President Lopez adjourned the Otay Service Corporation board meeting at 3:12 p.m. and convened the Otay Water District Financing Authority board meeting.

17. ROLL CALL

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

18. RE-AFFIRM OFFICERS OF THE OTAY WATER DISTRICT FINANCING AUTHORITY

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 elect Director Lopez as President, Director Thompson as Vice-President, General Manager Watton as Executive Director, Joe Beachem as Treasurer/Auditor, and District Secretary Susan Cruz as Secretary.

19. ADJOURN OTAY DISTRICT FINANCING AUTHORITY BOARD MEETING AND CONVENE THE OTAY WATER DISTRICT BOARD MEETING

President Lopez adjourned the Otay District Financing Authority board meeting at 3:14 p.m. and reconvened the Otay Water District board meeting.

20. APPROVAL OF THE MINUTES OF THE SPECIAL MEETING OF OCTOBER 9, 2012 AND NOVEMBER 7, 2012

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 board meetings of October 9, 2012 and November 7, 2012.

CONSENT CALENDAR

21. 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 24b, APPROVE CHANGE ORDER NO. 2 TO THE EXISTING CONTRACT WITH GARCIA JUAREZ CONSTRUCTION, INC. IN THE AMOUNT OF \$22,460 FOR THE CALAVO GARDENS SEWER REHABILITATION PROJECT, for discussion.

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 remaining consent calendar items:

- a) APPROVE THE ISSUANCE OF A PURCHASE ORDER TO HAAKER EQUIPMENT COMPANY IN THE AMOUNT OF \$366,118.33 FOR THE PURCHASE OF ONE (1) NEW VACTOR MODEL 2110 PLUS JET RODDER

- c) AWARD A CONSTRUCTION CONTRACT TO BASILE CONSTRUCTION, INC. FOR THE 12-INCH POTABLE WATER PIPELINE IN ORANGE AVENUE, I-805 CROSSING IN AN AMOUNT NOT-TO-EXCEED \$872,000

President Lopez presented Item 24b for discussion:

- b) APPROVE CHANGE ORDER NO. 2 TO THE EXISTING CONTRACT WITH GARCIA JUAREZ CONSTRUCTION, INC. IN THE AMOUNT OF \$22,460 FOR THE CALAVO GARDENS SEWER REHABILITATION PROJECT

Director Robak inquired about an incident at the project site and asked who oversees the project. General Manager Watton indicated that Engineering Manager Dan Martin is in charge of overseeing the project and invited him to the podium to provide an update report to the board.

Engineering Manager Martin reported that an incident at the project site had occurred on January 7, 2013. He stated that due to the rain, the trenches at the project site needed to be cleaned to prepare them for sewer pipeline work. As the contractor was cleaning the site, an SDG&E power line was struck which resulted in a power outage that affected approximately 150 residents. Mr. Martin indicated that District staff and the contractor worked closely with SDG&E to help expedite the restoration of power to these residents.

Mr. Martin provided details of Change Order No. 2 that included a variety of added and deleted items related to a storm drain conflict that required the re-routing and redesign of the sewer main. He indicated that the project is approximately 60% complete and that staff is satisfied with the work that Garcia Juarez Construction, Inc. provides to the District.

A motion was made by Director Robak, 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 staffs' recommendation.

ACTION ITEMS

22. BOARD

- a) APPROVE AMENDMENTS TO THE OTAY WATER DISTRICT'S GENERAL MANAGER'S EMPLOYMENT CONTRACT WITH NO CHANGES IN COMPENSATION

It was indicated that General Manager Watton's performance evaluation was completed by an ad hoc committee consisting of President Lopez and Director Croucher. The Committee recommended the approval of extending Mr. Watton's contract to July 1, 2016.

In response to a question from Director Croucher, General Manager Watton stated that the contract was more restrictive and includes an amendment to ensure its compliance with the severance provision of Government Code Section 53260:

"Severance compensation equal to 12 months of the annual salary then in effect will be paid by District in same manner as if Watton was still employed by District, provided that, if the remaining term of Watton's Contract is less than 12 months, the maximum severance compensation that Watton may receive shall be an amount equal to Watton's monthly salary multiplied by the number of months left on the unexpired term of the Contract."

In response to a inquiry from Director Robak, Attorney Jeff Morris indicated that the existing contract was updated to become compliant to new Government Code section 53260. He explained that previously, as the severance provision was written, it allowed the General Manager to receive a 12 month severance pay although there was less than 12 months left on the contract. As per the new Government Code, if the contract is less than 12 months, the severance would only be equal to the remaining term of the contract. Attorney Morris also indicated that the maximum extension of a General Manager's contract is 4 years. The Otay Water District is extending Mr. Watton's contract for only 2 years (July 1, 2014 to July 1, 2016).

President Lopez indicated that after performing Mr. Watton's evaluation and considering all of his accomplishments and well-established relationship with the board, it gave the Committee an opportunity to extend his contract and stay within the District's normal 3-year term. President Lopez stated that he is pleased with the Committee's recommendation.

Director Thompson stated that he is in agreement with the Committee's recommendation and is very pleased with General Manager Watton's performance. He indicated that he understands the possibility that General Manager Watton may leave early, but believes he will continue his dedicated services to the District through his contract term given the amount of time he has vested, stability he has provided, his past performance and strong leadership. Director Thompson believes the Committee's action to extend General Manager Watton's contract is a good statement as it demonstrates the District's support for him as he continues to lead one of the strongest water agencies in the County.

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 amendments to the District's General Manager's Employment Contract with no changes in compensation.

b) DISCUSSION OF 2013 BOARD MEETING CALENDAR

President Lopez requested that the 2013 Board Meeting Calendar be updated to reflect that the regular board meeting scheduled for January 2 was rescheduled to January 8.

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 2013 board meeting calendar with the new date of the January board meeting (January 8).

INFORMATIONAL ITEMS

23. THESE ITEMS ARE PROVIDED TO THE BOARD FOR INFORMATIONAL PURPOSES ONLY. NO ACTION IS REQUIRED ON THE FOLLOWING AGENDA ITEMS.

a) REPORT ON DIRECTOR'S EXPENSES FOR THE 1st QUARTER OF FISCAL YEAR 2013

The board waived presentation and recommended that the report be received and filed.

b) INFORMATIONAL REPORT ON THE DISTRICT'S WATER AND SEWER RATE STUDY

Finance Manager Rita Bell indicated that the District is currently performing its rate study. Mses. Bell and Karyn Keese from Atkins Global, the District's consultant for the Water and Sewer Rate Study, provided a PowerPoint presentation to the board members. Please reference the Committee Action notes (Attachment A) attached to staffs' report for the details of their presentation.

Director Robak suggested that the District's customers should be involved with the District's water and sewer rate study process and be able to provide feedback and suggestions to the District.

Ms. Keese thanked the board for providing Atkins Global the opportunity to work with District staff to create a rate structure that is in line with the District's policies.

c) INFORMATIONAL REPORT ON THE ROSARITO DESALINATION PLANT AND THE OTAY MESA CONVEYANCE AND DISINFECTION SYSTEM PROJECTS

Senior Civil Engineer Bob Kennedy updated the board on the Rosarito Desalination Plant and the Otay Mesa Conveyance and Disinfection System Projects. Please reference the Committee Action notes (Attachment A) attached to staffs' report for the details of his presentation.

General Manager Mark Watton stated that there is a misconception that it's easy to get permits in Mexico, but in reality Mexico has a very complex permitting process similar to the United States. He indicated that there is a need to educate the public that permitting in Mexico is just as rigorous as it is in the United States.

He indicated that on behalf of the District, he had signed a non-binding *Letter of Intent* (LOI) with NSC Agua to negotiate a *Water Purchase Agreement* for the purchase of desalinated water produced from the Rosarito Desalination facility. Mr. Watton stated that next month staff also plans to visit the pilot-plant which is currently in operation. He discussed Minute Order No. 319 which he believes is the most important minutes signed since the 1944 Treaty; it provides for shortage and surplus sharing, and storage in Lake Mead between the United States and Mexico. Mr. Watton indicated that the Project requires environmental work that needs to be completed and a spring survey. It was noted that if the survey is not submitted on time, it could be delayed another year. He also indicated that there will be at-risk money as consultants and environmentalists work parallel to each other to increase efficiency. Mr. Watton shared that the wholesale cost for Mexico to bring Colorado River water into its country is the same as the United States cost. He also shared that staff met with the California Department of Health to discuss the project and they are supportive of the desalination project. He stated that they seemed a little apprehensive because they have never dealt with a project similar to this. Mr. Watton indicated that the Otay Water District will

have to be cautious when approaching regulatory agencies and will have to provide some of the guidance to get through the issues.

Director Croucher stated that within the process of completing the projects, he felt that it was important to keep in mind the cost, reliability and quality of the water supply. He voiced his concerns with CWA's project in that the cost of the Carlsbad Desalination Project has not yet been laid out. He stated that the Rosarito Desalination Project would benefit the District and the region and would assure that a reliable source of water is available for customers.

Director Thompson indicated some of his concerns with the uncertainty of costs associated with the Project's water purchase agreement, share of risks, and lock-in with construction contracts, etc. General Manager Mark Watton indicated that the District's plan is to purchase water at the border only. The District will not be involved with the construction of the project or any overruns. However, the District will have to consider pass-thru costs that include power, operation and maintenance of the plant. Financing is another factor to consider. Mr. Watton believes that District staff, however, has a good understanding of these risk factors and has confidence in the project.

Director Robak thanked Director Croucher and General Manager Watton for representing the District's opposition of the CWA Desalination Project. He also thanked staff for a very detailed presentation.

In response to several questions from Director Robak, General Manager Watton indicated that a Groundbreaking Event for the Rosarito Desalination Plant may be held sometime in late February 2013. He also responded that the alignment of the Project has not been finalized at this time because there are other alignments being considered. He stated that the current estimated cost of the Project might increase because there may be a requirement to perform ultraviolet filtration. Conversely, there might not be a significant amount of increase because the District may not need to do full filtration and the Project might not need a pump station if the water can be gravity fed.

President Lopez believes the Project is ready and the District should start marketing it to the public.

Director Croucher stated that staff should consider other opportunities for the District, such as recycled water agreements and partnering with other agencies who can connect to the District's water supply.

In response to a question from Director Robak, General Manager Watton stated that the Presidential Permit is handled through the State Department and Mexico's State Department. It is not exotic, but must be precise and have all filings completed. There are many agencies to coordinate with to get this type of permit, including the Bureau of Reclamation, IBWC, and other State Departments. Mr. Watton indicated that Ms. Barbara Bartholomew has completed Presidential Permits and is assisting the District with this matter. In response to another inquiry from Director Robak regarding Minute Order No.

319, Mr. Watton stated that the minute identifies a desalination component where the language is open to allow for a private project. CILA, who is the Mexican counterpart for IBWC, approves those minutes through an intricate administrative process.

Director Thompson stated that he expects District staff to conduct many workshops to fully educate the board about the projects. He indicated that he wants a clear understanding of what he and the board will be voting for and he wishes to ensure that the public understands that the District knows what it is doing. General Manager Watton indicated that the board definitely needs to be engaged with these projects. He also stated that the District's public relations/focus groups are already marketing these projects to the public.

d) INFORMATIONAL REPORT REGARDING THE USE OF AS-NEEDED SERVICES TO SUPPORT THE DELIVERY OF THE DISTRICT'S CAPITAL IMPROVEMENT PROGRAM

Engineering Manager Dan Martin provided a report on the use of As-Needed Services to support the delivery of the District's Capital Improvement Program. Please reference the Committee Action notes (Attachment A) attached to staffs' report for the details of his report.

Director Robak commended staff on their report. He indicated that he likes the approach, in terms of private sector paradigm, that the District is taking to increase efficiency. He stated that it is important to keep in mind that it is the public's money that the District is spending.

e) STATUS REPORT ON THE FIRST QUARTER OF FISCAL YEAR 2013 CAPITAL IMPROVEMENT PROGRAM

The board waived presentation and recommended that the report be received and filed.

REPORTS

24. GENERAL MANAGER'S REPORT

General Manager Watton reviewed the Bay Delta Conservation Plan (BDCP) handouts that were provided to the board and discussed some concerns about Bay Delta matters. He indicated that legislators are in conflict with each other about the BDCP, which could lead to disaster. Mr. Watton suggested that the District should place itself in a leadership role and sign the BDCP Conceptual Alternative letter along with other water agencies.

He presented his report which included the status of the District's Rate Increase Notice, the possibility of water conservation signs being installed at Knott's Soak City, MasterLinx Meter Reading Upgrade, the 30-Inch 980 Zone Hunte Parkway – Proctor Valley/Use Area Project, and the Avocado, Louisa, Calavo, Challenge, Hidden Mesa Sanitary Sewer Replacement Project.

SAN DIEGO COUNTY WATER AUTHORITY UPDATE:

General Manager Watton indicated that the CWA committee appointments have been made and he and Director Croucher will continue to hold vice-chairmanships. He also indicated that he has been assigned as Chair of the Litigation Committee and will be involved with the Metropolitan lawsuit and QSA matters. He stated that CWA's vice-chairman seat has become vacant as Mr. Richard Smith from the Helix Water District was not re-elected to his seat. CWA is accepting nominations for the seat and will soon be filling the vacancy.

25. DIRECTORS' REPORTS/REQUESTS

Director Robak indicated that he had attended the ACWA Conference held in early December 2012.

26. PRESIDENT'S REPORT

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

RECESS TO CLOSED SESSION

27. CLOSED SESSION

The board recessed to closed session at 5:12 p.m. to discuss the following matters:

- a. CONFERENCE WITH LABOR NEGOTIATORS [GOVERNMENT CODE §54957.6]

AGENCY NEGOTIATORS: MARK WATTON, GENERAL
MANAGER, AND GERMAN ALVAREZ,
ASSISTANT GENERAL MANAGER

EMPLOYEE ORGANIZATION: OTAY WATER DISTRICT
EMPLOYEES' ASSOCIATION

AND

ALL REPRESENTED AND UNREPRESENTED PERSONNEL
INCLUDING MANAGEMENT AND CONFIDENTIAL EMPLOYEES

- b. CONFERENCE WITH LABOR NEGOTIATORS [GOVERNMENT CODE §54957.6]

AGENCY NEGOTIATORS: DIRECTORS JOSE LOPEZ AND GARY
CROUCHER

WITH RESPECT TO THE GENERAL MANAGER'S CONTRACT

c. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION
[GOVERNMENT CODE §54956.9]

1 CASE

RETURN TO OPEN SESSION

28. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION. THE BOARD
MAY ALSO TAKE ACTION ON ANY ITEMS POSTED IN CLOSED SESSION

The board reconvened at 5:40 p.m. and Attorney Morris indicated that no reportable actions were taken in closed session for both Conference with Labor Negotiators (Items 30a and 30b).

Attorney Morris indicated that the board did take action on item 30c, Anticipated Litigation. The board considered a claim that was submitted by Mr. Larry A. Le Feuvre and a motion was made by Director Robak, seconded by Director Thompson, and carried with the following vote:

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

to reject the claim submitted by Mr. Le Feuvre.

29. ADOPT RESOLUTION NO. 4207 TO EXTEND THE MEMORANDUM OF
UNDERSTANDING (MOU) BETWEEN THE OTAY WATER DISTRICT AND THE
OTAY WATER DISTRICT EMPLOYEES' ASSOCIATION AND APPROVE THE
SAME PROVISIONS FOR MANAGEMENT, CONFIDENTIAL, AND EXECUTIVE
EMPLOYEES

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

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

to adopt Resolution No. 4207 to extend the Memorandum of Understanding (MOU) between the Otay Water District and the Otay Water District Employees' Association and approve the same provisions for management, confidential, and executive employees.

30. ADJOURNMENT

With no further business to come before the Board, President Bonilla adjourned the meeting at 5:45 p.m.

President

ATTEST:

District Secretary

President's Report
January 8, 2013 Board Meeting

A) Meetings attended during the Month of November 2012:

- 1) **November 7:** Attended the District's Regular Board Meeting
- 2) **November 13:**
 - a) Attended a meeting of the Desalination Project Committee. Reviewed, discussed and made recommendation on the Rosarito Desalination Project.
 - b) Attended a meeting of the Ad Hoc Employee Negotiations Committee. Reviewed, discussed and made recommendation on Employee MOU matters.
- 3) **November 20:** Attended the signing ceremony for Minutes 319 at a ceremony held in San Diego at the Hotel Del Coronado. Attendees: Mark Watton.
- 4) **November 26:** Attended the Ad Hoc Employee Negotiations Committee. Reviewed, discussed and made recommendation on the Employee MOU matters.
- 5) **November 28:**
 - a) Committee Agenda Briefing. Met with General Manager Watton to review items that will be presented at the December Committee meetings.
 - b) Attended the District's Special Board Meeting. Discussed CWA's proposed Water Service Agreement with Poseidon Resources.

B) Meetings attended during the Month of December 2012:

- 1) **December 4:** Attended a meeting of the Finance, Administration and Communications Committee.
- 2) **December 6 to 7:** Attended the ACWA Fall Conference held in San Diego at the Manchester Grand Hyatt.
- 3) **December 12:** Attended the Water Conservation Garden Board Meeting (copy of agenda attached).
- 4) **December 19:** Attended a meeting of the Desalination Project Committee. Reviewed, discussed and made recommendation on the Rosarito Desalination Project.

C) Meetings attended during the Month of *January* 2013:

- 1) **January 4:** Board Agenda Briefing. Met with General Manager Watton and Attorney Jeff Morris to review items that will be presented at the January Board meeting.