

**MINUTES OF THE
SPECIAL MEETING OF THE
BOARD OF DIRECTORS
OTAY WATER DISTRICT
September 11, 2012**

1. The meeting was called to order by President Lopez at 3:35 p.m.

2. ROLL CALL

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

Directors Absent: None

Staff Present: General Manager Mark Watton, General Counsel Daniel Shinoff, 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

A moment of silence was observed to honor those who lost their lives in the September 11 attacks in 2001.

4. APPROVAL OF AGENDA

A motion was made by President Lopez, 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. DEMONSTRATION OF AMERICAN AVK COMPANY'S FLOWGUARD II FIRE HYDRANT CHECK VALVE

General Manager Watton indicated that staff will be demonstrating a fire hydrant device that stops/reduces the flow of water from a hydrant when it is hit. He stated that staff is working to include the new device in the Water Agencies Standards (WAS).

The demonstration was held in the District's Operations Yard. Staff demonstrated how the Valve Check device worked when a hydrant is hit. The device has a ball within the valve and the ball rises to seal off the flow of water from the main when a hydrant is hit. It was noted that the Valve will still allow a small jet of water to pass to indicate that the hydrant has been hit/broken. Staff stated that approximately 25 hydrants are hit annually in the District's service area.

Staff also shared that the cost to repair a hit hydrant is approximately \$10,000 versus \$2000 with this new device. The cost of the new Valve is \$684 which is a \$100 less than the current device. The flow of water from a hit hydrant is also reduced from 2000 gallons per minute (GPM) to 20 GPM. The District will realize savings annually with the use of this new Check Valve.

7. Due to time constraints, the following two (2) items were tabled:

- TOUR OF THE OTAY WATER DISTRICT INTRANET SITE
- DISCUSS NEWS/ARTICLE WEBSITES

8. UPDATE ON THE BAY-DELTA

General Manager Watton presented an update on the conservation plan for the Bay-Delta. He showed a slide depicting the conveyance system for the Bay-Delta (see attached copy of presentation) that is proposed by Governor Brown. He stated that the project consists of 37 miles of tunnel pipeline with a total capacity of 9,000 cfs. He noted that the plan is still preliminary and changes are expected.

He indicated that there are many environmental issues associated with the project and much of the mitigation land that will be used to offset the construction of the project will be located in Yolo County near Sacramento. This may pose a problem as placing much of the Yolo County land in mitigation, reduces tax revenues for the County which will significantly impact their economy. He stated that this issue is not yet being addressed or fully appreciated.

On July 25, 2012 the Governor and Secretary of Interior held a press conference and spoke of the State and Federal Joint Recommendations for the Bay-Delta Conveyance System. The recommendations were to downsize the conveyance tunnel pipeline from 15,000 cubic feet per second (CFS) to 9,000 CFS, reduce the intakes on the Sacramento river from five to three with a capacity of 3,000 CFS, and gravity flow the system instead of utilizing pumps. He indicated that only half of the \$11 billion bond issue is designated for water projects.

The plan is to decide while building the Bay-Delta conveyance system ('decision tree:' make decisions as the project is built over the next 10-15 years), to either adjust it up or down depending on the achievement of biological goals and objectives. Once the construction of the tunnels is complete, the operating criteria will be based on the adjustments made to the project during construction. The outcome of the project may result in less water than the present 4.9 million acre feet (MAF) per average year that is available from the Bay-Delta. The actual yield, however, will not be known until construction is complete. Currently MET is taking approximately 1.3 MAF per year. Its full entitlement is 1.9 MAF.

The expected cost of the tunnels is \$13 billion over the ten (10) years to construct the project and the cost will be borne by the state and federal water contractors. At some point bonds will be sold to fund the project and the organizations who will underwrite the bonds will require a step-up provision. That is, if contractors drop out, then the remaining contractors will pick-up the default. If the remaining contractors drop out, then MET will be responsible for 50% of the cost. MET, at the moment, is expected to pick-up 25% of the cost of the tunnel project. They do not yet have contractual commitments from their member agencies and the impact of the project to the cost of water still requires further financial analysis. A good analysis must be done to assure that MET does not get into a situation that threatens its ability to deliver water to its member agencies.

General Manager Watton indicated that the next steps are that the State and Federal contractors must decide whether the reduced yield from the proposed Bay-Delta conveyance system is worth the expense. They also must determine what reliability the new conveyance system will provide the southern region and the rate that will be charged for the water; will it be reasonable/affordable. He stated that the environmental costs will be large and there will be many water rights issues to work through. A public review of the Bay Delta Conservation Plan (BDCP) and the Environmental Impact Report from the Federal and State is expected this month (September).

He stated that because of the severity of the Bay-Delta issue, he felt that everyone will start listening/working together. It may take a year or two, but he is optimistic that they will come up with a solution. It likely, however, will not be the solution that Governor Brown just announced.

9. LEGISLATIVE UPDATE

Ms. Chris Frahm of Brownstein, Hyatt, Farber & Schreck provided an update on current legislation impacting the water industry. She indicated with regard to the Bay-Delta, that there was a number of finance committee meetings scheduled to discuss the BDCP, however the committee never met. The plan was that the committee would present a financing proposal for the Bay-Delta. The question is, however, who will pay for the Bay-Delta project; 1) Federal and State Governments; 2) member agencies; or 3) the public through taxes.

At the moment, the federal and state government budgets are not in a position to pay the billions it will require to fix the Bay-Delta and MET member agencies are not willing to sign a long term contract that indicates how much they would take from the Bay-Delta until they know the cost. Funding through taxation is also not likely as residents will not vote to pay higher taxes unless they present the Bay-Delta project in a way that the residents would support it. It is felt that in the end, all will agree that the Bay-Delta issues must be addressed, however, the solution will likely be a smaller more modest project. It will include more local resources, such as, recycled water, desalination, conservation, etc. Until a decision is made, Ms. Frahm recommended that the District keep watch on the status of the BDCP.

She indicated that last year was a slow year in terms of legislative bills. She shared that Assemblymember Michael Allen introduced a bill that provides for a human's right to clean, safe and affordable water. The bill passed in the legislature and is being lead by the Environmental Justice Group in Central Valley. It is felt that the Governor will likely sign this bill. There are concerns by the water agencies on the legislation's impact on their ability to collect on delinquent water bills. The AWWA is actively addressing this bill.

General Manager Watton indicated that this legislation is mainly aimed at the farm area water suppliers where there are high nitrates, farm chemical pollutants, etc., in the water supply. Ms. Frahm noted that there is language included in the legislation that satisfied most water retailers that the legislation would not be utilized to provide consumers an option to default on their water bills.

Ms. Frahm also shared that there was a lot of tension on the regulating utilities because many utilities had rate cases pending last year. This brought a lot of attention to rates in the past year in the PUC regulating arena. A state audit is currently underway. This does not really impact the District, but it is an item to watch.

Ms. Frahm noted that at the end of the next term, every legislator who was involved with the water bond will no longer be in office. The likely hood of the newly elected legislature to support the \$11 billion bond is not very high as the bond includes items from former legislative members to assure that the initiative had their support. It is felt that items will be trimmed from the bond. She noted that even if such items were trimmed from the bond, the bond would still not be enough to pay for

mitigation and restoration costs, which will be substantial. The bond would only be enough to cover the cost to construct the pipeline.

Another item impacting the Bay-Delta Project is the length of time it is taking to agree and complete the project. Each year that goes by, more of the local agencies are looking to augment their own local supplies through various projects that include recycled water, desalination, conservation, etc. This may provide for less demand for water from the Bay-Delta.

She lastly noted that this year is an election year and the democrats are within two (2) seats of having a 2/3 majority in both the Senate and the Assembly. It is predicted that the democrats would be successful in achieving the 2/3 majority in the Senate, but likely not in the assembly. It should be a very interesting next year.

Director Thompson inquired if a study has been done that looked at the true statewide need for water resources that includes all state water agencies resources. Ms. Frahm indicated that the California water plan has been improved over the last 10 years and it was very much focused on integrated regional water management planning. The plan integrated what all agencies would do together.

Senator Wolk's bill is based on this planning. She asked all agencies to show what their resources needs are and to show that they have explored all possible local resources to meet their agency's water needs prior to including water from the Bay-Delta as a resource. This work has been underway for quite some time. As there is no funding for these huge projects, it is important for the local agencies to fund as much of their needs as possible.

Director Robak inquired what Ms. Frahm was referring to when she indicated that sales were down 30%; was she referring to San Diego County? Ms. Frahm indicated that she was referring to the southland region (Los Angeles, San Diego, San Bernardino, etc.).

Director Robak further inquired if the democrats are solidly behind the proposed Bay-Delta conveyance system. Ms. Frahm indicated that there are many that are not in support of the proposed system due to environmental concerns and other issues.

Director Gonzalez asked how long the State has been talking about the Bay-Delta issues. Ms. Frahm indicated that it has been discussed since the Bay-Delta was built in the 1960's. The proposed peripheral canal failed through a public vote which started a dialogue on studies, proposals, etc. It will be some time before a fix is implemented.

RECESS TO CLOSED SESSION

10. CLOSED SESSION

The Board recessed to closed session at 5:02 p.m. to discuss the following matter:

- a) PUBLIC EMPLOYEE PERFORMANCE EVALUATION [GOVERNMENT CODE §54957.6]

TITLE: GENERAL MANAGER

RETURN TO OPEN SESSION

- 11. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION. THE BOARD MAY ALSO TAKE ADDITIONAL ACTIONS ON ANY ITEMS POSTED IN CLOSED SESSION

The Board reconvened at 5:34 p.m. General Counsel Dan Shinoff indicated that no reportable actions were taken in closed session.

- 12. ADJOURNMENT

With no further business to come before the Board, President Lopez adjourned the meeting at 5:34 p.m.

President

ATTEST:

District Secretary